

Zhen Ding Technology Holding Limited

2023 Implementation Result of Risk Management (Updated: March 2024)

Risk Management Policy

In order to enhance risk governance and strengthen the operation of risk management within the company, the board of directors established the "Risk Management Committee" on December 18, 2023. The committee is the highest-level risk management unit that is part of the board of directors. This committee is responsible for supervising and executing risk control, assisting the board of directors in promoting risk management, and enhancing corporate governance. The committee will report to the board of directors at least once a year, providing an update on the results of risk management. This ensures the company's sustainable business operations and progress towards the goal of sustainable development.

Through the analysis of internal and external environments, the risk management policy defines four major risk management facets: operational, strategic, financial, and hazard pillars. To determine the risk level of each pillar, there are a total of 14 risk factors, and the process of identification, assessment, control, and supervision is clearly documented. Furthermore, to review the status of each aspect, the PDCA cycle (Plan, Do, Check, Act) is utilized for daily measurement.

To uphold the principle of sustainable development, the company evaluates emerging risks in accordance with the Global Risk Report and other international standards. Three long-term risks highlighted this year are "Structural changes in the labor market," "Global armed conflict and economic downturn," and "Misinformation and disinformation."

Organizational Structure of Risk Management



Risk Management Committee (Supervised by the Board of Directors): Composed of at least three directors appointed by the board, the committee include a majority of independent directors to assist the board in promoting risk management and enhancing corporate governance to achieve the objectives of risk management.

Risk Management Executive Committee (supervised by the Risk Management Committee): The committee consists of top executives from each business unit, with the Director of the Chairman's Office serving as the convener to support and supervise the implementation of risk management activities across different departments.

Risk Management Executive Task Force (supervised by the Risk Management Executive Committee): Responsible for reporting the company's risk management policies, assisting various business units in implementing risk management-related operations, and summarizing and executing the situation for the Risk Management Executive Committee.

Internal Audit Office: In charge of auditing implementation, providing regular reports on the changing risk environment, risk management priorities, risk assessments, and responses during the Audit Committee meetings.

Risk Management Responsibilities

1. Board of Directors: Accountable for approving risk management policies, procedures, and frameworks, and ensuring alignment between operational strategies and risk management.
2. Risk Management Committee: Assisting the board of directors in promoting risk management and enhancing corporate governance to achieve the objectives of risk management. Duties include the following:
 - Review risk management policies, procedures, and frameworks.
 - Review the implementation of risk management, provide necessary improvement recommendations, and report to the board of directors at least once a year.
 - Implementing risk management decisions made by the board of directors.
3. Business Units and Functional Departments:
 - Responsible for identifying, analyzing, assessing, and responding to risks within each business unit and functional department, and establishing relevant crisis management mechanisms when necessary.
 - Regularly submit risk management information to the Risk Management Executive Task Force.
 - Ensure that the risk management and related control procedures of the department are effectively implemented to comply with the risk management policy.
4. Risk Management Executive Task Force:
 - Establish risk appetite (tolerance levels) and develop qualitative and quantitative measurement criteria.
 - Analyzing and identifying sources and categories of company risks, and reviewing their applicability regularly.
 - Compile and submit reports on the company's risk management implementation.
 - Assist and supervise the implementation of risk management activities in departments.
 - Coordinated risk management operations involve interdepartmental communication and interaction.
 - Implementing risk management decisions made by the Risk Management Committee.
 - Plan risk management training courses to enhance overall risk awareness and culture.

Risk Management Procedure

To improve the risk management function, the Group's risk management is carried out through (1) risk identification, (2) risk assessment, (3) risk control, and (4) risk monitoring and communication to clearly grasp the scope of each risk. Through PDCA (Plan, Do, Check, Act) management measures, we will continue to improve and manage the risk factors to reduce the chance and degree of risk loss, and take appropriate measures to efficiently implement risk management.

