



Taiwan Hon Chuan Enterprise Co., Ltd

Risk Management Best Practice Principles

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Article 1 Purpose

To achieve sustainable development goals under prudent operation, the Company establishes the Risk Management Best Practice Principles to strengthen and improve risk management policy.

Article 2 Risk management objectives

The Company's risk management objectives are to manage all types of risks that may affect the achievement of its objectives through a comprehensive risk management framework. And to achieve the following objectives by incorporating risk management into its operational activities and daily management processes.

1. Achieving business objectives
2. Enhancing management effectiveness
3. Providing reliable information
4. Effective resource allocation

Article 3 Risk management principle

The Company establishes a risk management system based on the following principles:

1. Integration: Treating risk management as a part of all activities.
2. Structured and Comprehensive: Promoting risk management in a structured and comprehensive manner to achieve consistent and comparable results.
3. Customization: Developing an appropriate risk management framework and processes based on the Company's environment, scale, business characteristics, nature of risks, and operational activities.
4. Inclusiveness: Considering the needs and expectations of stakeholders to enhance and meet their understanding and expectations of risk management.
5. Dynamic: Properly and timely predicting, monitoring, understanding, and responding to changes in the internal and external environment of the Company.
6. Effective Use of Information: Basing risk management on historical, current, and future trend information and providing timely and transparent information to stakeholders.
7. People and Culture: Enhancing the importance of risk management for governance



and management units and improving the Company's overall risk awareness and culture through comprehensive risk management training mechanisms for personnel at all levels, treating risk management as part of corporate governance and daily operations.

8. Continuous Improvement: Continuously improving risk management and related processes through learning and experience.

Article 4 Establishing risk management policies and procedures

Considering the overall scale, business characteristics, nature of risks, and operational activities of the Company and its subsidiaries, the risk management policies and procedures should cover the following items:

1. Risk management objectives;
2. Risk governance and culture;
3. Risk management organizational structure and responsibilities;
4. Risk management procedures;
5. Risk reporting and disclosure.

These Regulations shall be reviewed continuously to ensure their design and implementation remain effective in response to changes in the internal and external environment of the company.

Article 5 Review and implementation of risk management policies and procedures

The Company's Regulations shall be reviewed by the risk governance unit appointed by the Company and implemented after approval by the Board of Directors.

The relevant policies and procedures shall be disclosed on the Company's website or MOPS.

Article 6 Establishing a comprehensive risk governance and management framework

Considering the scale, business characteristics, risks, and operational activities, the Company must establish a comprehensive risk governance and management framework. Through the participation of the Board of Directors, functional committees, and senior management, risk management will be connected to the Company's strategy and objectives, key risk areas will be identified, the comprehensiveness, forward-looking nature, and integrity of risk identification results will be enhanced, and risk control and response measures will cascade down to ensure the reasonable achievement of the Company's strategic objectives.



Article 7 Deepening the risk culture

The Company promotes a top-down risk management culture by clearly articulating risk management statements and commitments from governance units and senior management, establishing and supporting risk management units, providing all employees with relevant professional training in risk management, and integrating risk management awareness into daily decision-making and operational activities to shape a comprehensive risk management culture.

Article 8 Providing adequate resources and support

The Company's risk governance and management units should prioritize and support risk management, providing appropriate resources to ensure its effective operation and taking responsibility for the effective operation of risk management.

Article 9 Integration and coordination

The Company promotes risk management by integrating the responsibilities of various units, encouraging collective implementation. Communication, coordination, and collaboration between units ensure comprehensive risk management across the entire business.

Article 10 Risk Management Organizational Structure

In addition to the Board of Directors serving as the highest governance unit for risk management, the Company may consider its scale, business characteristics, nature of risks, and operational activities to establish a Risk Management Committee under the Board of Directors. It can also designate appropriate units responsible for promoting and executing risk management.

