

# Excellence Opto. Inc.

## Q2 2025 Risk Management Implementation Progress Report

Meeting Date: 2025/8/6  
Report Date: 2025/8/12



**Presenter: President - Fanny Huang**  
**Alternate Presenter: Special Assistant to the President, James Hsiao**

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
I - Environm ent	1. Environm ental Risk	<p>(1) Raw Material Sourcing and Ecological Damage: Whether resources are being extracted illegally or water is being overused.</p> <p>(2) Pollution and Emissions: Pollution caused by suppliers during production; waste disposal; greenhouse gas emissions not aligned with carbon reduction targets.</p> <p>(3) Environmental Compliance Risks: Suppliers failing to comply with environmental regulations (e.g., REACH, RoHS).</p> <p>(4) Impact of Climate Change: Whether suppliers are located in areas prone to typhoons, floods, hurricanes, or blizzards that could disrupt the supply chain.</p> <p>(5) Severe Natural Disasters: Extreme weather events impacting market business activities, goods transportation, and related transactions.</p> <p>(6) Responding to Key Customers' Inquiries on Climate Change and Its Management.</p>	<p>(1) &amp; (2) Establish a Supplier Screening Mechanism:</p> <ul style="list-style-type: none"> <li>Suppliers that generate hazardous industrial waste during the production process are required to submit a Supplier Environmental and Safety Risk Assessment Form.</li> <li>All electronic components and PCB materials used are environmentally friendly and comply with international regulations (RoHS).</li> <li>All electronic components and PCB materials used are environmentally friendly and comply with international regulations (RoHS).</li> </ul> <p>(3) Promote Supplier Education to Develop Green Supply Chain Management:</p> <ul style="list-style-type: none"> <li>Organize ESG Supplier Conferences to promote carbon reduction and environmental sustainability training programs.</li> <li>Encourage suppliers to adopt energy-saving and carbon-reduction initiatives, and to set carbon reduction targets with completion timelines.</li> </ul> <p>(4) Supplier Risk Warning and Contingency Plan: Conduct environmental risk assessments of suppliers for risks such as material supply disruptions caused by extreme weather and establish emergency response procedures.</p> <p>(5) After a natural disaster, promptly assess the internal situation and notify customers with status updates, adjusting product and goods supply as needed to maintain communication and preserve customer relationships.</p> <p>(6) Provide customers with the company's analysis of historical greenhouse gas emission trends and hotspots as a basis for setting future greenhouse gas reduction targets.</p>

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
1. Environment	2. Operational Hazard Risks	<p>(1) During the manufacturing, testing, and transportation of electronic products, improper handling may cause high-voltage electrostatic discharge (ESD).</p> <p>(2) Prolonged direct eye exposure to product light sources or observing illuminated automotive lamp modules may impair the vision of laboratory personnel or other individuals.</p> <p>(3) Unexpected incidents during business travel (such as traffic jams or poor visibility due to bad weather) may disrupt scheduled itineraries, causing delays in visits and appointments.</p>	<p>(1) Ensure operational safety by working carefully and cautiously to avoid accidental injuries such as cuts or punctures. Maintain a clean work environment to prevent accidents caused by chemical accumulation or electric shock.</p> <p>(2) If direct viewing is necessary, use protective equipment such as light-dimming filters or safety goggles.</p> <p>(3) Plan business travel itineraries in advance, taking travel conditions into account, such as booking flexible flight tickets and accommodations. The company may also consider collaborating with local agents to assist in handling unexpected changes.</p>

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
II - Social	3. Human Resources Risks	<p>(1) Talent demand driven by intense market competition and diversified professional expertise.</p> <p>(2) Human resources allocation and planning for the establishment of cross-border factories.</p> <p>(3) Fluctuations in labor shortages.</p>	<p>(1) Collaborate with schools on industry-academia technology projects to train students through technical cooperation and subsequently recruit them into the company; provide internal staff with AI technology training to improve work efficiency.</p> <p>(2) Plan human resources allocation in advance to avoid technical manpower gaps. Strengthen internal training programs to enhance professional skills.</p> <p>(3) Streamline production line manpower by effectively reducing manual operations such as visual inspection, and introduce integrated AI, deep learning, and automated optical inspection systems.</p>

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
III - Economic (Including Governance)	4. Market Risks	<p>(1) Frequent changes in customer product specifications / varying introduction speeds: OEM customers are accelerating new product introductions, while internal development timelines and requirements remain uncertain, increasing the cost of repeated project design and causing resource mismatches.</p> <p>(2) Significant fluctuations in raw material prices (e.g., oil, metal prices).</p> <p>(3) War and geopolitical risks: Supply disruptions and logistical obstacles caused by war; changes in national policies. For example, the ongoing Israel–Palestine conflict and Russia–Ukraine war may affect certain parts of the company’s supply chain.</p> <p>(4) Tariff policies and trade protectionism: High tariffs; supply chain restructuring (forcing companies to relocate production bases).</p> <p>(5) In response to tariff barriers imposed by the United States, stagflation has occurred, prompting manufacturers to relocate their supply chains to meet the demands of the world’s largest economy.</p> <p>(6) With the growing global emphasis on climate change and sustainable development, demand for environmentally friendly products is increasing, along with heightened expectations for corporate environmental responsibility.</p>	<p>(1) Establish a shared technical database for core optical modules, light control structures, and thermal management platforms.</p> <p>(2) Establish a shared technical database for core optical modules, light control structures, and thermal management platforms.</p> <p>(3) Diversify the supply chain:</p> <p>(a) Leverage suppliers’ global production capacity layout to obtain competitive quotations and effectively reduce risks from changes in tariff policies and trade protectionism.</p> <p>(b) Foster strategic cooperation with key suppliers to achieve cost optimization and risk mitigation.</p> <p>(c) The company has reviewed suppliers’ production origins and confirmed that no materials are currently produced directly in the affected countries. Adjustments have also been made regarding upstream raw mineral sourcing from these impacted regions. At present, there is no effect on operations, and new transportation methods have been explored to strike a balance between delivery timelines and shipping costs.</p> <p>(4) Negotiate with customers to find solutions for increased tariff costs and promptly provide tariff impact data for business coordination purposes.</p> <p>(5) Coordinate with customers on the advance payment of tariffs while actively preparing for the establishment of a factory in Mexico to avoid long-term tariff risks and reduce transportation expenses.</p> <p>(6) Negotiate with customers to adopt product packaging in a recycled and reusable format, reducing carbon emissions and resource consumption while enhancing the company’s corporate sustainability image.</p>