I. Risk Identification: The company performs risk identification based on the environmental, social, and corporate governance aspects of its operations, where 14 risk factors have been formulated based on the four major aspects defined in the risk management policy, and the management scope includes various risk items at different levels as follows:

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|--------------------|--|
| Operational | 1. Market Risks: Changes in market trends, changes in product demand, changes in raw material prices, customer and supply chain performance risks |
| | 2. Regional Risks: Review of the impact of changes in local political and economic conditions on the company's operations |
| | 3. Information Security Risks: Information security software and hardware setup, management, maintenance, and personnel education and promotion and other related matters of operation maintenance and management. |
| | 4. Supply Chain Risks: The ability to check and respond to supply chain imbalances caused by domestic and foreign political and economic situations and environmental changes. |
| | 5. Quality Process Risks: Prevention and review of operational issues in quality management of products, materials, manufacturing, packaging. |
| | 6. Occupational Health and Safety Risks: Handling and response to workplace hazards including workplace injuries, fire, explosion, chemicals, and other environmental contamination. |
| | 7. Human Resource Risks: Review of employment management, employee environment, and welfare issues. |
| | 8. Intellectual Property Risks: Intellectual property risk and response measures, impacts of changes of domestic and foreign policies and laws on the company, and the response measures. |
| Strategic | 9. Strategic Risks: Corporate development direction, positioning of products, prices and technologies and the impact of supply chain operations on the company's operations. |
| | 10. Business Ethics Risks: Review of compliance with laws and regulations and environmental/community responsibilities, protection of company information and property, prevention of bribery, money laundering, and unfair competition. |
| Financial | 11. Investment Risks: Assessment of the internal and external environment of each investment, review of efficiency and investment management |

| | |
|-------------------------|---|
| | 12. Financial and Tax Regulatory Risks: Review and response to changes in financial and tax policies in various regions and international financial situations that affect the company's interests. |
| Hazardous Events | 13. Natural Disaster Risks: Prevention and response capabilities for typhoons, rainstorms, earthquakes, lightning, fires, explosions, epidemics, and infectious diseases (e.g.: COVID-19, SARS, etc.), bird flu, high temperature, heat wave. |
| | 14. Environmental Risks: Impact of long-term natural environmental changes on the company and response: Carbon neutrality and climate change. |

- II. Risk Assessment:** All subsidiaries of the company comply with the “Strategic Risk Control Procedures”. Each functional unit identifies the risk factors it may face, and may use Failure Mode and Effects Analysis (FMEA), or may develop its own identification and evaluation criteria to identify and evaluate the risk levels of different risk items and implement corresponding controls. Based on the risk evaluation, the three characteristic exponent of "severity, frequency, and difficulty of detection" are summarized to express the possibility of risk occurrence and its degree of influence, which are used as reference bases for the subsequent prioritization of risk control and the selection of response measures
- III. Risk Control:** Risks related to the daily operations of each business unit shall be managed by the risk controls of each business unit. For important crisis incidents that are cross-departmental or cross-plant, cross-departmental or cross-plant risk assessment should be carried out. The Chief of Risk Management Executive Committee or a designated representative is responsible for coordinating and negotiating, in order to identify feasible strategies for preventing crisis incidents. The supervisor shall formulate crisis handling procedures and recovery plans according to the crisis incident.
- IV. Risk Monitoring:** For the 14 major risk management areas, regular rolling reviews and complete records of risk management executive results are kept to understand the effectiveness of risk management projects and related control operations. The Risk Management Committee reports and explains the implementation results to the Board of Directors every year. Furthermore, internal auditors review the risk management procedures and control implementation status on a regular and irregular basis and report to the Board of Directors depending on the level of risk at all levels as well.
- V. Risk Monitoring:** In order to address the above areas, it is necessary to regularly review and thoroughly document the results of risk management implementation to understand the effectiveness of risk management strategies and related control operations. The risk management executive task force is required to submit an annual plan and progress report to the Risk Management Executive Committee, and hold at least two meetings annually to provide reports and explanations on the implementation results to the Risk Management Committee. Internal audit personnel should periodically and irregularly review the risk management procedures and control implementation status at various risk levels and report to the Board of Directors. (In accordance with the Group's risk management policy, the risk management implementation status for the year 2023 was reported to the Board of Directors on March 12, 2024).

