

2.3 Corporate Risk Management

In response to changes and trends in the global political economy, LITEON adopts a robust risk management framework and a practical roadmap, and identifies and monitors the environmental, social, and economic (and governance) risks with a potential impact on the company's sustainable development. LITEON also implements risk mitigation, avoidance, transfer, and other management strategies and countermeasures to minimize potential risks and sometimes turn them into business opportunities.

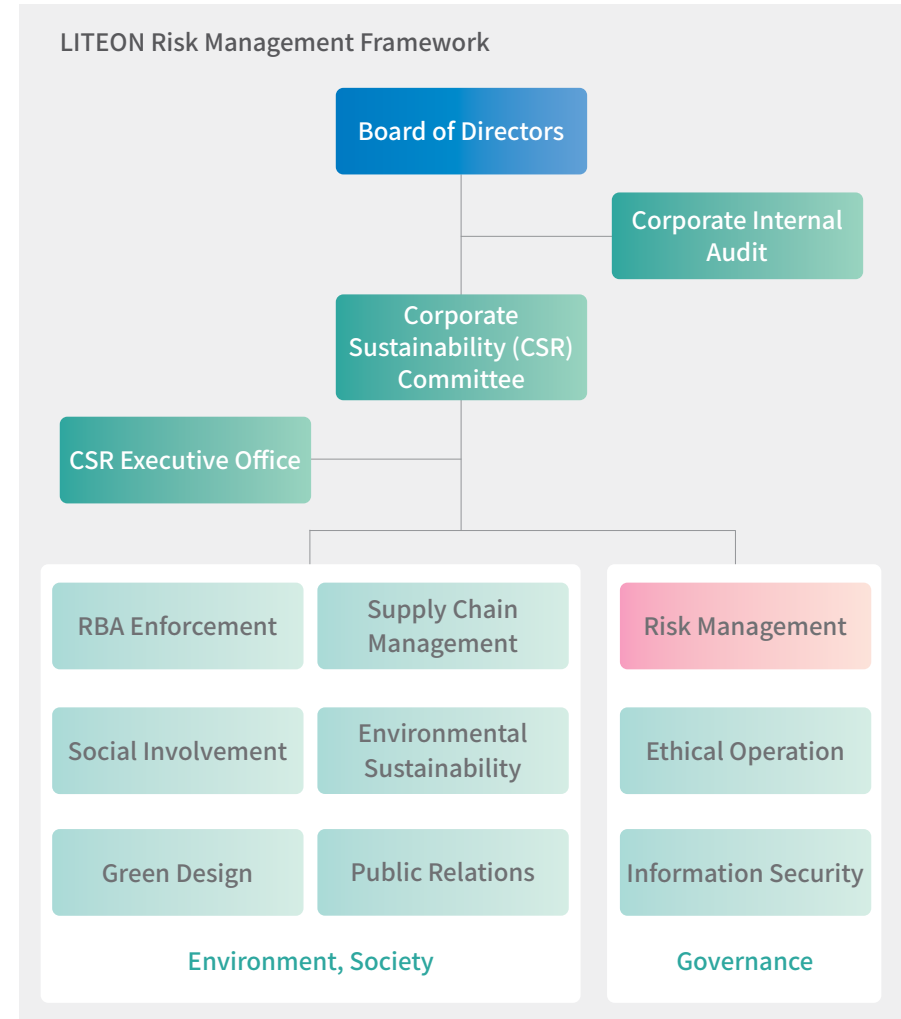
Therefore, LITEON's risk management policy defines risks according to the company's overall business plan. The policy sets up risk management mechanisms for early identification, accurate measurement, effective supervision, and rigorous control. Given the acceptable risk, the policy prevents possible losses and adjusts and improves best risk management practices constantly to reflect changes in the internal and external environments. The goal is to protect the interests of LITEON's employees, shareholders, partners, customers, and other stakeholders and to create more value and achieve optimal resource allocation for the company.

2.3.1 Risk Management Policy and Framework

LITEON's board of directors sits at the top of its risk management system. Its mission is to comply with the laws and regulations and implement and enforce risk management in the company as a whole. The board should have a clear understanding of the operational risks, maintain the validity of the risk management system, and be ultimately responsible for risk management performance.

