



Taiwan Hon Chuan Enterprise Co., Ltd

Risk Management Policy and Procedures

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Chapter 1 Risk Management Objectives

Article 1 Purpose

The Company aims for steady operations and sustainable development as its long-term business goals. We have established risk management policies and procedures to serve as risk control and management guidelines and hereby formulate these measures.

Article 2 Risk management policy

These Regulations are designed to effectively identify, analyze, evaluate, control, and monitor various risks continuously. It aims to enhance risk awareness among all employees and keep risks within acceptable levels, ensuring risk management's effectiveness, comprehensiveness, and optimal efficiency.

Chapter 2 Risk Management Structure and Accountability

Article 3 Risk management structure

The risk response organization is led by Sustainability and Risk Management Committee of the Company, who act as conveners, overseeing the implementation and operation of the risk management plan. Each department is responsible for promoting various tasks and preventing risks within their respective areas of responsibility.

Article 4 Risk management accountability

The company emphasizes comprehensive risk control and management of all employees, and usually takes practical measures to manage risk effectively and respond to any abnormal situations appropriately.

Each responsible unit within the company is tasked with promoting projects and managing risks as follows:

Functional Units	Promotion and Risk Management
Board of Directors	The Board of Directors is the highest decision-making and supervisory unit for risk management. It is responsible for



	approving risk management policies and frameworks and supervising the effective operation of the risk management mechanism to achieve the objectives of risk management.
Sustainability and Risk Management Committee	<ol style="list-style-type: none"> 1. Promotion of Sustainable Development <ul style="list-style-type: none"> • Environment: Energy conservation, carbon reduction, and regulatory compliance. • Social: Employee welfare and social responsibility. • Governance: Enhancing governance transparency. 2. Risk Management <ul style="list-style-type: none"> • Identify and prioritize external and internal risks. • Monitor risks and establish response plans. • Ensure operational compliance and prevent misconduct. 3. Integration of Sustainability and Risk Management Systems. 4. Periodic Reporting to the Board of Directors.
Auditing Office	Based on risk management policy and procedures, coupled with the results of risk assessments, form the basis for an annual audit plan. This comprehensive plan, along with various system audits, is designed to assist the Board of Directors in supervising and controlling potential risks. Its effectiveness ensures that operational risks are managed effectively, and timely improvement suggestions are provided, instilling a sense of confidence in the Board.
General Administration Dept.	<ol style="list-style-type: none"> 1. Evaluation and execution analysis of business decision risks. 2. Legal risk assessment and implementation of response strategies for the company. 3. Formulation and revision of risk management policies, procedures, and other management measures. 4. Cross-departmental communication and coordination on risk management-related matters. 5. Media relations and external communications.
MIS Office	Information security assessment and strategy.
Financial Dept.	<ol style="list-style-type: none"> 1. Financial risk assessment and implementation of response strategies. 2. Management of financing loan interest rates, foreign currency exchange operations, and funds allocation.
Occupational Safety and Health Center	<ol style="list-style-type: none"> 1. Implementation of labor safety and health education and plans. 2. Prevention of occupational accidents.



	<ol style="list-style-type: none"> 3. Environmental protection and safe production management and supervision. 4. Supervise and control wastewater, air pollution prevention, and waste disposal environmental operations.
Sales Dept.	<ol style="list-style-type: none"> 1. Securing customer orders, ensuring order stability and delivery schedules. 2. Gathering industry, market, and customer intelligence. 3. Maintaining customer relationships and managing accounts receivable.
Procurement Dept.	<ol style="list-style-type: none"> 1. Regular monitoring and analysis of international raw material trends to ensure critical supply sources. 2. Establish clear procurement standards and evaluation mechanisms and review the list of critical suppliers.
Quality Assurance Dept.	<ol style="list-style-type: none"> 1. Review product quality assessment results. 2. Inspect and review shipment quality. 3. Plan and promote the company's quality assurance system. 4. Respond to customer audits of the quality system and track and control customer complaints about quality issues.
Human Resource Dept.	<ol style="list-style-type: none"> 1. Recruitment, allocation, and planning of human resources. 2. Arrangement of training and career development planning. 3. Management of salaries, benefits, and employee relations.
R&D Technical Dept.	<ol style="list-style-type: none"> 1. Research and development of new products and materials, and controlling the progress of R&D. 2. Optimization and improvement of process technologies.
Packaging Technical Group Beverage Technical Group	<ol style="list-style-type: none"> 1. Planning and monitoring production operations and their execution. 2. Implementing emergency measures for production operation environments. 3. Developing and executing on-site environmental safety emergency plans. 4. Managing related warehousing and transportation. 5. Planning and executing energy-saving and carbon-reduction initiatives.



