

SFA SEMICON PHILIPPINES CORPORATION

REVISED RELATED PARTY TRANSACTIONS POLICY

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## SFA SEMICON PHILIPPINES CORPORATION

### Revised Related Party Transactions Policy

#### I. INTRODUCTION

SFA Semicon Philippines Corporation (SSP or “the Company”) is committed to governance practice that promotes ethical, transparent, fair and arms-length transactions that are in best interest of the Company and shareholders and of the investing public at large.

This policy provides the guidelines and processes that will govern the review, approval and ratification of transactions deemed to fall under Related Party Transactions and that such transactions are disclosed under the principles of transparency, timeliness and fairness.

#### II. DEFINITIONS AND COVERAGE

A **Related Party Transaction** (“RPT”) is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party. It shall be considered **Material RPT** when the transaction/s, either individually, or in aggregate over a twelve (12) - month period with the same related party, amounting to *ten percent (10%) or higher of a company’s total assets based on its latest audited financial statement* (**materiality threshold**).

For purposes of this policy, the transactions that are considered as RPTs when performed with a related party include, but are not limited to, the following:

- a. Purchases or sales of goods;
- b. Purchases or sales of property and other assets;
- c. Rendering or receiving of services;
- d. Lease of any property;
- e. Agency agreements;
- f. Outsourcing arrangements;
- g. Transfers of research and development;
- h. Management contracts;
- i. Transfers under license agreements;
- j. Transfers under finance agreements (including loans and equity contributions in cash or in kind);
- k. Provisions of advances, donations, guarantees or collateral; and
- l. Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party.

The above enumeration is intended by way of example only and does not in any way limit the transactions (a) that are considered RPTs (as defined herein), or (b) that are considered material RPTs (as defined herein) as long as the RPTs meet the materiality threshold. For



the avoidance of doubt, the provisions of this policy on or relating to material RPTs shall cover all RPTs meeting the materiality threshold.

Transactions that meet the materiality threshold that were entered into with an unrelated party that subsequently becomes a related party are excluded from the limits and approval process required in this policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the material RPT to the requirements of this policy on material RPTs.

The policy covers all RPTs, whether material or not, between the Company and a **Related Party ("RP")** that is defined as any of the following:

- 1) A person who is:
  - A Director
    - Executive directors
    - Non-executive directors
    - Independent directors
  - An Officer
    - President
    - Compliance Officer
    - Corporate Secretary
    - Treasurer
    - All other officers provided in the Company's By-Laws
  - A substantial shareholder
    - Any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class or its equity security.
      - A person shall be deemed to have an *indirect beneficial ownership* interest in any security which is:
        - Held by members of his immediate family sharing the same household;
        - Held by a partnership in which he is a general partner;
        - Held by a corporation in which he is a controlling stockholder;
        - Subject to any contract, arrangement or understanding which gives him voting power or investment power with respect to such securities.
  - A spouse or relative within the fourth civil degree of consanguinity or affinity, legitimate or common-law of a director, officer or substantial shareholder.
- 2) A juridical person or entity that is:
  - The parent company
    - Any entity that controls the Company, including the ultimate parent of the Company.
      - A person or entity *controls* a company if and only if the person or entity has all of the following:
        - Power over the Company;
        - Exposure or rights to variable returns from its involvement with the Company;
        - The ability to use its power over the Company to affect the amount of the Company's returns.

- A Subsidiary
  - An entity that is controlled, directly or indirectly, by the Company.
- A Fellow Subsidiary
  - Entities under the control of the Company's parent company.
- An Associate
  - An entity which the Company has significant influence.
    - Where the Company holds 20% or more of the voting power of an entity, it will be presumed that the Company has *significant influence* unless it can be clearly demonstrated that this is not the case.
- An Affiliate
  - An entity linked directly or indirectly to the Company through any one or a combination of any of the following:
    - Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the Company, or vice-versa;
    - Interlocking directorship or officership, except in cases involving independent directors defined under existing regulations;
    - Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Company and the entity; or
    - Management contract or any arrangement granting power to the Company to direct or cause the direction of management and policies of the entity, or vice versa.
- Joint venture;
- Controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

### III. DUTIES AND RESPONSIBILITIES

#### A. Board of Directors

The Board of Directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of the Company's shareholders and other stakeholders. Toward this end, the Board shall carry out the following duties and responsibilities:

- a. To institutionalize an overarching policy on the management of material RPTs
- b. To approve all material RPTs that cross the materiality threshold
- c. To approve all write-off of material exposures to related parties
- d. To establish an effective audit, risk and compliance system
- e. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing
- f. To identify persons and companies that are considered as the Company's related parties



- g. To quarterly review and update the Related Party Registry to capture organizational and structural changes in the Company and its related parties.

## **B. Senior Management**

Senior Management shall implement appropriate controls to effectively manage and monitor material RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the company's policy and SEC's regulations.

## **IV. IDENTIFICATION AND PREVENTION OR MANAGEMENT OF POTENTIAL OR ACTUAL CONFLICTS OF INTEREST**

All RPTs, whether material or not, must be fully and timely disclosed by the directors and officers with personal interest in the transaction. They shall abstain from the discussion, approval and management of such transaction or matter affecting the Company. In case they refuse to abstain, their attendance shall not be counted for purposes of assessing the quorum and their votes shall not be counted for purposes of determining majority approval.

The Management shall submit to the Board Risk Management Committee ("RMC") all proposed **material RPTs** for review and recommendation for approval of the Board of Directors. Management can directly submit any RPT valued below the materiality threshold to the Board for approval without passing through the RMC but shall be reported to the RMC in its regular meetings, forming part of the total related party transactions as reported in the Company's unaudited interim financial statements.