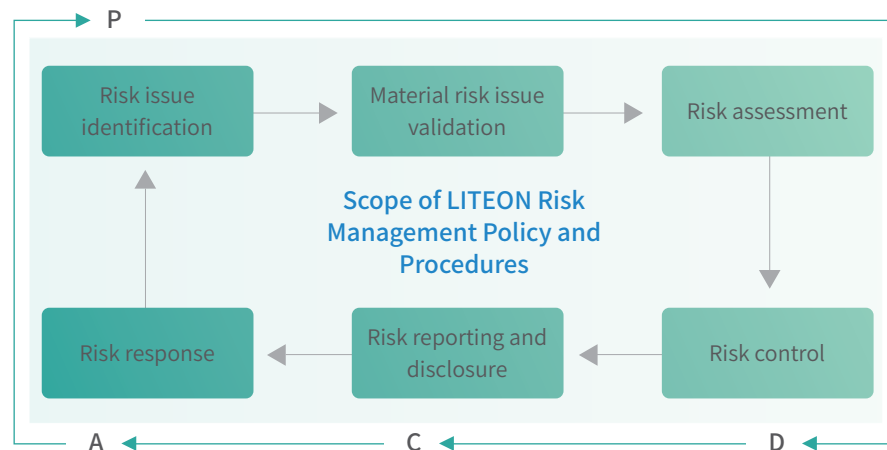
The Corporate Sustainability Committee is a functional committee under the board of directors. The committee has a risk management subcommittee led by the highest authority of the risk management department (served concurrently by the president). The risk management team is the organization responsible for conducting risk management and reporting results of risk management activities regularly to the Corporate Sustainability Committee.

Given the increasing attention to risk management issues, the Corporate Sustainability Committee Executive Office and the risk management subcommittee take an active approach to managing the risks associated with the company's operations. Hence, LITEON puts all heads of operational departments in charge of overseeing risk management and analyzing and monitoring risks in their own business to ensure effective execution of risk controls and procedures. Meanwhile, internal auditors are responsible for assessing risks and presenting annual audit plans accordingly. The auditors are also responsible for delivering reports on the status of risk management to the Audit Committee and the board of directors.



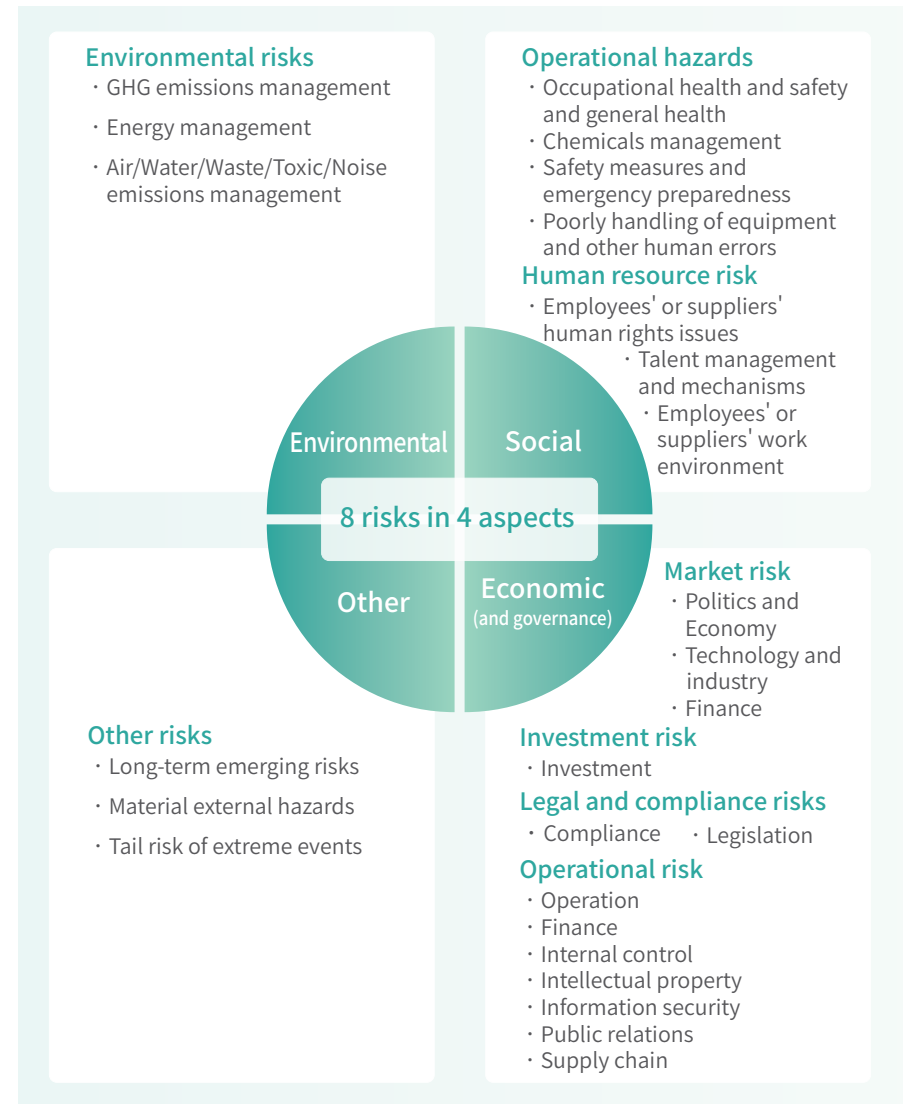
2.3.2 Risk Management Processes and Procedures