Chapter 3 Risk Management Processes

Article 5 Responsibilities for Human Rights & Business Ethics Risk Management

1. Form a Sustainability & Risk Management Committee to identify, assess, monitor, and address human rights and business ethics risks.
2. Empower the Committee to draft human rights policies, review supplier ethics audit standards, and provide Audit reports to the Board.

Article 6 The risk (including emerging risks) management process covers risk scope identification, risk assessment, risk monitoring, risk reporting and disclosure, and risk response.

1. Risk identification

Aiming at the three major issues of environment (E), society (S), and corporate governance (G), the Company identifies risks, including market, financial, operational, environmental, human rights, business ethics, and divides the risks into six types, as described below:

Risk Type	Risk Item
Market Risk	Horizontal competition, FMCG boom, international political and economic trends, industry transition, client decision making risk
Financial Risk	Risk of interest rate changes, risk of foreign exchange, credit risk, risk in financial decision making, liquidity risk, and so forth.
Operational Risk	Corporate governance risk (such as professional ethics, cyber security, and regulatory compliance), strategic risk (operational decision), supply chain risk (the lack of material and the price of raw material raises), food safety risk, quality risk (customer complaint), human resources risk (such as the shortage of labor, protest, strike, and human right), occupational safety and health (such as occupational accident, and fire), and specific risk (water and power outage).
Environmental Risk	Climate change risk (such as the shortage of water and power), natural disaster risk (such as earthquake, flood, and lightning), environmental



	pollution risk (such as wastewater, waste, and air pollution), GHG emissions risk, and energy management risk.
Human Rights & Business Ethics Risks	<ul style="list-style-type: none"> Identify risks in line with the UN Guiding Principles on Business and Human Rights (UNGP) and OECD Anti-Bribery Guidelines, including: <ul style="list-style-type: none"> -Fundamental employee rights (working hours, remuneration, health & safety) -Forced labor and child labor in the supply chain -Bribery and corruption Perform on-site assessments and third-party audits for high-risk operations or markets.
Other Risks	Infectious risk (Covid-19), material external hazards risk, and political risk (war)

2. Risk assessment

The functional units, having identified potential risk factors, should implement adequate assessment methods to provide a basis for risk management.

- i. Risk assessment covers risk analysis and evaluation. It analyzes the probabilities of risk incidents and the degree of adverse impact in the event of such an incident. The goal is to evaluate the effects of risks on the company so to provide a basis for deciding priorities in risk control implementation and response selection.
- ii. Rigorous statistical methods and techniques should be deployed to analyze and manage quantitative risks.
- iii. Qualitative methods will be used to assess other risks more difficult to quantify. Qualitative risk assessment refers to the description of the probabilities of risks and the degrees of impact.
- iv. Compliance with operational procedures can be assessed through the requirements of various business processes, operational authorities, documents, and certification control procedures to ensure that operations strictly adhere to the established procedures.
- v. Human Rights & Business Ethics Risk Measurement:
 - a. Quantitative Metrics: Number of major human rights incidents in



the past three years; number of whistleblowing incidents; supplier ethics audit failure rate.

b. Qualitative Assessment: Rate impact on corporate reputation and operations as High, Medium, or Low.

c. Integrated Scoring: Apply a 5×5 risk matrix combined with governance maturity levels.

vi. Risk Levels & Governance Maturity Matrix:

A likelihood × impact risk matrix that prompts the company to elevate governance maturity according to risk severity, ensuring effective mitigation and control.

Likelihood \ Impact	1 Minor	2 Limited	3 Significant	4 Severe	5 Catastrophic
5 Almost Certain	Extreme Risk Maturity 5	Extreme Risk Maturity 5	Extreme Risk Maturity 5	Extreme Risk Maturity 5	Extreme Risk Maturity 5
4 Likely	High Risk Maturity 4	Extreme Risk Maturity 5	Extreme Risk Maturity 5	Extreme Risk Maturity 5	Extreme Risk Maturity 5
3 Possible	Moderate Risk Maturity 3	High Risk Maturity 4	Extreme Risk Maturity 5	Extreme Risk Maturity 5	Extreme Risk Maturity 5
2 Unlikely	Low Risk Maturity 2	Moderate Risk Maturity 3	H (High Risk), Maturity 4	Extreme Risk Maturity 5	Extreme Risk Maturity 5
1 Rare	Low Risk Maturity 2	Low Risk Maturity 2	Moderate Risk Maturity 3	High Risk Maturity 4	Extreme Risk Maturity 5

Impact Level Overview: Table amounts should be adjusted in line with the company's annual revenue, profit margin, and capital structure.

