3.5 Risk Control and Information Security Management

3.5.1 Risk Management

Risk Governance Structure

To enhance the Company's operational resilience and support sustainable development, Phihong has established a risk governance structure, with the Group's General Manager serving as the Chief Executive. Through a cross-functional framework, the Company has developed a systematic operating mechanism for managing risk-related matters. In accordance with the Risk Management Manual, risk identification and assessments are conducted across environmental, social, and corporate governance (ESG) topics relevant to business operations. The implementation status and results are reported to the Board of Directors annually to ensure board oversight of the effectiveness and execution of the risk governance mechanism.

The scope of risk governance covers all companies within the Group. Governance members consists of the highest-ranking executives from each business unit, while designated personnel from these units are responsible for executing daily risk management tasks.

Risk Management Policies and Targets

Phihong has established and continues to improve an effective risk management system to fulfill its commitments to customers, protect shareholder interests and pay attention to employees' work environment and health, and advance sustainable operations. For the full policy, please refer to the Company's Risk Management Manual.

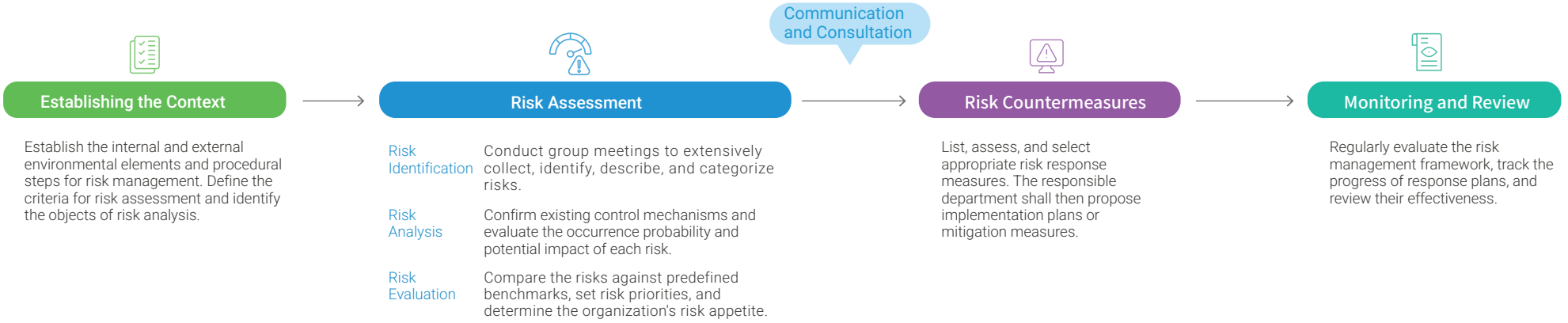
Risk Management Targets

1. Reduce the risk level and enhance the organizational risk management capabilities.
2. Improve the consistency of risk management practices across the organization.
3. Eliminate or reduce the frequency of critical crisis events.

Risk Management Procedures

Risk Identification and Monitoring

Phihong identifies and assesses potential risks and impacts arising from both internal and external environments. In 2025, the Company identified ten key risks across areas such as operations, technology, information security, facilities, supply chain, finance, and human resources. Compared to the previous year, global geopolitical risks and macroeconomic risks were additionally recognized. For each identified risk, Phihong has formulated specific impact response and mitigation measures and designated responsible personnel to oversee their execution. In addition, the Company has established a structured set of procedures, covering early warning, contingency planning, crisis management, and recovery operations. These mechanisms are designed to ensure business continuity and reinforce the Company's ability to operate sustainably.



Aspect	Risk Identification	Impact on Operations	Mitigation Measures	Business Opportunities
Environmental (E)	Power and Water Disruptions	Disruptions in electricity and water utilities affect normal operations.	• Develop emergency response plans to mitigate the impact of power and water disruptions. • Install generators, uninterruptible power supply, and assess the introduction of energy storage facilities. • Establish in-factory water storage and external water support mechanisms; implement water and energy conservation measures.	Accelerate improvements in energy and resource efficiency, adopt renewable energy, and establish emergency mechanisms for energy and resource management.
	Environmental and Climate Change Risks	Greenhouse gas emission management. Energy resource management Pollution control including air, water, waste, toxic substances, and noise.	• Monitor international environmental trends and develop protection strategies aligned with operational needs. • Conduct disaster prevention monitoring and drills to strengthen emergency response and recovery capabilities. • For specific impacts and response strategies, please refer to the "Climate Change Risks and Opportunities" section.	For potential opportunities, please refer to the "Climate Change Response" section.
Social (S)	Threat of Major In-fectious Diseases	Infectious disease outbreaks may prevent employees from reporting to work and delay material deliveries, causing production line stoppages and failure to meet customer demands.	• Activate epidemic prevention structure and SOP mechanisms to ensure employees safety and resume operations. • Implement remote and off-site working arrangements to mitigate risks. • Strengthen supply chain partnership and jointly enforce epidemic prevention measures.	Restore normal production swiftly and prudently to demonstrate crisis management capabilities, build customer trust, and capture additional business opportunities.
	Occupational Safety Risks	Occupational injuries and public safety incidents disrupt operations and may cause personnel and property losses, potentially leading to factory shutdowns depending on the severity.	• Identify occupational hazard factors and reduce employee exposure. • Raise daily safety awareness and conduct drills; initiate task forces during emergencies or incidents. • Strengthen labor-management dialogue and promote harmonious relations. • Conduct regular employee health check-ups.	Reduce and prevent occupational accidents, ensure the safety of personnel and property, and enhance stakeholders' confidence in business continuity.
Corporate Governance (G)	Global Geopolitical Risks	Political conflicts and instability pose potential threats to operations and the supply chain, including labor market turbulence, exchange rate fluctuations, and currency devaluation.	1. Regularly review geopolitical issues related to operations in Mainland China and partner sites. 2. Develop a command system and production transfer plans; coordinate with key customers.	Strengthen supply chain resilience, reduce reliance on a single country or supplier, and evaluate partnerships with suppliers in politically stable countries.
	Macroeconomic Risks (Market De-mand)	In 2025, global economic downturn risk intensified, particularly as the U.S. and Europe markets showed negative growth momentum and persistent weakness, impacting overall corporate sales.	1. Maintain regular communication with customers regarding sales forecasts. 2. Review capital expenditures and control factory production costs.	Consolidate and expand core competitiveness, highlight differentiated advantages, and take the lead in advancing dual transformations in green, low-carbon products and the circular economy.
	Ethical Risks	Violations of integrity and conduct principles may result in company losses. In 2025, corruption risk assessment at various plant identified major risks in procurement, such as the acceptance of improper gifts or monetary benefits and the exchange of hospitality expenses for preferential treatment.	• Require new employees at Phihong to complete training on "Business Ethics and Conduct Guidelines" and to sign an acknowledgment upon completion. • Promote the importance and practice of integrity management through education and company-wide awareness activities conducted from time to time.	Adhere to the Business Ethics and Conduct Guidelines, and implement integrity-based management across the organization.

