

Cheng Fwa Industrial Co., Ltd.

Risk Management Methods and Procedures

Article 1: Risk Management Policy

Established on August 10, 2021

To fulfill corporate governance obligations and maintain the objectives of sustainable operation, and to grasp the potential internal and external risks in economic, social, and environmental aspects that the Company's operation may face, each department should, according to their responsibilities, identify and clarify risks that may affect enterprise operations or sustainable development. They should also monitor potential risks, implement preventive measures to strengthen risk management, enhance systematic response capabilities, achieve the goals of risk control, and thereby protect shareholders' interests, enhance competitiveness, and lay the foundation for the sustainable operation and development of the enterprise.

Article 2: Purpose

To effectively carry out the identification, clarification, response control, monitoring, prevention, and consolidated reporting procedures of risks, and to manage the uncertainties that may threaten enterprise operations, this method is specifically established to strengthen the Company's preventive measures and systematic strategies and management measures in the face of risks.

1. Board of Directors:

The board of directors of the Company is the highest guiding unit for company risk management, aiming to comply with laws, promote, and implement the overall operational risk management of the Company, clearly understand the risks faced by sustainable operations, and ensure the effectiveness of risk management.

2. Operational Management Meeting:

Operational meetings or executive meetings chaired by the general manager or relevant operational executives are responsible for reviewing and controlling the risk assessments and response commands of various plans and projects initiated by each responsible department.

3. Audit Unit:

An independent department subordinate to the board of directors is responsible for implementing internal audits to assist the board of directors and managerial officers in inspecting and reviewing deficiencies in internal control systems and measuring operational effectiveness and efficiency. It provides improvement suggestions in a timely manner to ensure the continuous and effective implementation of internal control systems and serves as the basis for reviewing and modifying internal control systems.

4. Responsible Departments:

All personnel in each responsible department should bear the responsibility for frontline risk management in daily operations, analyze, monitor, and prevent related risks within the scope of their department's responsibilities, and ensure the effective implementation of risk control mechanisms and procedures.

Article 4: Scope of Risk Management

Given its business and operational characteristics, the Company includes the following categories of risks within its management scope:

- (1) Interest Rate Fluctuation Risk
- (2) Exchange Rate Fluctuation Risk
- (3) Climate Change and Environmental Risk
- (4) Occupational Safety Risk
- (5) Raw Material Price and Supply Chain Risk
- (6) Information Security Risk
- (7) Strategy and Operational Risk
- (8) Capital Expenditure Risk
- (9) Legal Risk
- (10) Technology Risk
- (11) Management Risk
- (12) Corporate Image Risk

Article 5: Risk Management Procedures and Operation

1. The management of risks in the Company includes the processes of risk identification, risk measurement, risk monitoring, risk response, and risk reporting and disclosure.

(1) Risk Identification: Personnel in each responsible department should identify potential risks faced by the Company within the scope of their responsibilities.

(2) Risk Measurement: After identifying potential risks they might face, each responsible department should establish appropriate measurement methods as the basis for risk management.

(3) Risk Monitoring: Each responsible department should monitor potential risks in their business operations and assess the level of risk that may cause damage.

(4) Risk Response: After assessing and aggregating risks, each responsible department should take appropriate responsive measures to the identified potential risks, such as clarification in risk identification, evaluation reports, and execution of response control plans.

(5) Risk Reporting and Disclosure: The Company regularly reports the risk status to the Board of

Directors for management reference, implementing risk management procedures and checking execution results.

2. The response procedures for risk control are executed at three levels:

(1) Responsible Departments: Personnel in each responsible department should identify potential risks within the scope of their responsibilities, conduct evaluations, formulate response control plans, and report.

(2) Operational Management Meeting: The management meetings or operational meetings chaired by the General Manager or related operational executives are responsible for risk assessment and response to various operational plans and projects, as well as the evaluation and response command of the risks reported by each responsible department.

(3) Board of Directors: The Company implements risk management measures by responsible departments according to the type of risk and implements comprehensive risk control and prevention by all employees to effectively manage risks. For significant potential risks affecting the Company's operations or sustainable development, they are regularly reported (at least once a year) to the Board of Directors by the General Manager or relevant operational executives.

3. The Audit Unit is responsible for supervising each responsible department to comply with decision-making authority and related management methods and procedures to ensure the risk management awareness and execution effectiveness of all employees.

4. For uncertain factors that may threaten the operation or sustainable development of the Company, the responsible units should consult with relevant departments and, if necessary, seek opinions from external professional consultants to assess risks, propose preventive suggestions, and take management actions.

Article 6: Implementation

The risk management methods and procedures of the Company are implemented after being approved by the Board of Directors, and the same applies when amendments are made.