2023 Risk Management Training

Risk management training requires the participation of all members, including the board of directors. Regular and ad-hoc internal and external risk management courses are held annually and integrated into the annual performance evaluation criteria for employees and managers. The aim is to deepen risk awareness in daily operations, effectively enhancing the promotion and implementation of risk management in business. In 2023, there are 43 key executives, including members of the board of directors and committees, with a total of 1,949 hours of education. The breakdown is as follows:

| Unit: Number of people | 0 to 25 hours of training | 26 to 50 hours of training | 51 to 100 hours of training | Over 100 hours of training |
|-------------------------------|----------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| Non-Executive Director | 4 people | | | |
| Responsible personnel | 4 people | 12 people | 13 people | 10 people |

Summary of the 2023 risk implementation results

| Risk Pillars | Risk Factors | Control Plan | Implementation Status |
|--------------|---------------|---|---|
| Operational | Market risk | <ul style="list-style-type: none"> ● In order to increase market share in the consumer electronics industry, it is essential to understand market trends, select high-quality customers and suppliers, and utilize integrated systems for early warning and multi-product layout. ● Shifting from cost leadership towards dual advantages (i.e., combining cost leadership and differentiation) via the measures of digital transformation, automation, and manufacturing improvement. ● Implementing Business Continuity Management (BCM) plans and conducting drills to identify risks in advance to minimize losses from operational disruptions. | <ul style="list-style-type: none"> ● Customers with high-risk repayment capabilities were reviewed quarterly, and insurance was purchased for hedging purposes. Furthermore, the supply chain was enhanced through a pool of substitute firms. ● Digital transformation was conducted to achieve an intelligent factory. In 2023, the differences between peak and average manpower were reduced to 2.5%. ● Standard operating procedures (SOPs) were randomly inspected to ensure operational fluency and the ability to respond to crises. ● Strengthen the protection of stakeholders' information and privacy rights by offering multiple complaint channels on the website, including in annual reports, sustainability reports, mailboxes, and communication software. This will enhance stakeholders' perception of the company's integrity and improve communication with the public. |
| | Regional risk | <ul style="list-style-type: none"> ● Assessing cultural differences between each operational unit and the headquarters country. ● Region administrative executives are required to dynamically track domestic policies of the operating locations and be attentive to policies regarding foreign investment companies in the host country, ensuring timely reporting. | <ul style="list-style-type: none"> ● Utilizing the CAGE framework to analyze the differences between host country and home country (e.g., flexible leave). ● Prepare plans based on daily news that were related to operation in order to response local needs. |

| Risk Pillars | Risk Factors | Control Plan | Implementation Status |
|--------------|---|---|--|
| | <p>Information Security risk</p> | <ul style="list-style-type: none"> ● ISO 27001 was reviewed on an annual basis. ● Regular backups of data and recovery drills were conducted. Furthermore, penetration tests were carried out to enhance the ability to cope with cyber-attacks. ● Set up backups for the main and auxiliary server rooms. ● New employees were required to sign a confidentiality agreement to prevent data leakage. | <ul style="list-style-type: none"> ● Electronic equipment was not allowed in factories; only the devices approved by supervisors were permitted. ● Back up important data regularly and create copies on hard drives stored in different locations. ● Employees agreed to a confidentiality agreement and will comply with regulations. ● Promote information security by using displays in living areas to raise awareness. In 2023, there were over 1,100,000 of exposure. ● In 2023, database and system recovery drills were conducted biannually. Furthermore, important data was backed up regularly and stored on tapes. |
| | <p>Supply Chain risk</p> | <ul style="list-style-type: none"> ● Regularly communicate with suppliers to ensure effective communication channels and platforms. ● To improve daily management, regular evaluations and guidance were conducted based on relevant Standard Operating Procedure (SOP) documents (e.g., transportation safety management system, etc.). ● Simulate abnormal situations, assess the scope of impact, and communicate across departments to enhance company resilience. | <ul style="list-style-type: none"> ● A total of 336 supplier exchange meetings were held this year. At the global supplier conference held in April, more than 200 manufacturers and over 400 attendees participated. ● Reporting channels were established, managed, and adjudicated by a third-party impartial agency. ● Sensitivity analysis and stress tests were conducted; records can be found in relevant reports. ● Updated information on accounting and tax systems on a monthly basis and manage them accordingly. |

