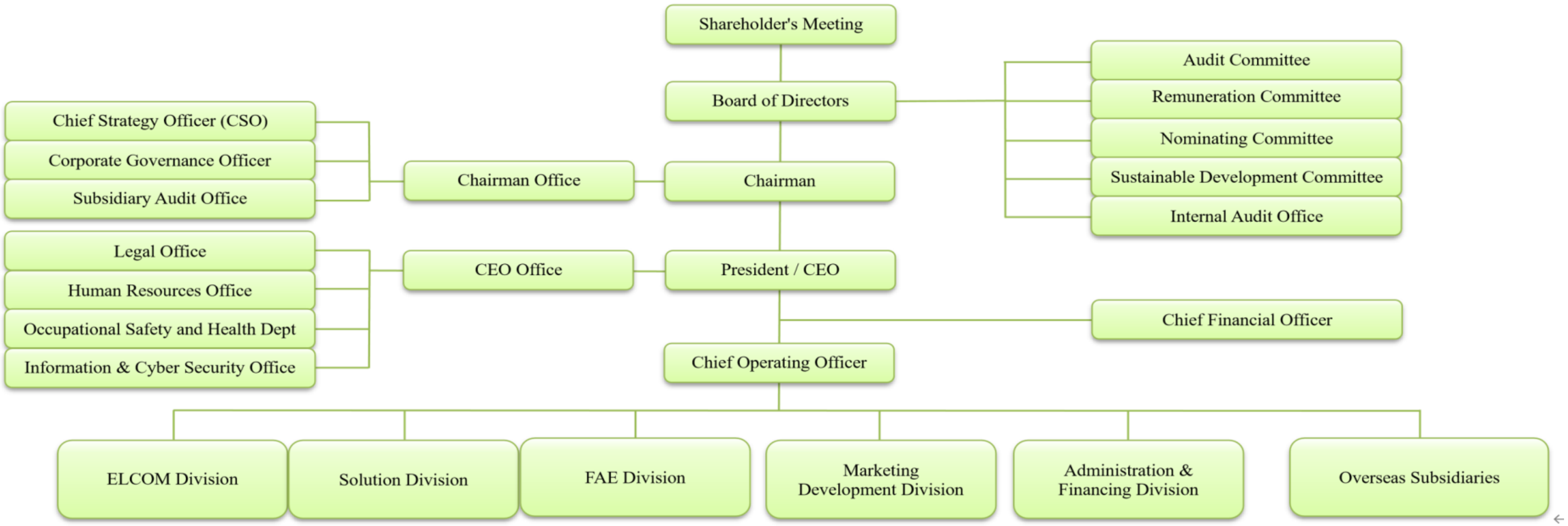
Risk Management Implementation for Operating, Finance, Execution, and Environmental Aspects in 2024

In order to implement the risk management mechanism, strengthen the risk assessment and supervise the risk-taking ability, the “Policy and Procedures of Risk Management” formulated by the Company had already been approved by the resolution of the Board of Directors on June 29, 2021 as the basis for the implementation of risk management; in September 2022, in accordance with the "Risk Management Best Practice Principles for TWSE/TPEx Listed Companies" promulgated by the Taiwan Stock Exchange, the Company comprehensively revised the Policy and Procedures again, and approved by the resolution of Board of Directors on September 28, 2022 to serve as the highest guiding principle for the Company's risk management. In addition, on April 28, 2023, part of the text was amended due to practical management needs, and the issue of climate change was included in the Policy and Procedures.

Risk Management Organization Chart

The Company takes into consideration the business scale, business scope, nature of risks and operating activities when establishing a comprehensive risk governance and management framework. Through the involvement of the Board of Directors, functional committees and senior executives, the Company connects the risk management to the strategies and goal productions, and determined the major risk items. In this way, it can increase the comprehensiveness, prospectiveness and integrity of the risk identification and advocate and implement risk controls and countermeasures in the whole Company, in order to ensure the achievement of the Company’s strategic goals.

Risk Management Organization Structure



1. Board of Directors

The functions of the Board of Directors are as follows:

(1) Approve risk management policy, procedures and framework;
(2) Ensure consistency in business strategy and risk management;
(3) Ensure the establishment of an appropriate risk management mechanism and risk management culture;
(4) Supervise and ensure effective operation of the overall risk management;
(5) Distribute and allocate sufficient and pertinent resources to ensure effective operation of risk management;

The Board of Directors authorizes the Chairperson to serve as the convener of risk management plans and coordinate the implementation and execution of the risk management plans.