Article 11 Establishment of the risk management committee

To enhance and strengthen risk management capabilities, the Company shall consider its size, business characteristics, nature of risks, and operational activities to establish a Risk Management Committee under the Board of Directors. This committee oversees the operation mechanism related to risk management, and the majority of its members should be independent directors, with one of them serving as the chairperson. The Risk Management Committee is accountable to the Board of Directors and presents proposed matters to the Board for decision-making. The committee should establish its organizational regulations, which should cover the number of members, terms of office, powers and responsibilities, rules of procedure, and resources provided by the Company



when exercising its powers. The Company may also opt for other functional committees or working groups to perform the functions of the Risk Management Committee.

Article 12 Establishment of the risk management promoting and executing unit

The Company should designate or establish an appropriate unit for promoting, executing, and monitoring risk management-related matters. This unit can be tailored based on the Company's scale, business characteristics, nature of risks, and operational activities by assigning dedicated units or forming task-based teams.

Article 13 Roles and responsibilities of the Board of Directors

1. Approve risk management policies, procedures, and frameworks.
2. Ensure alignment between operational strategy and risk management policies.
3. Ensure the establishment of appropriate risk management mechanisms and risk management culture.
4. Supervise and ensure the effective operation of the overall risk management mechanisms.
5. Allocate and assign sufficient and proper resources to ensure effective risk management.

Article 14 Roles and responsibilities of the Risk Management Committee

1. Review risk management policies, procedures, and frameworks and assess their applicability and effectiveness regularly.
2. Determine risk appetite (risk tolerance) and guide resource allocation.
3. Ensure that risk management mechanisms adequately address the risks faced by the company and are integrated into daily operational processes.
4. Determine the priority and risk levels of risk control measures.
5. Review the implementation of risk management, propose necessary improvement suggestions, and report to the Board of Directors regularly (at least annually).
6. Execute risk management decisions made by the Board of Directors.

Article 15 Roles and Responsibilities of the Risk Management Promoting and Executing Unit

1. Develop risk management policies, procedures, and frameworks.
2. Develop risk appetite (risk tolerance) and establish qualitative and quantitative measurement standards.
3. Analyze and identify the Company's sources and categories and regularly review their applicability.



4. Consolidate and report on the implementation of risk management to the Company regularly (at least annually).
5. Assist and oversee the implementation of risk management activities in various departments.
6. Coordinate cross-departmental interactions and communication in risk management operations.
7. Execute risk management decisions made by the Risk Management Committee.
8. Plan risk management-related training to enhance overall risk awareness and culture.

Article 16 Roles and responsibilities operational unit

The responsibilities of operational unit are as follow:

1. Responsible for the identification, analysis, assessment, and response to risks within their respective units and for establishing relevant crisis management mechanisms when necessary;
2. Regularly reporting risk management information to the units responsible for promoting and executing risk management;
3. To comply with the risk management policy, they ensure the effective implementation of risk management and related control procedures within their units.

Article 17 Risk management procedures

The risk management policy should include risk management procedures, and the risk management procedures should comprise at least five major elements: risk identification, risk analysis, risk evaluation, risk response and monitoring. These elements shall specify the actual procedures and methods for their implementation.

Article 18 Analysis and identification of the Company's risk resource and category

Risk sources and categories can generally be summarized into the following dimensions: strategic risks, operational risks, financial risks, information risks, legal compliance risks, integrity risks, other emerging risks (e.g., climate change, or infectious disease-related risks), etc.

The units responsible for promoting and executing risk management shall conduct comprehensive risk analysis based on the Company's scale, industry, business characteristics, and operational activities, considering the vital regulatory focuses of various aspects of corporate sustainability (including climate change). This involves analyzing and identifying applicable risk sources and categories, defining the Company's risk categories, conducting detailed risk scenario identification for each risk category, and



regularly reviewing their applicability.

Article 19 Risk identification

Each operational unit shall identify risks related to its short, medium, and long-term goals and business responsibilities based on the Company's strategic objectives and the risk management policies and procedures approved by the Board of Directors.