| Risk Pillars | Risk Factors | Control Plan | Implementation Status |
|--------------|---|---|--|
| | <p>Quality Process risk</p> | <ul style="list-style-type: none"> ● Qualified suppliers' resource pools were established to mitigate the risk of receiving abnormal or undetectable materials, thus reducing quality risks. ● Manage production flow rate and work orders to prevent quality risks resulting from production lead time exceeding the schedule. ● Increase the frequency of business visits to suppliers and customers to obtain crucial financial data and monitor inventory levels. ● Enhance the verification and inspection of Golden Samples and machine capability limits. | <ul style="list-style-type: none"> ● Enhance the NSRB management and OCAP system to deliver prompt feedback on anomalies. ● Conduct simulation verification and perform drop tests on new sample packaging materials to verify the cushioning and protective effects of the packaging materials. ● Strengthen the utilization of on-site signage management data to enhance quality and efficiency. ● Conduct daily reviews of the MRB system, leakage, and process capabilities. |
| | <p>Occupational Health and Safety risk</p> | <ul style="list-style-type: none"> ● Employees in positions exposed to occupational hazards are required to sign a notification letter regarding occupational hazard factors. This is to ensure their understanding of the hazard factors and preventive measures specific to their position. ● Ensure fire alarm systems, automatic fire extinguishing systems, and the establishment of micro fire stations in each park. The micro fire station is equipped with fire jackets, chemical protective suits at all levels, emergency carts, SCBA, etc., and operates smoothly. ● Environmental protection business personnel and human resources managers regularly conduct environmental education and training. ● Environmental protection laboratory was established and dedicated personnel operate and maintain wastewater and waste gas facilities. ● Industrial safety monitoring center were established to monitoring production lines. | <ul style="list-style-type: none"> ● This year, all parks complied with relevant regulations, and no violations of regulations occurred. ● All major factories in mainland China have achieved a 100% certification rate for environmental, safety, and health-related management systems, including ISO 14001 environmental management, ISO 14064-1 greenhouse gas verification, ISO 50001 energy management, and more. Additionally, the latest international environmental management system standards have been implemented, such as zero waste to landfill certification and AWS international sustainable water management standard certification. ● Shenzhen Park has established the Industrial Safety Monitoring Center, and the construction of the center in various locations will be completed in phases. ● The participation rate and passing rate of safety training are both 100%. |

