

THE PRINCIPLE OF RISK MANAGEMENT POLICY AND PROCEDURE OF PHISON ELECTRONICS CORPORATION

Article 1 Purpose

To safeguard the interests of shareholders, implement sustainable development, fulfill the corporate governance, the management strategic and goals, and ensure the effectiveness, completeness and reasonableness of the risk management in relation to Phison Electronics Corporation and its subsidiaries (hereinafter collectively, the “Company”), the Company hereby makes this principle (“Principle”), so that the objectives and strategic of the Company’s management can be achieved in an efficient way.

Article 2 Source

This Principle has been made in accordance with Article 44 of Regulations Governing Establishment of Internal Control Systems by Public Companies, regulating that “A public company is advised to adopt appropriate risk management policies and procedures, and establish effective risk management mechanisms, to assess and monitor its risk-bearing capacity, and the current status of risk already incurred, and to determine its compliance with the risk response strategies and risk management procedures.”

Article 3 Objective

The Company should identify, evaluation, monitor and control each risk, with proper accessing and processing procedures, for controlling the risks that may be produced within the risk-bearing capacity, and to reach the goals of rationalizing risks and rewards.

Article 4 Risk Management Policy

The Company’s risk management policy defines various risks in accordance with the Company’s overall business policy, not only does the Company establish a risk management mechanism regarding early identification, precise measurement, effective supervision and strict control, but the Company also prevents possible losses under the scope that the risks involved are considered tolerable.

Notwithstanding the aforementioned, the Company makes continuous adjustments and improvement in response to the internal and external environmental changes, for increasing the shareholders’ benefits and the Company’s value on the basis of the following items, considered as the highest guiding principles regarding risk management:

1. The Company's business management should be equipped with the awareness of risk management, to integrate risk management into business strategies and organizational culture.
2. Establish the risk response mechanism, the management of identification, evaluation, supervision, and control, and make the standard of measurement, regarding the major risks.
3. Establish proper risk management systems, with continuously reviewing and ensuring the effective management in relation to the risks incurred.

Article 5 Organizational Structure and Responsibilities of Risk Management

Organizational structure and responsibilities

1. Board of Directors

The board of directors is responsible for the approval of the Principle, supervising the Company's existing or potential risks, and making reasonable resource allocation to ensure effective risk management and control.

2. Risk Management Committee

The risk management committee (“Risk Management Committee”) is the unit that comprehensively manages risk management activities. It consists of at least three members, one of whom serves as the convener, and at least more than half of the members are independent directors. The executive secretariat is established therefrom and its responsibilities are as follows:

- (1) Formulate relevant risk operation methods, establish risk management standards, and regularly review the implementation of the Company's risk management mechanism, risk category assessment and the matters of improvements.
- (2) Execute the risk management decisions made by the board of directors, and regularly review the Company's development, establishment, and implementation effectiveness with respect to its overall risk management mechanism.
- (3) Approve risk response strategies and action plans, and require all risk management authorities of the Company to effectively identify, measure, supervise and control various risks.
- (4) Convene the meeting of the Risk Management Committee at least once a year.
- (5) Review and integrate the Company's risk management and control reports, and report the implementation of risk management to the board of directors at least once a year.

3. Executive Secretariat

Executive Secretariat is responsible for the implementation, promotion and coordination of the Company’s risk management activities, including holding Risk Management Committee meetings, assisting the Risk Management Committee in formulating risk management policies and procedures, communicating risk information with various operating units, collecting and integrating risk management reports of various operating units, etc. and matters designated by Risk Management Committee.

4. Each Operating Unit

Each operating unit is responsible for the actual implementation of the risk plan of each unit, including risk identification, risk analysis, risk assessment, risk response and control, and self-supervision. Each operating unit shall report to the Risk Management Committee the implementation status of risk management related to various risks, on a regular basis or when required by the Risk Management Committee.

Article 6 The Scope of Risk Management

The Company shall comprehensively evaluate the possibility and impact of various risks, faced by daily business activities, and adopt appropriate countermeasures to continuously improve and reduce corporate risks.

The Company's business risks can be categorized as operating risks, market risks, operational risks, information security risks, environmental security risks, risks of stable supply related to electricity and water resources, legal infectious disease risks, and other business-related risks. In order to ensure that various risks are controlled within a tolerable scope, the Company should set up summary and management indicators of various risks, which are regularly monitored by each operating unit.

Article 7 Risk Management Process

The Company's risk management process includes: risk awareness establishment, risk identification, risk measurement, risk response, risk monitoring, and risk disclosure.

1. The Establishment of Risk Awareness

In order to strengthen the understanding of the Company’s personnel on the Company’s risk management policies, procedures, risk identification and other matters, the Risk Management Committee and each operating unit shall hold risk management education and training for the Company’s personnel.

2. Risk Identification

The Company's senior management should identify key risks and emerging risks, as well as the risk identification activities by the Company's operating units, and report the risk identification results and control status to the Risk Management Committee, for enhancing overall operational decision-making.

The Company should make enterprise-level risk identification at least once a year, to gather past experience and assess the risks that may occur in future operations.

3. Risk Measurement

After each functional unit of the Company has identified the risk factors it may face, it should formulate appropriate measurement to serve as the basis for risk management.

(1) As a reference for the subsequent formulation of the priority order of risk control and the selection of response measures, the measurement of risk includes risk analysis and evaluation, for accessing the impact of the risk on the Company by analyzing the possibility of the occurrence of a risk event, and the degree of its negative impact once it occurs.

(2) For quantifiable risks, rigorous statistical analysis methods and techniques should be adopted for analysis and management.

(3) For other risks that are currently difficult to quantify would be measured in a qualitative way. The qualitative measurement of risk refers to the description of words to express the possibility of risk occurrence and the extent of its impact.

4. Risk Response and Monitoring

After identifying and measuring risks, each operating unit shall take appropriate responses to the risks it faces, establish prevention, early warning, response, crisis management, and operational continuity plans to mitigate, transfer or avoid risks, with making relevant records.

The Risk Management Committee must continuously monitor the effectiveness of the implementation regarding risk response and control made by operating units, in response to the changes of the environment.

5. Risk Disclosure

In order to make shareholders and stakeholders understand the overall risk management, the Company should disclose the implementation of risk management in the annual report and corporate social responsibility report, and disclose the scope of risk management, organizational structure and operating conditions on the website, to ensure the complete disclosure of the overall risk status and risk management actions, for the purpose of fulfilling the corporate governance.

Article 8 Approval and Amendments

This Principle and any amendments thereto, shall be implemented after the board of directors grants the approval.

Article 9 Finalizing Date

This Principle was made as of November 05, 2021.

The 1st amendment was made on January 18, 2024.