

Zhen Ding Technology Holding Limited

Implementation of Emerging Risk in 2023 (Updated March 2024)

To comply with the principle of sustainable development and to fulfill our responsibility as a global citizen, we review the risk issues of the Group's operational impacts and challenges in accordance with the emerging risk profiles proposed by the World Economic Forum's "Global Risks Report", and continue to focus on three key risks in the medium and long term: "Structural changes in the labor market," "Global armed conflict and economic downturn," and "Misinformation and disinformation."

1. Structural changes in the labor market

Description	Potential Impact	Control Plan	Implementation Status
<p>After the epidemic, the labor force gradually recovered, but it could not mitigate the impact of structural changes in the labor market. In recent years, due to the decline in fertility rates, the average age of the workforce has been increasing, leading to an inadequate young labor force. The labor market has become increasingly tight, posing recruitment challenges for enterprises and causing supply chain disruption.</p> <p>In addition, due to the ongoing cost of living and transition crisis, changing employee expectations,</p>	<p>Changes in the labor structure have increased the challenges for firms to recruit employees, which may cause the following issue:</p> <p><u>Loss of key talent and shortage of labor force:</u></p> <ul style="list-style-type: none"> Domestic and foreign companies are poaching talented individuals by offering high salaries, depleting the firm's human resources and escalating labor costs. Shortages in the labor force will impact business operations and lead to disruptions in the supply chain. <p><u>Reputation losses :</u></p> <ul style="list-style-type: none"> Failure in recruitment or an inability to apply appropriately can lead to a crisis of trust with stakeholders. If employees' human rights are not 	<p>1. Internal control :</p> <ul style="list-style-type: none"> In order to enhance employee development opportunities and enthusiasm, and to align with corporate goals, mission, and vision, internal training application offers a variety of courses, (e.g., strategic management, languages, etc.). Enhance digitalization and artificial intelligence to reduce the impact of structural changes in the labor market. Regularly conduct employee symposiums to listen to employees' needs. Introducing intelligent and automated production to 	<p>1. Internal control :</p> <ul style="list-style-type: none"> By offering comprehensive education and training, the average learning hours per person increased from 60 hours in 2022 to 65 hours in 2023. 6,598 cultural activities were carried out, with a total of 601,258 people participating, enriching the lives of employees. A satisfaction and engagement survey was conducted on employees, and the overall satisfaction score was 4.35 out of 5 points. Continue to promote and expand the digital transformation plan, and introduce artificial intelligence and

<p>and concerns about job quality, the labor force entering the market has actually declined. In terms of critical skills, technological advancements and the proliferation of various end-user applications have increased the reliance on top-tier talents, leading to a global competition for talent.</p> <p>To sum up, the firm must accelerate the implementation of digital transformation and enhance artificial intelligence to adapt to challenges in the structural changes in the labor market.</p>	<p>reviewed and evaluated promptly, legal issues may arise, leading to deterioration in labor relations.</p> <p><u>Margin decrease in long term:</u></p> <ul style="list-style-type: none"> Taiwan's labor costs increase by 5.41% in 2023 compared to 2022, with total costs expected to rise by over 10%. Ineffective allocation of human resources and incorrect analysis lead to ineffective strategies. <p>Failure to effectively identify changes in the labor structure may lead to incorrect operating strategies, resulting in inefficient investments and capital waste.</p>	<p>alleviate the issue of labor shortage.</p> <p>2. External participation :</p> <ul style="list-style-type: none"> Develop multiple recruitment channels to meet human resource needs (e.g., new media, shared employees, etc.). Establish talent pool through industry-university collaboration projects. 	<p>automation into the production line to reduce reliance on manpower and minimize losses caused by human error.</p> <ul style="list-style-type: none"> The enterprise has adjusted its employment structure to reduce the reliance on manpower. The firm plans to invest more than NTD 10 billion in automation and smart factories to respond. <p>2. External participation :</p> <ul style="list-style-type: none"> This year, there are more than 25 industry-university cooperation projects. In 2023, more than 30 industry-university conferences were held, and project implementation incentives were allocated, with over 4,500 participants. The firm not only increases the diversity of labor sources through cross-industry alliances but also achieves the effect of tapered integration.
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2. Global armed conflict and economic downturn