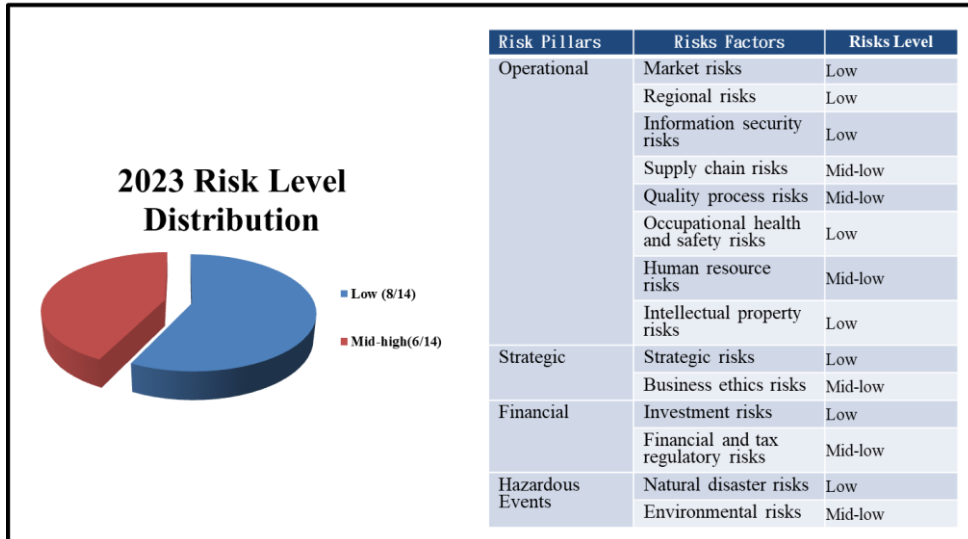
| Risk Pillars | Risk Factors | Control Plan | Implementation Status |
|--------------|---|---|--|
| | <p align="center">Human Resource risk</p> | <ul style="list-style-type: none"> ● Establishing a talent pool for the PCB/semiconductor industry and leveraging industry professionals and high-end recruitment resources is crucial. ● The "Responsible Business Alliance Code of Conduct" and internationally recognized labor rights principles are regularly updated by the Social and Environmental Responsibility Committee (SER). They are also subject to regular audits by third-party RBA VAP to ensure the protection of employees' labor rights. ● In compliance with the privacy policy, educational training is conducted. ● Regularly conduct human resources business continuity plans and drills, vigorously promote current recruitment channels, and develop new recruitment channels. | <ul style="list-style-type: none"> ● Encourage employees to participate in company-organized activities and offer incentives for talent retention. ● Adjust the employee salary structure in accordance with the salary incentive plan. ● Establish an internal recommendation system and utilize the internal application to announce job vacancies, enhancing independent recruitment capabilities. ● For basic safety training courses, both the participation rate and the passing rate are 100%. ● RBA certification is renewed every two years. This year, both the Shenzhen and Qinhuangdao plants have passed RBA certification, while the Huaian plant will obtain it in 2022. ● There are more than 25 industry-university cooperation projects this year. ● In 2023, more than 30 industry-university conferences were held, and scholarships were allocated, with over 4,500 attendees. |
| | <p align="center">Intellectual Property risk</p> | <ul style="list-style-type: none"> ● Conduct technical risk assessments before initiating self-owned technology development projects, during the development phase, and prior to sales. ● The payment of patent fees for the current year will be monitored. If the payment is not made on time, it will be listed as a priority review case. ● After receiving the relevant dispute documents, dedicated personnel will collaborate with the legal department to analyze the case and promptly gather pertinent evidence. ● Special management on patent materials. | <ul style="list-style-type: none"> ● The allocation of responsibility for violating the intellectual property rights of others has been included in the essential review clauses of the customer contract. ● There were no disputes during the year. ● The inventor's personal information is consolidated into a separate storage space, and access permissions are set. |