2. Sustainable Development Committee

The Risk Management Functions of the Sustainable Development Committee are as follows:

(1) Review risk management policy, procedures and framework and examine the applicability and efficiency of execution;
(2) Approve the risk appetite (risk tolerance) and provide suggestions regarding resource allocation;
(3) Ensure that the risk management mechanism can fully respond to all risks of the Company and incorporate the mechanism into routine operations;
(4) Approve the priorities and risk levels of risk controls;
(5) Review the execution of risk management, provide necessary suggestions and report to the Board of Directors on a regular basis (at least once a year);
(6) Execute as resolved by the Board of Directors.

A Risk Management Group is established directly subordinate to the Sustainable Development Committee and is responsible for providing assistance to the Sustainable Development Committee regarding risk management matters. Risk Management Group is responsible for development and revision of the Company's risk management related regulations, including but not limited to information security. It is also responsible for the implementation and improvement the Company's risk management and information security related work, hold regular meetings and report the implementation status to the Sustainable Development Committee.

3. Functions of Operation and Management Units

The functions of each operation and management unit are as follows:

(1) Provide identification, analysis, assessment and responds to the risks of the unit and establish risk management mechanism when necessary;
(2) Report to Executive Office regarding risk management on a regular basis;
(3) Ensure the effectiveness of the unit’s risk management and relating control procedures and consistency with the risk management policy.

The President/ CEO, senior managerial officers of each business unit and functional unit are responsible for providing assistance to the identification and control of the risk factors to facilitate the coordination, self-evaluation and execution of the risk management units. They are also responsible for the risk analysis, countermeasure formulation and reviews in operation meetings.

4. Internal Audit Office

The Audit Office formulates an annual audit plan in accordance with risk management policies and procedures, executes audit operations of various systems, assists the Board of Directors in supervising and controlling potential risks in the implementation of decisions or operations, ensures that various operational risks are effectively controlled, and timely put forward suggestions for improvement of management control. For the internal control system, the management of each operating unit (including subsidiaries) regularly evaluates its internal control system, and the audit unit reviews the implementation.

Risk Management Procedures, Reports, and Disclosure

The Company's risk management procedures at least include five major factors: risk identification, risk analysis, risk assessment, risk response, and supervision and review mechanism. The implementation process and results are recorded, reviewed and reported through appropriate mechanisms, and properly retained. For future reference, the compiled risk information is reported to the Sustainable Development Committee and the Board of Directors at least twice a year, and a dynamic management and reporting mechanism is established to supervise the effective implementation of risk management. For the disclosure of relevant risk management information, the Company discloses risk management-related information on its website, Market Observation Post System, annual report or sustainability report for external stakeholders' reference and continue to update the information.

Risk Governance and Management Framework in 2024

Board of Directors (Convener of risk management plans: Chairperson)and Sustainable Development Committee(Executive Office and Risk Management Group)	Management level of each Operation and Management Units (identification and control: CEO and Senior Managerial Officers)

Source and Type of Risks

(1) Operating risk (2) Financial risks	(3) Execution risks (4) Environmental risks

Risk Management Procedures

Risk Identification, Risk Analysis, Risk Appetite, Risk Assessment, Risk Response, and Supervision and Review Mechanism	Risk Reports and Disclosures

22 Potential Risks Have Been Identified

Completion of Assessment and Analysis, 13 Items As Low Risk, 9 Items As Medium Risk, and 0 Item As High Risk

1. Risk Identification

To adopt process analysis, situation analysis, questionnaire survey, PESTLE analysis, etc., To adopt process analysis, situations analysis, questionnaire survey, PESTLE analysis, etc., to extensively identify potential risks that may become barriers to goal achievements or incur losses or adverse effects.

2. Measurement Standards of Risk Analysis

To use quantitative or qualitative measurement standards to analyze the probability and impact of risk events to assess the level of risk exposure.

3. Risk appetite (Risk Tolerance)

To determine risk appetite (risk tolerance) and risk response measurements, and submit to the Sustainable Development Committee for approval as the basis for subsequent risk assessment and risk response.

4. Risk Assessment

To determine the priority level of the risk events by analyzing the risk analysis results and risk appetite and uses it as reference for subsequent response options.

5. Risk Responses

To determine the methods of its risk responses based on its strategic goals, focuses of internal and external stakeholders, risk appetite and resources available, in order to strike a balance between goal achievement and cost effectiveness. The relevant risk treatment plans formulated shall ensure that the responsible personnel’s understanding and execution of relevant matters and continue to monitor the implementation of the risk treatment plans.