The risk management process consists of risk issue identification, risk assessment, risk control, risk reporting and disclosure, and response to risk disclosure. The process is conducted according to the PDCA cycle, which follows "plan, do, check, and act."



Risk issue identification

LITEON has developed a comprehensive risk management framework with job functions and areas of responsibility segregated for risk identification purposes. The framework is able to cover different risks on various levels. The LITEON risk management subcommittee follows the materiality principle and divides risks into 8 categories by economic (including corporate governance), environmental, social, and other aspects as illustrated below.



In 2020, the risk management subcommittee used the risk matrix based on the possibility and degree of impact of each risk to assess key risk issues for LITEON and identified key risks. It helped LITEON take further steps to adopt countermeasures such as mitigation, avoidance, transfer, and retention. The PDCA cycle was deployed for continuous and effective improvement and a good grasp of risk factors. The goal was to reduce the probability and severity of losses arising from these risks.

Risk matrix

Possibility of impact	High	<ul style="list-style-type: none"> Operational hazards - operational (occupational health and safety) 	<ul style="list-style-type: none"> Operational - supply chain (price) Operational - public relations Market - financial (interest rate/exchange rate) Human resources - human resources (human rights) 	<ul style="list-style-type: none"> Operational - information security (digital information security risk) Operational - intellectual property (infringement) Operational - information security (general data protection regulations) Operational - operational (business contracts) Market - technology and industry Environmental - environmental (responsible investment) Human resources - human resources (talent development)
	Medium		<ul style="list-style-type: none"> Operational - operational (production capacity) Legal - compliance (import/export control) Legal - Legislation (government projects) Environmental - environmental (carbon rights/renewable energies/GHG) Operational hazards - operational (emergency preparedness) Human resources - workplace (employees) 	<ul style="list-style-type: none"> Operational - financial (liquidity) Market - politics and economy Investment - investment (corporate investment) Legal - compliance (anti-money laundering)
	Low		<ul style="list-style-type: none"> Operational hazards - operational (chemicals management) Operational - internal control (internal control and audit) 	
		Low	Medium	High
		Degree of impact		

Risk assessment

The operational departments, having identified potential risk factors, implement adequate measurement methods to provide a basis for risk management.

- Risk assessment covers risk analysis and measurement. 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 to provide a basis for deciding priorities in risk control implementation and response selection.
- Rigorous statistical methods and techniques should be deployed to analyze and manage quantitative risks.
- Qualitative methods will be used to assess other risks more difficult to quantify. Qualitative risk assessment refers to the use of words to describe the probabilities of risks and the degrees of impact.

Risk control

The operational departments should monitor risks in their business activities. The departments should propose countermeasures as appropriate and submit the risks and their countermeasures to the risk management subcommittee to be summarized and presented in routine meetings of the Corporate Sustainability Committee.

Risk reporting and disclosure

To record risk management procedures and results in detail, the risk management subcommittee should update the Corporate Sustainability Committee and the Audit Committee regularly on the company's risk management practices. The chair of the Audit Committee will in turn present reports and related information at board meetings.

Risk response

The operational departments, having assessed and summarized the risks, will take appropriate actions in response.

2.3.3 Risk Management Projects

LITEON followed ISO 31000 risk management principles and guidelines and made plans for a project to implement an enterprise risk management (ERM) system. In addition, LITEON had completed internal risk issue identification and assessment within the scope of the LITEON Risk Management Policy and Procedures and taken risk management mitigation measures. These measures are described as follows:

2020 Risk Identification and Mitigation Measures

Aspect	Risk identification issue	Risk mitigation measure
Economic	Market risk (political and economic)	<ul style="list-style-type: none"> · Sped up the preparation for a global production network and increased automation capabilities of the existing production lines to reduce dependence on Mainland China's demographic dividend. · Monitored regularly macroeconomic indicators in countries where the company had offices, and performed simulations and stress tests on major country risk scenarios.
	Market risk (technology and industry)	<ul style="list-style-type: none"> · Obtained progress updates on domestic and foreign technologies and industries on an ongoing basis. · Strengthened market research in relevant fields, renewed contracts with expert consultants, and built up R&D capabilities.
	Market risk (financial)	<ul style="list-style-type: none"> · Assessed regularly the funding condition and bank rates in the market, and made hedging transactions. · Purchased interest rate hedging products to lock in interest rates and reduce the interest rate risk.
	Operational risk (operational)	<ul style="list-style-type: none"> · Established guidelines for terms of major contracts.
	Operational risk (intellectual property)	<ul style="list-style-type: none"> · Signed NDAs for production technologies to keep patents and process parameters from being leaked. Managed and allocated royalties by contract. · Made a product R&D blueprint for the next 5 to 10 years, and invested more in expanding the range of product patents and purchasing patents from outside parties.
	Operational risk (information security)	<ul style="list-style-type: none"> · Used system access control to assign different levels of authorization to shared folders, and reviewed and audited the settings regularly. · Managed emails sent by employees from company accounts and the access of company information on personal handheld devices.
	Operational risk (supply chain)	<ul style="list-style-type: none"> · Made plans to add risk tolerance to the supplier selection criteria, and monitored supplier contracts via supplier management practices.
	Operational risk (financial)	<ul style="list-style-type: none"> · Set high liquidity as the principle of fund allocation to avoid systematic and liquidity risks in the market

Aspect	Risk identification issue	Risk mitigation measure
Economic	Operational risk (internal control)	<ul style="list-style-type: none"> Devised documents and guidelines for the processes, and ensured the SOPs were adhered to. Redesigned the flowcharts and started with more refined processes, and performed regular management evaluation.
	Operational risk (public relations)	<ul style="list-style-type: none"> Designed SOPs to handle labor disputes appropriately and reduced the chance of workers complaining about the company through other channels.
	Legal and compliance risks	<ul style="list-style-type: none"> Amended the management system, and implemented the detailed guidelines to ensure effective internal control. Followed the regulations and avoided direct or indirect business transactions with sanctioned countries/high money laundering risk countries or suppliers in those countries. Regular/Ad hoc training
Environmental	Environmental risk (climate change and natural disasters)	<ul style="list-style-type: none"> Made more extensive use of green (carbon-reducing) designs Optimized production processes and improved plant operations Developed (automated) energy-saving technologies Increased the percentage of use of renewable energies Implemented internal rewards and incentives for employees Promoted renewable energies and energy management programs
Social	Operational hazards	<ul style="list-style-type: none"> Complied with the regulations and establish operational management guidelines The Workplace Health and Safety Committee regularly reviewed compliance with occupational safety-related regulations.
	Human resource risk management	<ul style="list-style-type: none"> Performed regular human resource inventory and audits Designed and implemented employee training and career development Devised competitive compensation and benefit packages Formulated project for full training and cultivating local talent
Other	Other risks (pandemic)	<ul style="list-style-type: none"> Worked from home via IT platforms and tools

2.3.4 Long-Term Emerging Risk Management

As more categories are being added to emerging risks around the world and the probabilities keep rising, LITEON has added emerging risk identification and management to its ERM program. New key environmental, social, economic, technological, and geopolitical risks identified in 2020 included (1) information security risk, (2) intellectual property risk, and (3) environmental risk (renewable energy).

Information security risk

LITEON places a great emphasis on information security management along the value chain. The scope of information protection covers internal employees, external clients (customers, suppliers, consultants, and business partners), shareholders, and the safety of operation-related IT hardware/software. It includes employees, customers, suppliers, and shareholders. To protect the confidentiality, integrity, usability, and legality of information assets and avoid intentional or accidental internal or external threats, LITEON started promoting a companywide InfoSec management system in 2018 to comply with the ISO/IEC 27001: 2013 standards. Furthermore, LITEON obtained a certificate of third-party verification in 2020. The LITEON Information Security Policy was implemented to provide a basis for InfoSec management. The policy is implemented in all LITEON offices around the world. Please see "2.5. Information Security and Privacy Management" for more details on strategies and response measures.

Intellectual property risk

LITEON receives third-party notice from time to time. Such notice often claims LITEON products may have infringed on a third party's patent or another form of intellectual property. These claims sometimes lead to legal proceedings. Therefore, we take an active approach to facing and handling intellectual property disputes as appropriate with priority given to protecting the company's market, products, technologies, and clients. We do not seek out fights, nor do we shy from challenges. Besides following the dispute resolution mechanisms to perform technical, legal, and industrial analysis and formulate dispute resolution strategies, we utilize various methods to erect technical barriers to trade for competitors, thereby acquiring protection of our intellectual property rights or avoiding infringement on patents of others. Please see "Intellectual Property Report" for more details on strategies and response measures.