Risk management tools (e.g., process analysis, scenario analysis, questionnaire, and PESTLE analysis) are used to identify potential risk events that may lead to the failure to achieve the Company's objectives, cause losses, or have negative impacts based on experience, information, consideration of internal and external risk factors, stakeholder concerns, etc., and through "bottom-up" and "top-down" analysis.

Article 20 Risk analysis

Risk analysis primarily involves understanding the nature and characteristics of identified risk events and analyzing their likelihood and impact to calculate the risk value.

Each operational unit should analyze the identified risk events by considering the completeness of existing control measures, past experiences, and industry cases. They should assess the likelihood and impact of these risk events to calculate the risk value.

Article 21 Risk Analysis Measurement Standards

The units responsible for promoting and executing risk management should develop appropriate quantitative or qualitative measurement standards based on the company's risk characteristics to serve as the basis for risk analysis.

Both qualitative and quantitative measurement standards play a significant role in our risk analysis. Qualitative standards, with their textual descriptions, provide a narrative understanding of the likelihood and impact of risk events. Quantitative standards, on the other hand, involve expressing the probability and impact of risk events through specific, calculable numerical indicators (such as days, percentages, amounts, number of people, etc.).

Article 22 Risk appetite

The units responsible for promoting and implementing risk management shall formulate the risk appetite (risk tolerance) and submit it to the Risk Management Committee for approval to determine the Company's acceptable risk limits. Based on the risk appetite, they should develop corresponding risk levels for each risk value and choose the response methods for each risk level, serving as the basis for subsequent risk assessment and response.



Article 23 Risk evaluation

The purpose of risk assessment, a significant process, is to provide the Company with a solid basis for decision-making. Comparing the risk analysis results with the risk appetite determines which risk events need to be prioritized and serves as a reference for the subsequent selection of response measures.

Each operational unit shall plan and implement subsequent risk response plans according to the risk levels based on the risk analysis results and in line with the risk appetite approved by the Risk Management Committee.

The relevant risk analysis and evaluation results shall be recorded and submitted to the Risk Management Committee for approval.

Article 24 Risk response

The Company shall establish relevant action plans for risk response to ensure that all related personnel fully understand and execute them while continuously monitoring their implementation.

The Company shall select risk response measures or implement risk mitigation plans based on the Company's strategic objectives, internal and external stakeholder perspectives, risk appetite, and available resources. So that risk response can strike a balance between achieving objectives and cost-effectiveness.

Article 25 Risk monitoring and examining

The mechanism for risk monitoring and examining shall be clearly defined within the risk management process to ensure the continuous effectiveness of reviewing risk management procedures and related risk responses.

The results of these reviews shall be incorporated into performance measurement and reporting activities.

Article 26 Risk recording

The risk management process and its results shall be documented, reviewed, and reported through appropriate mechanisms, and adequately retained for reference. The mechanisms include risk identification, risk analysis, risk evaluation, risk response and monitoring.

Article 27 Risk reporting

Risk reporting is an integral part of corporate governance. It shall consider the specific information needs and requirements of different stakeholders, the frequency and



timeliness of reporting, reporting methods, and the relevance of information to organizational goals and decision-making. It assists senior management and governance units in making relevant risk decisions and fulfilling their risk management responsibilities.

The units responsible for promoting and executing risk management shall consolidate risk information provided by various units, regularly issue risk management-related reports to the Risk Management Committee and the Board of Directors, and establish dynamic management and reporting mechanisms to supervise the effective implementation of risk management.

Article 28 Information disclosure

The Company shall disclose risk management-related information on official website or MOPS, providing references for external stakeholders and continuously updating them.

Specific item disclosure:

1. Risk management policy and procedures
2. Risk management structure
3. Risk management operational status (including the frequency of reporting to the Board and the Committee)

Article 29 Attention to the development of domestic and overseas

The Company shall constantly monitor the development of domestic and international enterprise risk management mechanisms, using them to review and improve the risk management framework, thus enhancing corporate governance effectiveness.