6. Risk Supervision and Review

To ensure an effective operation of risk management review procedures and relating risk countermeasures and include the review results in the performance assessments and performance reports. Risk management shall be linked to key procedures in the organization in order to ensure effective monitoring and improve the effectiveness of risk management implementation.

Risk management operation and disclosure for 2024

The Risk Management Group of the Executive Office of Sustainability of the Company and the senior managerial officers of each operation and management units (including overseas subsidiaries) used process analysis, situational analysis and PESTLE (Political, Economic, Sociological, Technological, Legal and Environmental) analysis methods to complete the risk identification in 2024, and listed 22 risk items, including 8 operating risks, 5 financial risks, 5 execution risks, and 4 environmental risks, which have been reported to the Sustainable Committee and the Board of Directors on November 12, 2024, as detailed in the table below.

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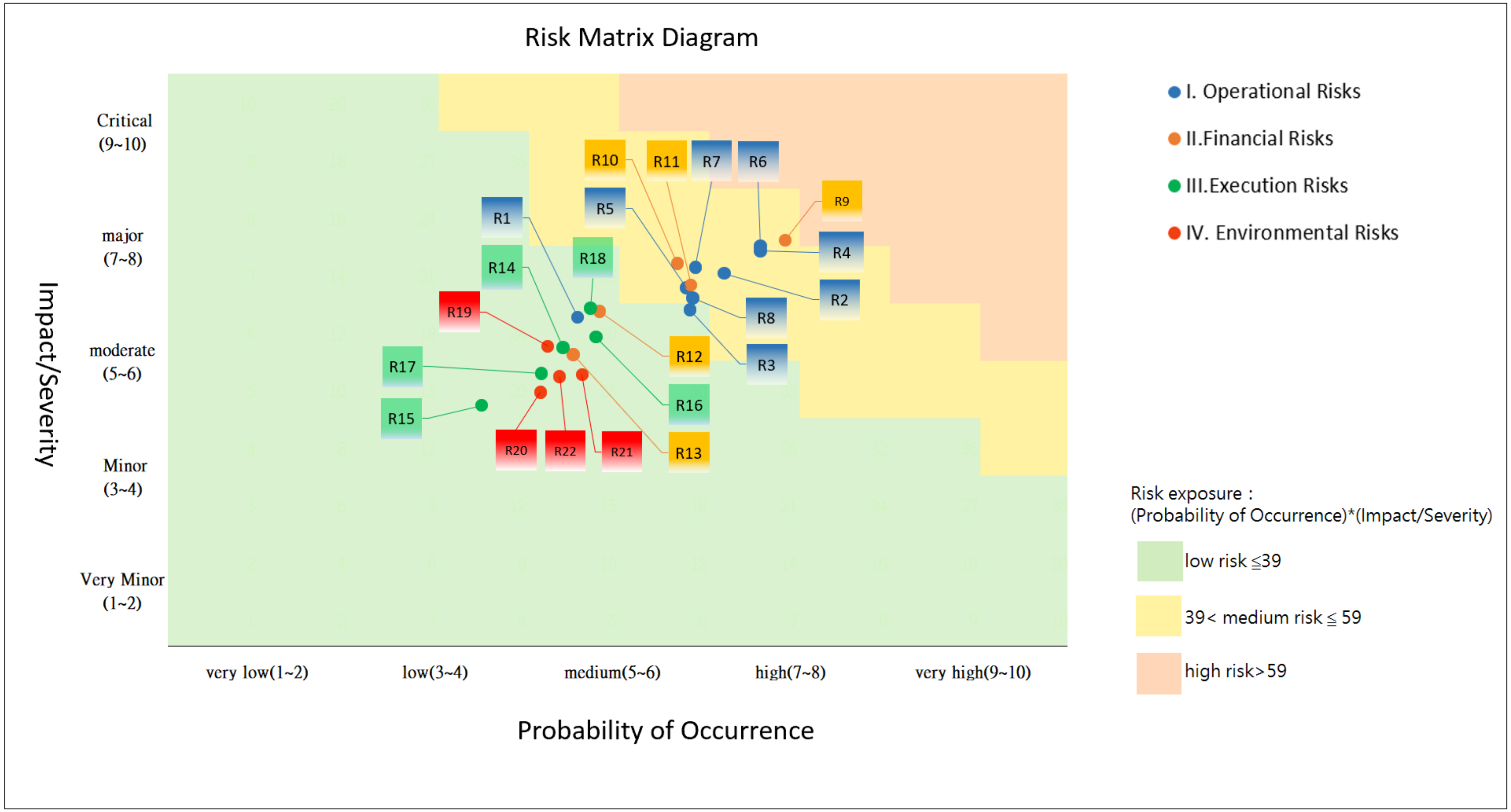
2024 Risk Identification Outcome **(Reported to the Sustainable Development Committee and the Board of Directors for approval on November 12, 2024)**
I. Operational Risks
R1. Risks in Logistics and Supply Chain Management This includes the attribution of responsibility for potential supply chain disruptions caused by natural disasters, geopolitical issues, or pandemics; the risk of poor quality stability of outsourced components leading to potential returns, claims, or damage to the brand; and the risk of increased insurance costs due to natural disasters, geopolitical factors, or rising logistics loss rates; and the impact of legal and compliance requirements related to multinational or regional operations on supply chain operations.
R2. Market Demand Fluctuations Due to the volatility in demand for end-use applications (such as smartphones, automobiles, AI technologies, etc.), distributors must adapt flexibly to changing market demands. Otherwise, they risk excess inventory or an inability to meet demand, which can impact sales forecasts and inventory management.
R3. Technological Advancements Rapid technological progress requires distributors to continuously update their product knowledge and technical support capabilities.
R4. Competitive pressure Fierce market competition, the rise of emerging markets, the pressure of international brands and the competition of other distributors will intensify the price war and market share competition, and distributors need to maintain price competitiveness and service quality.
R5. Sales Concentration Risk If distributors rely too heavily on a few major clients, fluctuations in these clients' demand can significantly impact the stability of the distributor's business.
R6. Margin Compression The semiconductor industry is highly competitive, and price wars often drive down distributors' gross margins. Additionally, rising component prices or increased supply chain costs may further squeeze profit margins.
R7. Information Security With the advancement of digitalization, the risks of cyberattacks and data breaches have increased.
R8. Digital Transformation Risks Semiconductor distributors must adapt to digitalization trends, particularly in areas such as order management, logistics tracking, and supply chain transparency. If distributors fall behind in the digital transformation process, they risk losing their competitive advantage.
II. Financial Risks
R9. Exchange Rate Volatility