Environmental risks

LITEON thinks renewable energies present important risks and opportunities. The environmental sustainability team is in place to identify potential physical risks and transformation risks for LITEON to arise out of renewable energies. We take further steps to analyze these renewable energy risks and opportunities, and assess the probability and severity of each. We also follow the Task Force on Climate-related Financial Disclosures (TCFD) and disclose renewable energy data and the associated risks and opportunities. Please see "3.2. Climate Change and Energy Management" for more details on strategies and response measures.

2.3.5 Tax Management

LITEON takes a cautious approach and adopts a stability and sustainability oriented tax management policy. The policy is reviewed regularly and supported by management approved monitoring mechanisms. When the local tax rules and regulations change for one of the offices, LITEON will re-examine the tax policy to ensure LITEON complies with the applicable laws and regulations in the appropriate regions.

LITEON's tax management policy is as follows:

- Comply with local tax regulations and disclosure requirements.
- Create more sustainable value for stakeholders.
- Training tax professionals on an ongoing basis, and strengthen tax management in the company.
- Perform effective risk management and control.
- Be tax efficient without modifying the tax structure or seeking tax havens.

Tax risk management

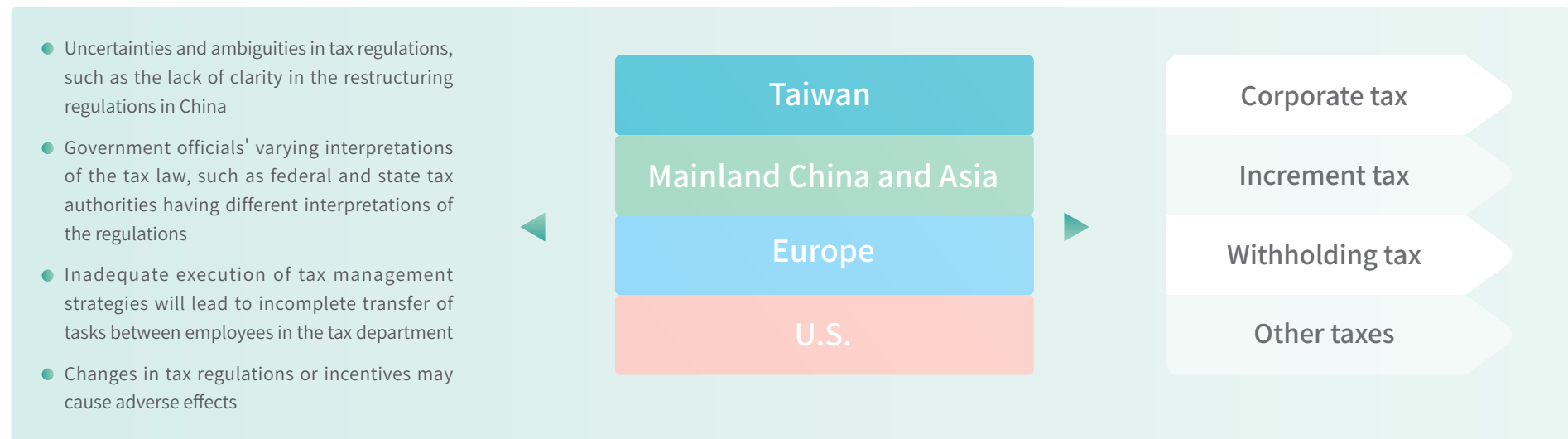
LITEON has a full-time tax unit under Finance Department in place to handle tax management related matters, such as tax administration and tax risk management. The

tax unit reports regularly to the top management on tax management practices and results in order to keep the management team up to date on implementation of the company's tax policy.

Regarding tax risk, LITEON has offices worldwide that are exposed to tax risk and complicated tax compliance issues. In addition to a professional team of tax experts that coordinate planning and perform tasks, LITEON hires external tax consultants to provide assistance as needed.

LITEON's risk management mechanisms are as follows:

LITEON complies with local tax regulations applicable to its offices. LITEON works with local tax authorities on the principle of fair taxation, and install channels for effective communication. Meanwhile, LITEON follows local regulations and complete filing procedures and pay taxes as required. If a local tax authority raises a question, LITEON always makes the best effort to provide answers and necessary documents.



2.3.6 Human Rights Management



The entire management team of LITEON understands that complying with international labor standards and upholding workers' rights is one of the essential criteria for a responsible company. Consumers, customers, government, the general public and other stakeholders also have expectations of the company's compliance. LITEON promises to comply with national labor laws and regulations, and to comply with international labor standards and other applicable international conventions in making ongoing improvements of working conditions and employee benefits. The goal is to design, implement, and maintain a sound human rights management system, and extend the same rules to suppliers and contractors.