In the review of RPTs, the RMC shall ensure that RPTs are for the best interest of the Company. Specifically, it shall determine, evaluate and consider:

1. The extent of RP's interest in the transaction;
2. The foreign exchange impact of the amount involved in the RPT;
3. Whether the transaction was undertaken in the ordinary course of business of the Company;
4. Whether the transaction with the RP is proposed to be, or was, entered into on terms no less favorable to the SSP than terms that could have been reached with an unrelated third party;
5. The purpose of and the potential benefits to the Company of the RPT;
6. The potential risks of the RPT that may impact the Company in terms of market, financial, liquidity, reputational and other factors; and
7. Any other information regarding the RPT or the RP in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

In deliberations regarding a **material RPT**, the RMC must obtain an understanding of the company's relationships and transactions with its related parties, including the nature of the relationships, the terms of the transaction and business purposes involving related parties.

## V. GUIDELINES IN ENSURING ARM'S LENGTH TERMS

No preferential treatment shall be given to related parties that are not extended to non-related parties under similar circumstances.

Before the execution of the **material RPT**, the Board of Directors should appoint an external independent party to evaluate the fairness of the terms of the material RPTs. An external independent party may include, but is not limited to, auditing/accounting firms and third party consultants and appraisers. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders and other stakeholders.

To ensure that transactions are engaged into at terms that promote the best interest of the company and its shareholders, the Board of Directors may open the transaction to a bidding process, or publish available property for sale as its price discovery mechanism.

## VI. APPROVAL OF MATERIAL RPTs

All individual **material RPTs** shall be approved by at least two-thirds (2/3) vote of the Board of Directors, with at least a majority of the independent directors voting to approve the **material RPT**. In case that a majority of the independent directors' vote is not secured, the **material RPT** may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate RPT transactions within a twelve (12) - month period that breaches the materiality threshold, the same board approval would be required for the transaction/s that meet and exceeds the materiality threshold covering the same related party.

## VII. SELF-ASSESSMENT AND PERIODIC REVIEW OF POLICY

The internal audit shall conduct a periodic review of the effectiveness of the company's system and internal controls governing **material RPTs** to assess the consistency with the board-approved policies and procedures. The resulting audit report, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

The Company's Compliance Officer shall:

- a. Ensure that the Company complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties;
- b. Aid in the review of the company's transactions and identify any potential material RPT that would require review by the Board;
- c. Ensure that the Company's material RPT policy is kept updated and is properly implemented throughout the Company.



## VIII. WHISTLE BLOWING MECHANISMS

Whistle blowing reports shall be treated in strictest confidence and sensitivity to all concerned. The identity of the whistle blower shall be kept confidential, insofar as possible. However, his/her identity may have to be disclosed to conduct a thorough investigation, in compliance with provisions of law, and to provide accused individuals their rights of defense. He/she is assured of continued protection against unfair harassment or any disciplinary action even if subsequent investigations do not substantially prove culpability of the questioned director, shareholder or officer.

The whistle blowing report, complete with information on the nature of the violations and pertinent details shall be made in writing. Documentary evidence, images and other forms of proof that support the alleged incidence of impropriety should be submitted with the letter contained in a sealed envelope.

The whistle blowing report should be submitted to the Head of the HR&GA Team for investigation.

The whistle blowing mechanisms for RPTs shall be read in coherence with the general policy on whistle blowing of the Company uploaded in its website.

## IX. REMEDIES FOR ABUSIVE RPTs

Whenever applicable, the Company shall discontinue an RPT, regardless of materiality, if found abusive. The Company shall demand restitution of losses or opportunity cost it incurred from such RPT from the personnel, officers or directors who have been remiss in their duties in handling **material RPTs** in accordance with Company policies.

**Abusive material RPTs** refer to material RPTs that are not entered at arm's length and unduly favor a related party.

## X. DISCLOSURE AND REGULATORY REPORTING

The members of the Board, *substantial* shareholders (*stockholdings exceeding twenty percent (20%) of the outstanding capital stock*), and officers shall fully disclose to the Board of Directors all material facts related to **material RPTs** as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the Company. Such disclosure shall be made at the board meeting where the **material RPT** will be presented for approval and before the completion or execution of the **material RPT**.

The Company shall comply with the disclosure requirements of the Securities and Exchange Commission ("SEC") in accordance with its Memorandum Circular No. 10, series of 2019, Rules on Material Related Party Transactions for Publicly Listed Companies, other related issuances, and subsequent amendments, rules or orders of the SEC.



In line with the provisions of the Circular, the Company commits to report in a proper and timely manner all material RPTs. Moreover, the Advisement Report on each RPT executed shall be filed to the SEC not later than three (3) calendar days from the closure of such transaction. The said report shall be signed by the Company's Corporate Secretary or authorized representative. The Company shall include this Policy on Related Party Transactions in the Corporate Governance page of its corporate website.

All **material RPTs** shall be included in the Annual Corporate Governance Report not later than May 30 of each year, unless such deadline is changed by the SEC.

The Company, as a matter of policy and practice, will disclose all material RPTs involving the Company and related parties, as well as its policy on RPTs in its annual audited financial statements, specifically in the notes. The same shall be posted in the Company's website.

**Signed on August 6, 2021:**

  
**CAROLINE S. SICAT**  
*Compliance Officer*

  
**JOON SANG KANG**  
*Chairman of the Board*