2024 Risk Identification Outcome (Reported to the Sustainable Development Committee and the Board of Directors for approval on November 12, 2024)
Fluctuations in international exchange rates may affect import/export costs and profitability.
R10. Liquidity Risk Due to market demand fluctuations and order delivery delays, distributors may face cash flow shortages. Poor cash flow management could result in the inability to pay suppliers on time or create short-term financing pressures.
R11. Rising Financing Costs Although the U.S. Federal Reserve (Fed) decided to cut the federal funds target rate by 50 basis points on September 18, 2024, distributors that rely on indirect financing from financial institutions will still face pressure on profit margins due to rising interest rates throughout the year, which have increased financing costs for intermediaries. These companies, in particular, will continue to bear the financial cost burden that dilutes their profit margins.
R12. Accounts Receivable Risk Distributors may need to offer credit terms to customers, increasing the risk of delayed receivables or bad debt. If a customer goes bankrupt or delays payment, it will impact the company's cash flow and liquidity.
R13. Tax and Regulatory Risks Tax policies and regulations in different countries may change, such as increases in tariffs or changes in corporate income tax, which shifts can directly impact the profitability and compliance costs of distributors.
III. Execution Risks
R14. Compliance Risk The company's business activities may face legal and regulatory risks if effective compliance risk assessments and plans are not established or if control measures are insufficient, which can lead to issues such as regulatory violations, conflicts of interest, and behavioral risks.
R15. Occupational Health and Safety Management Risk Failure to establish a comprehensive and appropriate occupational health and safety management plan or system may lead to the inability to effectively control occupational safety hazards and incidents.
R16. Data Privacy and Security Risks Data breaches and cyberattacks can harm a company's reputation and lead to legal and regulatory compliance issues.
R17. Intellectual Property Risks Confidential information leaks, infringement disputes, counterfeiting and piracy, patent licensing conflicts, and employee turnover or poaching can negatively impact a company's operations, finances, and reputation.
R18. Strategic Material Control Risks Strategic material control risks refer to the legal and compliance risks that companies may face when importing and exporting strategic high-tech goods.
IV. Environmental Risks
R19. Extreme Weather Events Extreme weather events such as typhoons, floods, and droughts can disrupt supply chains and result in operational losses.
R20. Carbon Risk Carbon risk has become a significant challenge that businesses must face. To address climate change, companies need to consider reducing carbon emissions, complying with regulations, enhancing resilience to climate change, and managing financial and operational risks associated with carbon emissions and climate change.
R21. Environmental Sustainability Responsibilities

2024 Risk Identification Outcome (Reported to the Sustainable Development Committee and the Board of Directors for approval on November 12, 2024)
Pressure from relevant stakeholders demands that companies make greater efforts in environmental protection and sustainability responsibilities.
R22. Legal and Regulatory Risks To mitigate and adapt to climate change, governments may implement stricter environmental regulations, which could present operational challenges and increase compliance costs for companies.