Human rights policy

LITEON respects and supports internationally recognized human rights principles and standards, including the Universal Declaration of Human Rights, the UN Global Compact, and the International Labor Organization's Declaration of Fundamental Principles and Rights at Work. LITEON complies with local laws and regulations where the company is located, and has devised the LITEON human rights policy according to the UN Guiding Principles on Business and Human Rights.

The Human Rights Commitment

- I. LITEON firmly believes respecting and upholding human rights is the foundational to the sustainable development and operation of a corporation.
- II. LITEON takes into account human rights issues in every link of its operational value chain.
- III. LITEON provides open and accessible communication channels for stakeholders.

Human rights due diligence

To effectively identify, prevent, and mitigate human rights impact and manage human rights issues, LITEON has undertaken human rights due diligence.



1) RBA management framework

For effective human rights management, LITEON adopts the Responsible Business Alliance (RBA) Code of Conduct as the management framework for both the operations and the supply chain.

To identify, prevent, and mitigate the impact of human rights on LITEON and its supply chain, RBA proposed a risk assessment framework for employees and suppliers. For employees, LITEON performs regular risk assessments based on two quantifiable risk matrices, probability and severity.

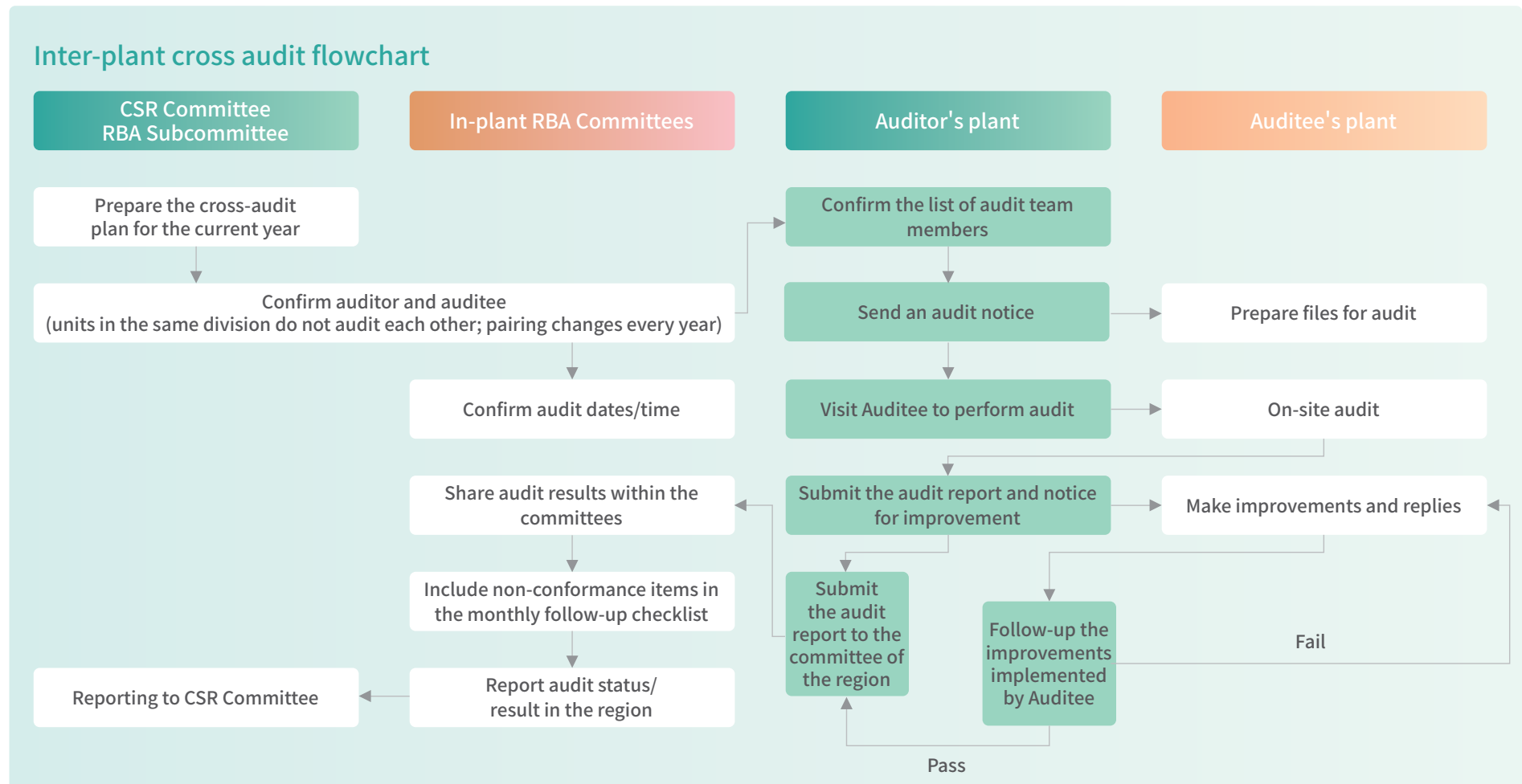
For suppliers, LITEON follows the basic rule that the RBA Code of Conduct applies to suppliers, and requires that suppliers sign the written commitment to management assurance. We have also implemented RBA management guidelines for suppliers. Regarding the RBA-based investigation and assessment tools for human rights, the scope of assessment includes the restriction on child labor, protection of human rights, prohibition of discrimination, fair treatment, legal working hours, and wages and environmental management. The goal is to find out which items may cause material risks in the supply chain. We investigate at least once every three years. The last investigation was conducted in 2020.