| Risk Pillars | Risk Factors | Control Plan | Implementation Status |
|------------------|-----------------------------|---|--|
| Strategic | Strategic risk | <ul style="list-style-type: none"> ● Regularly review monthly production capacity targets and compare cost structures for the same period. ● The external market business, Field Application Engineering (FAE), and Research and Development (R&D) technology departments regularly communicate with customers on new technology trends and industry developments. Internally, Align meetings are used to report abnormalities within the factory to enhance direct communication. ● Examine the scope of impact on raw materials, equipment, products, etc., and develop countermeasures to mitigate risks. ● Utilize an allocation model to adjust pricing strategy. ● Expand investment plans in Southeast Asia to align with international developments. | <ul style="list-style-type: none"> ● A strategic center was established, and monthly operational meetings were held to monitor market trends and develop group strategies. Biweekly meetings are held to review customer cases, standard operating procedure (SOP) inspection data, and track industry trends. ● Increase investments in Southeast Asia by expanding beyond India and initiating a new plant investment plan in Thailand to address global shifts and meet customer demands. ● Establish a cost optimization project to implement intelligent management at each workstation and achieve cost efficiency at all stages, from design to mass production, particularly for critical cases, to manage expenses effectively. ● Review the disparities in capital expenditure and capacity expansion status with competitors on a monthly basis, and adapt pricing strategies according to customer FCST, FATP assembly plans, etc. |
| | Business Ethics risk | <ul style="list-style-type: none"> ● Conduct "Sunshine Policy" lectures for major suppliers, agents, customers, and other business contacts. ● Courses related to integrity management regulations, internal control of ethical behavior, major information, insider trading and anti-corruption are held regularly every year. ● Regulatory authorities regularly review and evaluate internal regulations to ensure compliance with international standards. | <ul style="list-style-type: none"> ● In 2023, we successfully promoted the Sunshine Policy to over 1,000 suppliers and signed more than 1,000 letters of commitment with key suppliers. ● Courses on integrity management regulations, ethical conduct, insider trading, anti-corruption, and other related topics were conducted, totaling more than 70,000 teaching hours. ● Directors took courses on ESG regulations, insider trading legal norms, and practical case studies. ● Review the legality and track record of agents, suppliers, and customers annually. |

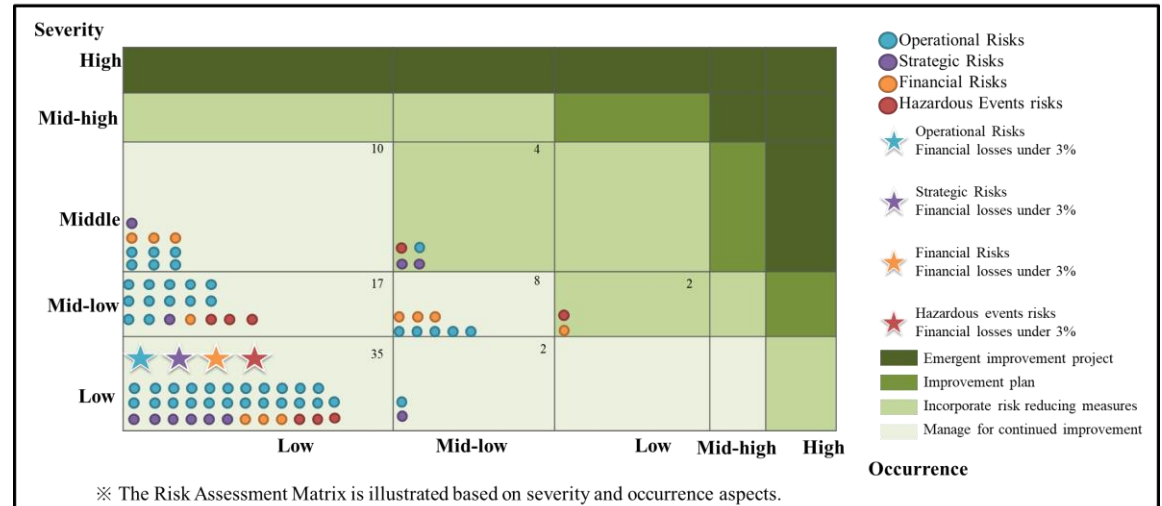
| Risk Pillars | Risk Factors | Control Plan | Implementation Status |
|------------------|--|--|---|
| Financial | Investment risk | <ul style="list-style-type: none"> ● Select large and reputable financial institutions for transactions and diversify your capital allocation to reduce risks in the banking system and financial markets. ● Post-investment interviews are conducted, and board and shareholder meetings are attended to stay informed about operating conditions and abnormalities. ● A stress test was implemented based on revenue fluctuations to determine whether net cash and financial credit were adequate. | <ul style="list-style-type: none"> ● Cooperate with over 40 international and reputable banks to diversify risks. ● Enhance the group's current asset ratio and ensure the maintenance of safe cash flow levels. ● Review changes in shareholder holdings and maintain the stability of the company's equity. To facilitate business development. ● Increase the utilization of financial management tools to reduce the loan ratio. In the future, the firm will issue USD 400 million of corporate bonds. |
| | Financial and Tax Regulatory risk | <ul style="list-style-type: none"> ● Establish various asset management systems and financial indicators to ensure the safety and efficient utilization of assets. ● To prevent inadequate or missing insurance coverage, dedicated personnel conduct regular inspections. ● Attend annual meetings organized by financial institutions and regulatory agencies to monitor and evaluate relevant internal regulations. ● Evaluate the legality of daily business operations regularly or on an ad-hoc basis, identify risks, and standardize daily business practices. | <ul style="list-style-type: none"> ● Through the dual mechanism of risk management and insurance brokers, the expiration date and content of the policy are verified. The policy is renewed 1-2 months before expiration to ensure the insurance remains valid. ● Work with accountants to stay updated on financial and tax laws, regulations, and requirements at all times. After review, there have been no significant changes in the tax policies and accounting standards in Mainland China and Taiwan this year. ● Monitor international exchange rate fluctuations closely, calculate foreign currency positions at any given time, and manage procurement costs by conducting transactions in the original currency. ● Dedicated personnel participated in promoting relevant government policies and tracking relevant business processes. |