Afterwards, from October to November of the same year, an internal questionnaire was adopted, and the managers (inclusive) and above who participated in the operating meeting and stationed to overseas subsidiaries were the subjects of the questionnaire survey, and they were asked to analyze and measure about the probability of occurrence (A), severity/impact of occurrence (B) and risk exposure (A) x (B) of each risk item listed in the questionnaire; a total of 60 samples were collected, and the simple arithmetic average of each risk score was calculated according to the quantitative index scores given by the questionnaire. The value was taken as its statistical value, and the risk exposure of each risk was calculated according to the above (A) x (B) as the risk level differentiation index. Results among the 22 risk items, there were 13 low-risk items, 9 medium-risk items, and 0 high-risk items, as detailed in the following Risk Matrix diagram, and relative response measures are proposed for the 5 medium-risk themes, which are also detailed in the table below. All of the above have been submitted to the Sustainable Development Committee and the Board of Directors for approval on and November 12, 2024, respectively.



I.Operational Risks

R1. Risks in Logistics and Supply Chain Management
R2. Market Demand Fluctuations
R3. Technological Advancements
R4. Competitive pressure
R5. Sales Concentration Risk
R6. Margin Compression
R7. Information Security
R8. Digital Transformation Risks

II.Financial Risks

R9. Exchange Rate Volatility
R10. Liquidity Risk
R11. Rising Financing Costs
R12. Accounts Receivable Risk
R13. Tax and Regulatory Risks

III.Execution Risks

R14. Compliance Risk
R15. Occupational Health and Safety Management Risk
R16. Data Privacy and Security Risks
R17. Intellectual Property Risks
R18. Strategic Material Control Risks

IV.Environmental Risks

R19. Extreme Weather Events
R20. Carbon Risk
R21. Environmental Sustainability Responsibilities
R22. Legal and Regulatory Risks

Medium Risk Topics and Response Measures

Risk Topics	Explanation and Response Measures
Exchange Rate Volatility	**1. Foreign Exchange Hedging Instruments** Utilize forward contracts and other hedging instruments, following the control procedures for derivative transactions, to lock in future exchange rates. This aims to mitigate the impact of exchange rate fluctuations on costs and profits. **2. Order Pricing and Contract Negotiations** Given the hierarchical nature of the semiconductor component distribution industry, efforts are made to account for potential exchange rate risks when setting prices on sales orders. This includes incorporating a level of exchange rate fluctuation protection or including terms in contracts that allow for price adjustments based on currency movements, so that customers also share the exchange rate risk. **3. Continuous Monitoring of Exchange Rate Movements and Risk Assessment** Regularly monitor changes in the global economy and monetary policy to analyze exchange rate trends. Based on the current exchange rate position and appreciation/depreciation trends, manage the gap between foreign currency assets and liabilities (primarily in USD). This includes monitoring the impact of exchange rate fluctuations on profit and loss for inventory, accounts receivable, short-term borrowings, and accounts payable, while providing warning signals to the operations management team.
Margin Compression	**1. Enhance Product Value** Improve product competitiveness by offering value-added services such as technical support, customized product solutions, and enhanced after-sales services. This approach helps avoid relying solely on price competition and increases customer reliance and loyalty to the Company. **2. Strengthen Supply Chain Management** Establish close supply chain partnerships, implement precise inventory management, and identify potential issues such as supplier delays, logistics disruptions, or changes in market demand. This helps the Company detect and respond to risks early, ensuring a stable and efficient supply chain while reducing supply chain risks and costs. Additionally, optimizing procurement processes and negotiating better pricing terms and payment conditions with upstream IC venfors can further alleviate cost pressures. **3. Customer and Market Diversification** Avoid over-reliance on a few large clients by actively exploring new markets and application fields and seeking out small to medium-sized customers. This helps diversify risks and ensures that the overall business remains stable even if one market or customer faces price pressure. **4. Diversified Product Line Portfolio**