2) Human rights risk identification

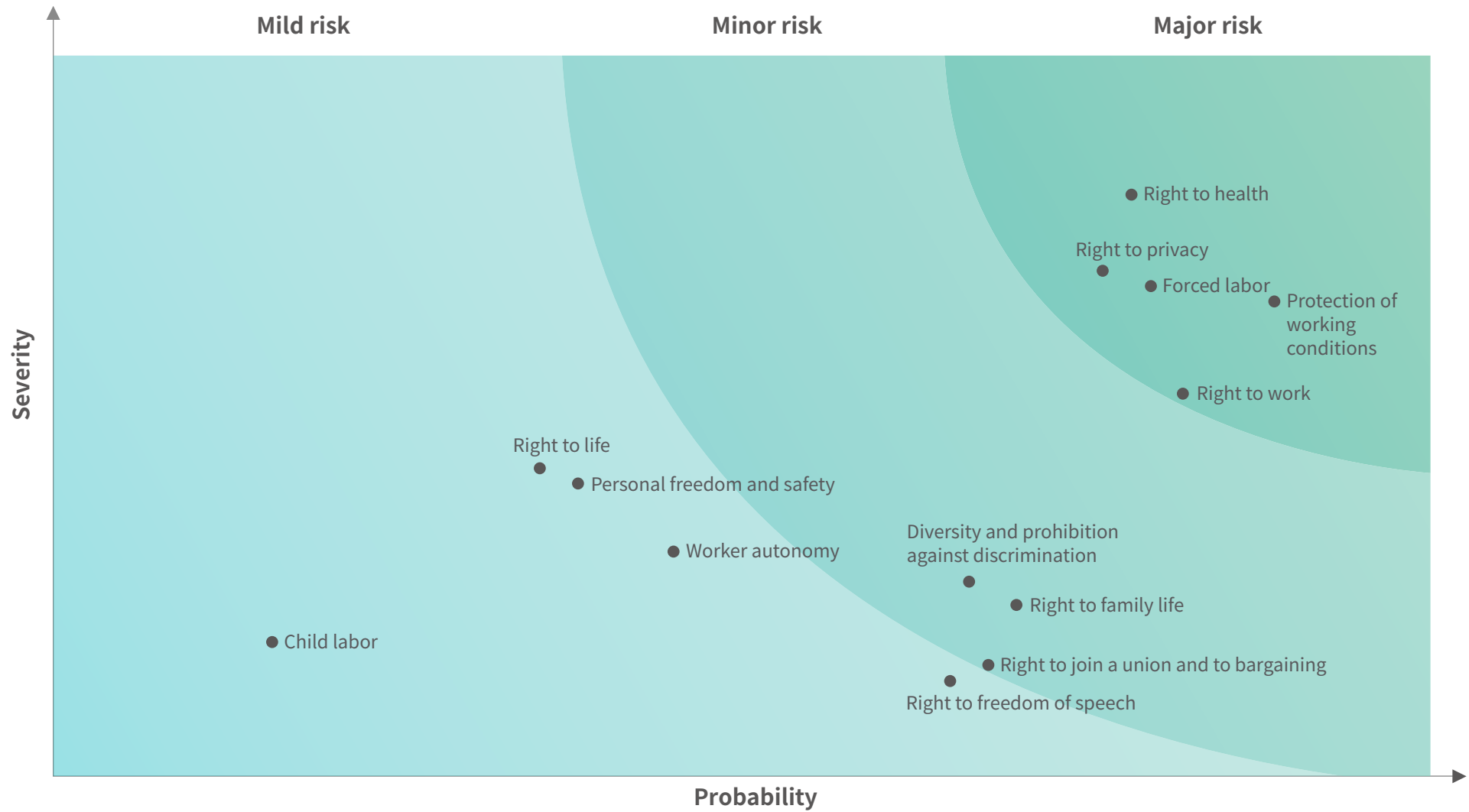
All LITEON plants are equipped with a CSR team that follows the RBA audit procedure and conducts regular internal and external audits at the respective plant. The purpose is to ensure the adequacy, effectiveness and appropriateness of its CSR framework, and to monitor how progress conforms with prescribed guidelines, goals and regulations. The audit procedures clearly outline the responsibilities, processes, principles, and cycles of each audit, as well as what details are expected in an audit report and how audit findings should be followed up.