Description	Potential Impact	Control Plan	Implementation Status
<p>The Ukraine-Russia war broke out in early 2022, and the Israel-Hamas conflict erupted at the end of 2023, resulting in a food and energy supply crisis and importing inflation. In order to stabilize price levels, regulatory agencies in various countries adopt deflationary policies. Although increasing interest rates can stabilize prices, it also inhibits the flexibility of economic recovery after the epidemic and creates hidden concerns about stagnant inflation. In addition to the hidden worries of stagnant inflation, the policies of various countries have gradually shifted from dovish to hawkish. The rise of nationalism has posed challenges to the global division of labor. Furthermore, political and economic tensions between China and the United States continue to escalate. The two sides have initiated a trade war by implementing measures such as increased tariffs, interventions, and subsidies. The confrontation between China and the United States has also affected cross-strait relations, increasing uncertainty in future operations and investments.</p>	<p>The global stagnation in inflation has a profound impact on the firm's future financing and investment plans, including:</p> <p><u>Supply chain uncertainty:</u></p> <ul style="list-style-type: none"> • Customers require the company to find new suppliers, relocate, or expand production facilities. • Uncertainties in supply chain management and establishing new production locations can result in additional costs. • International agreements are no longer reciprocal but have gradually shifted towards an adversarial mode, resulting in a crisis of supply chain disruption. <p><u>Changes in market position:</u></p> <ul style="list-style-type: none"> • When preferential policies are removed and trade barriers increase, market share and operating income may be affected. • Investment restrictions and regulatory changes may impact the company's strategic layout, operational performance, and management complexity. <p>Overall, if the company cannot effectively identify changes in the international political and economic situation, it may lead to incorrect operating strategies, resulting in inefficient investments and capital wastage.</p>	<p>1. Internal control :</p> <ul style="list-style-type: none"> • Localizing the supply chain to reduce overall costs, improve stability, and prevent disruptions. • Strengthening the financial structure, responding to international changes, and consistently assessing exchange rate risks are essential for efficiently managing working capital. • To mitigate risks arising from the global political and economic landscape, it is advisable to increase foreign investments and implement a decentralized structure. • The employment structure has been adjusted, and the number of employees in Southeast Asian factories has increased by 31% compared to 2022. <p>2. External participation :</p> <ul style="list-style-type: none"> • Regular meetings with suppliers and customers are conducted to enhance 	<p>1. Internal control :</p> <ul style="list-style-type: none"> • Strengthening the global localization policy, diversify risks, enables real-time monitoring of material price changes, and enhances bargaining power with suppliers and customers. • More than 60 equipment and material suppliers have been added, reducing the reliance on single sources of supply. • Establish a capital expenditure committee to assess capital investments, prevent over-investment, and enhance equipment utilization. • To enhance the efficiency of the production line operations and product quality at the Southeast Asian plants, the number of employees at the Indian factory increased by 35% compared to the previous year. <p>2. External participation :</p> <ul style="list-style-type: none"> • In 2023, more than 50 suppliers were added to stabilize prices and production, and to jointly plan energy-saving and carbon reduction projects.

		<p>collaborative relationships and maintain market leadership.</p> <ul style="list-style-type: none">• Collaborate with industry, government, academia, and other stakeholders to understand changes in the international political and economic landscape to mitigate the risk.	<ul style="list-style-type: none">• Participate in seminars on international political and economic situations and engage with academic and public sectors to exchange insights.
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3. Misinformation and disinformation

Description	Potential Impact	Control Plan	Implementation Status
<p>Under the wave of digitization and artificial intelligence, extortion groups obtain crucial internal information from enterprises through phishing emails, manipulate and disseminate. In addition to information leakage, the loss of corporate identity and goodwill has a profound impact. According to the Journal of Information Society Research, the study highlighted that 26.7% of social media information was false, while 47.9% of information contained a mixture of true and false content.</p>	<p>Misinformation and disinformation are increasing day by day with the advancement of network and technology. The impacts on the company's future operations include:</p> <p><u>Reputation losses :</u></p> <ul style="list-style-type: none"> • Failure to control and respond to false information can damage stakeholders' trust in the company. In serious cases, it can also impact the firm's value. <p><u>Data leakage concerns :</u></p> <ul style="list-style-type: none"> • The proliferation of inaccurate information suggests potential gaps in the company's information security maintenance and control, which could result in the exposure of corporate secrets and privacy concerns. <p><u>Impact on operational risk:</u></p> <ul style="list-style-type: none"> • Incorrect or falsified information can lead to a decrease in production capacity or quality, as well as pose increasing business risks. The firm had no incidents of misinformation or disinformation in 2023. • The dissemination of incorrect and false information can result in the loss of intangible assets, such as goodwill and trademark rights. 	<p>1. Internal control :</p> <ul style="list-style-type: none"> • The firm strengthens its internal information security capabilities and establishes a mechanism to address false information. Additionally, it maintains effective communication with the public externally. • Control electronic devices and networks to prevent data breaches and leakage. • Strengthen colleagues' understanding of company operations to identify errors and fraudulent information. • Annual phishing letter social engineering drills and educational training are implemented to enhance the information security awareness of all employees. • Through the anti-spam mechanism, suspicious email sources are filtered to reduce the risk of information leakage. <p>2. External participation :</p> <ul style="list-style-type: none"> • Maintaining good relationships with stakeholders and promoting the company's philosophy of honest management can enhance the company's media literacy. • When errors or false information occur, the spokesperson will not only trace the source but also establish a response team to address the issue. 	<p>1. Internal control :</p> <ul style="list-style-type: none"> • Promote information security education and training and conduct annual phishing drills. • In 2023, a total of 175,724 hours of information security education and training courses were provided, with 298,732 participants. <p>2. External participation :</p> <ul style="list-style-type: none"> • Software and hardware are backed up in multiple locations.

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