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
III - Economic (Including Governance)	4. Market Risks	(7) Exchange rate fluctuations reduce the profit margin of the company's product sales.	<p>(7) Given the company's high proportion of exports, the following measures are taken to reduce foreign exchange risk:</p> <p>(a) Continuously monitor market information and exchange rate trends, assess the risks of foreign exchange positions, and adopt hedging measures in a timely manner to mitigate the adverse impact of exchange rate fluctuations on operations.</p> <p>(b) Regularly track whether customer payments and sales prices need adjustment, while continuously gathering market intelligence from different regions to understand competitors' developments.</p> <p>(c) Reduce exchange rate losses through hedging transactions; European and U.S. business teams must maintain ongoing communication with customers to adjust project quotations in response to exchange rate fluctuations.</p>

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
III - Economic (Including Governance)	5. Investment Risks	<p>(1) Will the global economy slow down or enter a recession in the future? Investment risks are becoming increasingly difficult to predict.</p> <p>(2) In response to U.S. tariff changes and EOI customers' demands for local supply, manufacturing development, and long-term strategic planning, the company is constructing and investing in a plant in Mexico. There is uncertainty as to whether the significant capital expenditures will achieve the expected return on investment.</p> <p>(3) Revenue denominated in U.S. dollars accounts for 75%–80% of the group's consolidated revenue, resulting in substantial U.S. dollar asset exposure. However, with the commencement of operations at the Mexico plant, there will be an increased demand for Mexican pesos, and the required amount is expected to grow gradually.</p>	<p>(1) Closely monitor market conditions and implement effective controls over costs and operating expenses to mitigate the impact on operations.</p> <p>(2) Continue negotiating with existing banks to renew credit facilities while working with new financial institutions to establish additional credit lines. In a high-interest rate environment, focus on both increasing revenue and reducing expenses to maintain healthy cash flow, ensuring an interest coverage ratio of at least five times.</p> <p>(3) Closely track exchange rate market trends; if the U.S. dollar weakens, execute hedging measures to reduce foreign exchange losses. For future projects and procurement at the Mexico plant, aim to quote and transact in U.S. dollars whenever possible, using local currency only for local expenses to minimize uncertainties caused by exchange rate fluctuations.</p>

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
III - Economic (Including Governance)	6. Regulatory Compliance Risks	<p>(1) Regulations in Taiwan, such as those related to lighting, signaling, electric power, or autonomous driving, are reviewed and amended periodically.</p> <p>(2) Currently, the company's automotive lamp module products are all designed and developed in accordance with automotive regulations, customer SRS (System Requirement Specifications), or TSR (Technical Specification Requirements).</p>	<p>(1) Ensure that projects comply with all local regulatory requirements by monitoring amendment meetings held by industry associations and regularly updating practices to align with new regulations.</p> <p>(2) Conduct design reviews, verifications, and validations at each design stage to ensure compliance with regulations or customer design specifications.</p>

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
III 、 Economic (Including Governanc e)	7. Operational Risks	<p>(1) Fluctuations in raw material prices and unexpected supply chain disruptions—particularly in highly technology-dependent components such as LED chips, advanced packaging substrates, and optical materials—can lead to delays in design and development timelines.</p> <p>(2) The increasingly complex and fast-changing global automotive market often results in sudden surges or drops in demand, creating risks of either insufficient supply or excessive inventory.</p> <p>(3) Global supply chains are being rapidly reshaped under the influence of factors such as worldwide tariff barriers, the U.S.–China trade war, and geopolitical tensions.</p> <p>(4) Sales volumes of automotive module customers falling short of expectations.</p> <p>(5) Operational risks arising from a slowdown in electric vehicle sales.</p>	<p>(1) In the face of variables such as materials, supply, and performance, adopt advanced learning or AI-powered data analytics to intervene in decision-making early.</p> <p>(2) Currently, the company compares weekly EDI data with customers’ pickup status, actual vehicle sales data, and intelligence gathered by the sales team from within customer organizations. This information is analyzed collaboratively with relevant departments to develop material preparation strategies and production plans, avoiding reliance on a single source of information for operational decisions.</p> <p>(3) Accelerate the implementation of a diversified global layout and reallocate production capacity in different regions to enable local supply. At the same time, effectively manage suppliers to reduce the risk of over-concentration in purchasing and sales.</p> <p>(4) Review and adjust material requirements monthly, as needed, to reduce inventory levels and ease inventory pressure.</p> <p>(5) Continuously monitor policy changes in each region, adjust capacity planning based on actual sales performance, and strictly control both material and finished goods inventories.</p>

# Q2 2025 - Risk Management Implementation Progress Report

Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
IV、 Other	8. Other Risks	(1) The rapid development of digital, AI, and cloud technologies may create cybersecurity management vulnerabilities.	(1) Implement the ISO 27001 Information Security Management System and certification to comprehensively strengthen education on information security and digital awareness, preventing corporate secrets from being compromised or leaked.