Risk Topics	Explanation and Response Measures
	Timely representation of various types of IC products with trending technological applications, constructing a diversified product portfolio. Products with technological advantages or unique applications in the market can help reduce the pressure on profit margins from price competition while opening up opportunities in multiple markets. **5. Internal Cost Control** Optimize internal management and operations by investing in business process reengineering or digital transformation to improve operational efficiency or reduce costs. This helps reduce the impact of external price pressures on profit margins. **6. Long-Term Partnership Relationships** Establish long-term strategic partnerships with core vendors and customers. Through stable demand and supply volume negotiations, the Company can manage market price fluctuations and ensure stable profit margins. **7. Innovation and Technological Upgrades** Invest resources in R&D or collaborate with upstream vendors to provide more technologically advanced solutions. This not only enhances profit margins but also reduces the impact of price wars, helping the Company achieve differentiated competitive advantages in the market.
Competitive pressure	**1. Do Not Rely Solely on Price as a Competitive Point** (1) **Competitiveness Based on Quality and Trust**: Even in a price war, the Company should not solely depend on price competition. Instead, it should focus on building long-term competitiveness through trust, quality, and service. For example, improving delivery quality and offering technical support can make customers feel the value of premium service. This helps cultivate a loyal customer base that chooses reputable brands and distributors, even in a competitive market. (2) **Enhance Service Quality**: Strengthen customer loyalty by providing excellent customer service, such as responding quickly to customer needs, offering after-sales services, and building long-term customer relationships. (3) **Real-time Feedback and Communication**: Establish an efficient customer feedback system to promptly address customer needs and suggestions. This ensures that customer issues are quickly resolved, increasing customer satisfaction. (4) **Close Collaboration with Upstream Vendors**: Build long-term partnerships to negotiate better procurement terms, which can help reduce product costs and improve price competitiveness. **2. Risk Diversification and Diversified Operations** (1) **Product Diversification**: Avoid over-reliance on a single product line by acting as an IC distributor for a variety of products or services. This helps reduce risks when competition in a specific market becomes intense and creates more revenue streams. (2) **Market Diversification**: Actively explore emerging markets, enter less competitive market sectors, or explore new sales channels and models. This helps to diversify risks and capture more market opportunities.

Risk Topics	Explanation and Response Measures
	3. Collaboration and Alliances Establish strong strategic alliances with vendors, customers, and other strategic partners. Leverage the brand reputation and technical resources of the international IC brand manufacturers, and collaborate with them to create win-win situations, jointly addressing market challenges. **4. Continuous Market Research and Monitoring** (1) **Market Trend Analysis:** Conduct regular market research to understand industry trends, competitor movements, and changes in customer demand. Based on the research findings, adjust strategies accordingly and provide timely feedback to upstream vendors. (2) **Competitor Analysis:** Continuously monitor competitors' pricing, promotions, and market activities, and develop corresponding response strategies to maintain flexible competitiveness.
Market Demand Fluctuations	**1. Establish flexible upstream and downstream supply chain management** (1) Strengthen the relationship between the vendors: maintain close communication with the vendors to ensure that the order quantity can be quickly adjusted to respond to changes in demand. (2) Multi-source franchised product supply: Develop multiple franchised product supply sources, reduce dependence on a single franchised product, and improve the resilience of the supply chain. (3) Strengthen customer relationship management: Maintaining close contact with customers and understanding their needs and expectations can better meet customer needs and improve customer satisfaction. **2. Strengthen demand forecasting** (1) Data analysis and forecasting: Before AI technology is built to predict market trends, ERP (enterprise resource planning) or CRM (customer relationship management) systems are used to manage data and improve the data base of forecasting. (2) Sales & Operations Planning: Through regular business and cross-departmental operational meetings, integrate information from sales, operations, management and other departments, and integrate the opinions of all parties to formulate more reliable demand forecasts. (3) Rolling forecasting and timely market feedback: Quickly feed real-time sales and marketing information (such as competitor trends, customer behavior changes, etc.) into the demand forecasting process, quickly adjust sales forecasting and inventory management data, and avoid long-term reliance on static forecast data. (4) Forecast Accuracy Testing: Regularly check the accuracy of demand forecasts and analyze the causes of deviations to gradually optimize and improve the forecasting model. **3. Optimize inventory management**