| Risk Pillars | Risk Factors | Control Plan | Implementation Status |
|-------------------------|------------------------------|--|--|
| Hazardous Events | Natural Disaster risk | <ul style="list-style-type: none"> ● Through the firm's emergency organizational structure, standard operating procedures (SOPs) for natural disasters and emergency preparation plans are regularly updated. ● As global warming becomes increasingly serious, the company has established the Holy Infant Project to ensure emergency supplies are available during periods of high outbreaks. ● The firm's Epidemic Prevention Committee holds regular meetings to monitor the prevalence and risks of infectious diseases. ● A fire protection system is installed on the factory floor to prevent emergencies, disaster relief, and on-site 8S work is implemented. | <ul style="list-style-type: none"> ● Regularly inspect the water storage capacity of fire pools and domestic pools to promote water conservation. ● The industrial safety monitoring center keeps track of changes in the environment around the factory. ● Although there was waterlogging in the factory this year, no major disasters were caused by ENSO. |
| | Environmental risk | <ul style="list-style-type: none"> ● According to various customer needs, we categorize products differently, develop corresponding carbon-neutral strategies, and choose the optimal solution through cost analysis and sensitivity testing to meet the diverse requirements of customers. ● Establish an off-site backup management system for internal company data. ● Continue to speculate and simulate carbon-neutral pathways, and collaborate on cooperative models with stakeholders in the green energy industry. | <ul style="list-style-type: none"> ● We enhanced communication on carbon reduction with over 60 major suppliers, collaborated on energy-saving and carbon reduction projects, and extended our efforts to other suppliers. ● In 2023, Avary's Green Supply Chain CITI Index ranked among the top 10. ● Purchase green energy to reduce the impact of resource utilization on the environment. The firm's internal green power resource ratio has reached 50%. |

2023 Risk Management Overview



2023 Risk Assessment Matrix



The firm's overall risk self-assessment in 2023 is low. Some of the medium to low-level inspection items mainly involve risks associated with natural disasters and international situations. This year, privacy and business stress tests were added to the relevant business units. The number of inspection items increased from 61 in the previous year to 78. Projects were identified and evaluated in accordance with the management system of each operating unit. The inspection results were plotted in the risk assessment matrix, which further derived four key actions: 1) Emergent Improvement project 2) Improvement Plan 3) Incorporate risk reducing measures 4) Manage for continued improvement. After analyzing the control results in 2023, most of the risk detection items continue to be under ongoing supervision. In order to gain a deeper understanding of the financial implications of each risk factor, a quantitative assessment was conducted to estimate the potential financial losses associated with each risk item, using the previous year's revenue as a benchmark. The results revealed that the firm faced four major risks this year after the review. The risk of potential financial losses is kept below 3%.