Aspect	Risk Identification	Impact on Operations	Mitigation Measures	Business Opportunities
Corporate Governance (G)	Information Security Risks	Information leaks, data theft, sabotage, or damage from natural disasters may lead to abnormal system performance, disrupt internal and external communications, result in operational losses, and damage the Company's reputation.	• Conduct biannual off-site data recovery drills to ensure rapid system restoration in case of disasters. • Maintain redundant telecom lines for uninterrupted operations. Strengthen encryption and password management. • Conduct training to enhance awareness of information security and compliance.	Build a highly reliable information security management system to prevent communication disruption, data loss, and breaches, thereby earning the trust and support of all stakeholders.
	Financial Risks	• Changes in interest and exchange rates impact financial income and expenses, affecting leverage and inflation exposure. • Tariff barriers may reduce customer orders, increase production costs, and disrupt the supply chain.	• Evaluate interest rate exposures and the impact of floating rates. • Hedge exchange rate risks naturally; invest short-term funds in safe, liquid, and principal-protected instruments. Avoid high-risk and leverage investments. • Improve cash flow through asset disposals and financing. • Expand production in Vietnam to reduce trade tariff impacts.	• Manage the impact of interest rate and exchange rate fluctuations on assets and cash flow to maintain stable financial operations. • Strengthen operational and production flexibility, expand partnerships across the supply chain, and enhance long-term sustainability. • Align with government incentives to reinforce R&D and technology capabilities at the Taiwan headquarters and expand production capacity beyond China.
	Supplier Risks	Inability of suppliers to deliver raw materials on time affects normal operations and shipping schedules.	• Review inventory management and implement a "timely material supply alert system." • Set up alternative supplier mechanisms to ensure supply stability. • Regularly audit suppliers' BCP and support their risk management capability.	Strengthen sustainable partnerships with suppliers to meet customer needs and expectations, fostering mutual growth and shared success.

Organizational Risk Early Warning and Control Mechanism

Phihong places great importance on changes in domestic and international business environments. By strictly adhering to regulations, perfecting internal systems, and enhancing risk warning systems, we build a robust corporate defensive resilience. The specific management Strategy are as follows:

1. Financial Risk Control: Stable Funding and Hedging Strategy

The Company adheres to the principle of prudent management, strictly prohibiting high-risk and high-leverage investments to ensure a healthy financial structure.

- Exchange Rate Risk Management: Adopt a "natural hedging" strategy and flexibly adjust the U.S. dollar debt ratio to reduce foreign exchange exposure.
- Optimizing Asset Allocation: Short-term idle funds prioritize safety, primarily allocated to highly liquid, principal-protected financial products and fixed-term deposits.
- Diversified Financing Arrangement: By combining private placements of common stock, issuing five-year fixed-rate corporate bonds, and establishing stable credit facilities from financial institutions, we ensure the needs and stability of working capital and long-term capital expenditures.

2. Operational Risk Control: Prevention Management and Business Continuity Planning (BCP)

We view natural disasters, unforeseen incidents, and social unrest as key risks in our operations, and maintain employee safety and asset integrity through proactive prevention mechanisms.

- Response and Recovery Mechanisms: Establish comprehensive Business Continuity Plans (BCP) for natural disasters (such as fires, earthquakes, and extreme climate conditions), public safety issues (such as water and power outages, infectious diseases, and pollution), and external situations (such as wars and political and economic turbulence) to ensure rapid recovery of operations following emergencies, minimizing customers' asset losses and impacts on corporate reputation.
- Standardized Management: Strictly implement safety protocols, striving for the highest safety standards in the power supply industry by integrating prevention management into daily operations.
- Risk Transfer Mechanism: Through comprehensive insurance planning and stable insurance expenditure, effectively transfer uncontrollable operational risks and minimize potential financial damages to the smallest scope, ensuring the Company's long-term sustainable development.