Risk Topics	Explanation and Response Measures
	Adopt lean inventory management: Dynamically adjust inventory based on actual demand, reduce the risk of excessive inventory overstock, and ensure that inventory turnover is maintained at a reasonable level. **4. Flexible pricing strategy** Flexible pricing strategy: According to market demand and competition, real-time feedback information to the vendors can adjust the product price in a timely manner, to stabilize important customers and ensure profits. **5. Real-time grasp of the technical trends in the application field** Technology investment: Continue to invest resources in the technology research and development and innovation of product solutions to improve the competitiveness of product demand creation and meet the new needs of the market.
Information Security	1. **Implementation of ISMS (Information Security Management System)** With the progress of digitalization, the risks of cyberattacks and data breaches have increased. Starting in the third quarter of 2024, the Company has commissioned Chunghwa Telecom's cybersecurity consultants to assist in the implementation of the ISMS (Information Security Management System), with the goal of obtaining ISO 27001 international certification by the second quarter of 2025. This will help improve the Company's information security level and reduce the risks of cyberattacks and data breaches. The following actions will be executed: (1) **Enhancing Network Firewalls** Upgrade and configure high-performance firewalls to ensure network perimeter security and prevent unauthorized access. (2) **Employee Security Awareness and Training** Regularly conduct cybersecurity training to enhance employees' security awareness and response capabilities, preventing social engineering attacks. (3) **Assistance from External Security Experts** Hire cybersecurity consultants for regular reviews and testing, providing professional advice and improvement measures. (4) **Zero Trust Architecture** Implement a zero-trust security model, ensuring that every access request is authenticated, regardless of its origin, whether internal or external. (5) **Regular Vulnerability Scanning** Use automated tools to perform regular vulnerability scans, promptly identifying and fixing system vulnerabilities. (6) **SOC Monitoring Service** Outsource SOC (Security Operation Center) monitoring services to effectively gather threat intelligence, provide real-time alerts, and conduct post-incident threat analysis with recommendations, ensuring effective management of various security

Risk Topics	Explanation and Response Measures
	alerts. (7) **Data Encryption** Encrypt and mask sensitive data, such as personal information. (8) **Backup and Disaster Recovery Plan** Establish a comprehensive data backup and disaster recovery plan to ensure quick restoration of operations in the event of a security incident. (9) **Access Control** Implement strict access control measures to ensure that only authorized personnel can access critical systems and data. (10) Incident Response Plan Develop and rehearse an incident response plan to ensure swift and effective handling of security incidents.
Liquidity Risk	**1. Establish Cash Flow Budgeting and Forecasting** Conduct regular cash flow forecasts that consider seasonal demand, supply chain cycles, and customer payment habits to accurately estimate future cash inflows and outflows. This enables timely adjustments to cash flow plans to accommodate demand fluctuations and delivery delays. **2. Enhance Accounts Receivable Management** Strengthen accounts receivable management to expedite collection cycles. Consider shorter payment terms, early payment discounts, or accounts receivable insurance to reduce the risk of overdue payments. Regularly assess customer credit and apply more cautious payment terms for customers with lower credit ratings. **3. Flexible Inventory Management** Control inventory levels to reduce capital lock-up and alleviate cash flow pressures caused by excess inventory. Adjust inventory strategies based on market demand and implement dynamic inventory management. **4. Negotiate Extended Payment Terms** Negotiate extended payment terms with suppliers to secure longer payment periods without harming supplier relationships, gaining additional cash flow time. Bulk purchasing or signing long-term supply agreements can also be considered to negotiate more flexible payment terms. **5. Seek Short-term Financing** Utilize short-term financing tools, such as bank loans, accounts receivable financing (e.g., factoring), or supply chain finance, to quickly access working capital. **6. Raise Capital in Financial Markets as Needed**