The RBA Code of Conduct provides standards for labor, health and safety, environmental protection, and business ethics guidelines. The company follows these guidelines to conduct self-inspections at each of its plants every month. Plants located in Guangzhou, Dongguan and eastern Mainland China have all assembled RBA committees to cross-audit each other every year and ensure 100% compliance. Any conduct that does not conform with the guidelines will be improved upon within the given timeframe. To ensure LITEON fulfills its corporate social responsibilities, progress and improvement on various indicators, including labor, ethics, environment, and health and safety will be reviewed every year during management review meetings. The company also conducts regular human rights surveys on external value chain partners (customers, suppliers, contractors, and local communities).

LITEON designates India offices as hot spots for human rights and social issue risks. LITEON requires that all of its offices be subject to and managed by local laws and regulations and the company's code of conduct. Any forced labor or other dispute will be investigated and handled promptly according to the company's procedures. In 2020, LITEON did not discover or receive any report of forced labor, prohibition of freedom of association, or social impact event involving suppliers in India. LITEON will continue to follow and manage the development of human rights issues in the region.



LITEON value chain human rights risk matrix



3) Improvement and follow up

Results of human rights assessment surveys are added to related responsibilities and processes. LITEON also makes improvements as needed to reduce human rights risk. This step enables LITEON to track response effectiveness and resolve adverse effects of human rights communication. Mitigation and remedial measures for human rights risk are as follows:

Nodes on the value chain			Risk category	Improvement measure (or corresponding section in this report)
Suppliers	Employees	Customers		
V	V		Occupational health and safety	Building a clean, healthy, and safe workplace Please refer to 4.6.2 Occupational Safety and Health.
			Labor relations and protection of working conditions	<p>Union activities: Respecting employees' freedom of association</p> <p>Working hours: Arranging shifts in compliance with the law to avoid excessive working hours.</p> <p>Wages and benefits: Providing fair and reasonable wages and working terms and conditions.</p> <p>Please refer to 4.4 Protection of Interests, 4.5 Employee Relations, and 4.6.1 Diverse welfare systems.</p>
V	V		Forced labor	<p>Prohibition of forced labor and child labor LITEON adheres strictly to employment regulations, and prohibits the use of child labor aged below 15, and does not allow employees aged below 18 to perform dangerous work. Notices are given on all changes to terms of employment as required by law.</p> <p>Establishment of the procurement policy regarding conflict minerals (metals) Please refer to 2.6.3.1 Responsible Mineral/Metal Sourcing Policy. LITEON has declared and promised to refrain from the use of metals sourced from illegal smelters in conflict mines. The company also requires that all its suppliers comply with LITEON's procurement policy regarding conflict minerals/metals.</p>

Nodes on the value chain			Risk category	Improvement measure (or corresponding section in this report)
Suppliers	Employees	Customers		
V	V		Right to work	A fair performance evaluation system Please refer to 4.4.1 Protection of Interests of Employment.
V	V	V	Right to privacy	<p>Proper management of personal data and information of stakeholders The privacy policy and the Personal Information Protection and Management Guidelines are in place to ensure the collection, processing and use of personal information comply with the regulatory requirements.</p>
V	V	V	Personal freedom and safety	<p>Professional security training LITEON outsources security to a service provider. The service provider evaluation and selection processes require that the service provider's management and training procedures comply with the RBA standards. Therefore, all security personnel at LITEON have received human rights related training.</p>
V	V	V	Diversity and prohibition against discrimination	<p>Prohibit against any form of discrimination Provide a fair and equal work environment, and prohibit discrimination based on race, color, religion, ethnicity or national origin, gender, sexual orientation, age, disability, or other circumstances in hiring and employment practices such as training, rewards, promotions, termination, and retirement.</p>