Impact Level	Annual Financial Loss Range (NT\$)	Description
1 Minor	< 500,000	Negligible loss; no impact on annual profit or cash flow
2 Limited	500,001 – 2,000,000	Slight impact on annual profit (< 0.1%); requires department budget or short-term funding adjustments
3 Significant	2,000,001 – 10,000,000	Moderate impact on annual profit (0.1–0.5%); needs cross-department coordination and senior management reporting
4 Severe	10,000,001 – 40,000,000	Severe impact on annual profit (0.5–2%); requires Board-level approval of contingency budget



5 Catastrophic	> 40,000,001	Major, long-term operational impact (> 2% annual profit); may trigger financial warnings or loan covenants breach
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Explanation:

a. Risk breakdown:

- L : Low
- M : Moderate
- H : High
- R : Extreme

b. Governance maturity levels (established based on the five-level CMMI framework) :

- Initial
- Repeatable
- Defined
- Managed
- Optimizing

3. Risk monitoring

- a. The functional units should monitor the risks associated with their respective operations. When exposure levels exceed their risk limits, the relevant departments should propose countermeasures and report the risks and proposed countermeasures to senior management.
- b. Human rights & ethics risk monitoring:
 - Conduct annual online and on-site supplier ethics and human rights audits.
 - Require 100% employee completion of the annual anti-bribery & workplace human rights e-training.
 - Operate and monitor a whistleblower hotline and anonymous reporting platform; log and track each case to closure.

4. Risk reporting and disclosure

To record risk management procedures and results in detail, the Risk Management subcommittee should report to the Board of Director regularly on relevant risks.

5. Risk response

- a. The functional units, having assessed and summarized the risks, should take appropriate actions in response accordingly.
- b. Human rights & ethics risk response:
 - Address supplier non-conformances by issuing a Supplier Corrective Action Plan with remediation deadlines or suspension of partnership.



- For internal violations, launch an investigation under the Code of Integrity, take appropriate measures, and, if necessary, report to regulators and refer to law enforcement.
- Conduct regular whistle-blower protection drills to ensure reporters are shielded from retaliation.

Chapter 4 The Implementation of Risk Management

Article 7 The execution of risk management operates according to the three-tiered division of labor framework.

Risk Management Defense Line	Risk Management
First Line of Defense	Each functional unit is the Risk Owner who undertakes the business, and must execute the business in accordance with the internal control system and internal specifications of the relevant business, and is the direct unit for the initial risk detection, evaluation and control.
Second line of Defense	Each functional unit's responsible supervisor or assigned function/department risk management personnel shall be responsible for the risk management of the relevant business, and shall review the operation rules or operation manuals according to the actual business operation, and shall pay attention to the latest regulations or business-related letters announced by the (government) authority. If necessary, additional revision/amendment to relevant internal specifications may be revised.
Third Line of Defense	The general administration department of the Company must review the integrity and completeness of the Company's market, financial, operational, and environmental-related major risk management mechanisms, and should monitor the relevant risks of each unit in accordance with these measures and the related risk management measures.
Fourth Line of	Ethics & human rights risk audit



Defense	<ol style="list-style-type: none">1. The Internal Audit function will include an annual Ethics & Human Rights Risk audit.2. Audit reports will cover policy compliance, training completion rates, reporting response times, and remediation effectiveness.
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Article 8 The Implementation of Risk Management

Internal auditors conduct assessments for the effectiveness of relevant risk management activities to ensure the implementation and compliance of the system.

Chapter 5 Risk Information Disclosure

Article 9

Apart from exposing relevant information in accordance with the regulations of the competent government authority, the company should also disclose relevant information on risk management in the annual report and the company's website:

- Summary of core human rights & business ethics risks
- Major incidents from the prior year and response outcomes
- KPI performance metrics
- Overview of the human right due diligence process and findings

Article 10 Amendment of Risk Management Procedures

The general administration department of the Company should review the content of these Regulations annually, and pay close attention to the development of international and domestic risk management systems at any time, so as to review and improve these Regulations to enhance the effectiveness of the company's risk management implementation.

Article 11

These Regulations are implemented after the resolution of the Sustainability and Risk Management Committee and report to the Board of Directors, and the same applies to the revision.