<table>
<tr><th>Risk Topics</th><th>Explanation and Response Measures</th></tr>
<tr><td></td><td>Periodically evaluate the financial structure and use appropriate financing tools to raise funds in capital markets to increase financial flexibility. In September 2024, the Company issued five-year, zero-coupon, unsecured convertible corporate bonds to raise NT$2.5 billion.
7. Establish Cash Reserves
Set up cash reserves when financially stable to create a safety buffer, preparing for demand fluctuations and delivery delays. Emergency funds can provide a cushion at critical moments to ensure sufficient liquidity to meet short-term cash flow needs.</td></tr>
<tr><td>Rising Financing Costs</td><td>1. Negotiate Better Loan Terms with Financial Institutions
Build stable relationships with financial institutions, showcasing the Company’s stability and growth potential to secure relatively favorable loan interest rates.
2. Reevaluate Financing Structure
Continuously assess the financing portfolio to reduce reliance on high-interest debt and choose financing options with lower interest rates.
3. Diversify Funding Sources
(1) Avoid excessive dependence on a single financing source and strive for diversified funding.
(2) Utilize a mix of long-term and short-term financing tools to adjust financial and capital structure. This includes financing methods that do not require actual cash outflows for interest expenses. For instance, in September 2024, the Company successfully raised NT$2.5 billion in capital markets through the issuance of its seventh series of five-year, zero-coupon, unsecured convertible corporate bonds.
(3) Engage in supply chain financing with suppliers to reduce reliance on bank loans.
4. Strengthen Working Capital Management
Optimize and accelerate the turnover days of accounts receivable and inventory for efficient working capital management. Enhance inventory structure to avoid overstocking, reduce capital lock-up, and ease short-term cash flow pressures.</td></tr>
<tr><td>Sales Concentration Risk</td><td>1. Strengthening Customer Relationship Management
By establishing long-term and stable customer relationships, understanding customers' long-term plans and future needs, and adjusting product and service offerings accordingly, the impact of sudden changes in demand can be reduced. Additionally, enhancing customer loyalty can be achieved through improved value-added services, such as technical support and after-sales services.
2. Customer Diversification
Proactively expanding the customer base to reduce dependence on a single or few major clients. This can be done by entering new</td></tr>
</table>

Risk Topics	Explanation and Response Measures
	markets, developing new application fields, or catering to the needs of customers from different industries, thereby expanding the customer group. 3. **Product and Market Diversification** In addition to customer diversification, the Company should consider representing various types of IC products or entering multiple application markets to diversify business sources, avoiding over-concentration in a single application area. 4. **Developing Small and Medium-Sized Clients** Identifying potential small and medium-sized clients in the mass market and providing products and services tailored to their needs. Although orders from small and medium-sized clients may be smaller, they can accumulate into a stable revenue stream and help mitigate risks from larger clients. 5. **Risk Early Warning System** Establishing an internal risk early warning system to continuously monitor the business activities and demand trends of major clients, identify risks in a timely manner, and prepare contingency plans in advance, such as adjusting inventory strategies and resource allocation. 6. **Value-Added Services** Offering value-added services, such as technical support and after-sales service, to enhance customer loyalty and dependence. 7. **Internal Innovation** Investing in R&D and innovation to improve the competitiveness of product solutions and services, thereby attracting more customers.
Digital Transformation Risks	**1. Strengthening Cybersecurity** As digitalization accelerates, it is essential to enhance cybersecurity when managing large volumes of data. To this end, our company has started working with cybersecurity experts since August 2024 and aims to implement an Information Security Management System (ISMS) in Q2 2025. This initiative is expected to strengthen data transmission and storage security, reducing the risk of data breaches and cyber-attacks. **2. Collaborative Digitalization with Supply Chain Partners** In collaboration with upstream and downstream supply chain partners, we will advance digitalization at an opportune time to ensure seamless information exchange across each link. This will improve overall supply chain coordination, shorten lead times, and reduce inventory pressure. Market research will be conducted prior to digital transformation to ensure that the adopted digital technologies and products meet the requirements of both original equipment manufacturers and customers. **3. Technical Integration Assessment**

Risk Topics	Explanation and Response Measures
	Digital transformation involves integrating various new technologies with existing systems, which may lead to compatibility issues, data loss, or system disruptions. (1) Conduct feasible technology assessments to select technologies compatible with existing systems. (2) Plan a gradual transformation process, avoiding the introduction of excessive technologies all at once, and establish a testing environment for assessments. (3) Form cross-departmental teams to ensure effective communication between IT and business departments. **4. Adapting Organizational Change Management** Digital transformation will bring process and cultural changes, which may face resistance or adaptation challenges from employees, impacting the transformation's progress. (1) Engage external experts to train employees on digital transformation-related technologies and applications to enhance their digital skills and adaptability. (2) Establish a clear change communication plan to help employees understand the transformation goals and benefits, encouraging active participation in the process. (3) Set up a change management team responsible for facilitating coordination and support throughout the transformation, addressing potential resistance. **5. Financial Support** Digital transformation involves capital investments, such as technology infrastructure, employee training, and consultancy services. A budget should be allocated with anticipated returns on investment. (1) Develop a detailed financial budget and cost-benefit analysis to ensure adequate financial resources are available to support the transformation plan. (2) Conduct pilot programs for small-scale trials to validate the feasibility of new technologies and processes, reducing the risk of large-scale investment failure. (3) Implement financial monitoring mechanisms to regularly review expenditures and returns during the transformation process.