

Excellence Optoelectronics Holding Co. Ltd.

Q3 2025 Risk Management Implementation Progress Report

Meeting Date: 2025/10/1

Report Date: 2025/11/13



Presenter: President, Fanny Huang

Alternate Presenter: Special Assistant to the President, James Hsiao

Excellence Optoelectronics Holding Co. Ltd.

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Four Key Dimensions Eight Major Risks		Existing or Anticipated Risks	Responses to Avoid Risks
I、 Enviro nment	1. Environmental Risks	<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 in areas prone to typhoons, floods, hurricanes, or blizzards that could disrupt the supply chain.</p>	<p>(1)~(2) Establishing a Supplier Screening Mechanism:</p> <ul style="list-style-type: none"> · Suppliers that generate hazardous industrial waste during production are required to submit an Environmental and Safety Risk Assessment Form. · All electronic components and PCB materials used are environmentally friendly and compliant with international regulations (RoHS). · All chemical substances used are environmentally friendly and compliant with international regulations (REACH). <p>(3) Promote Supplier Education to Develop Green Supply Chain Management:</p> <ul style="list-style-type: none"> · Organize ESG Supplier Conferences to promote carbon reduction and environmental sustainability training programs. · Encourage suppliers to adopt energy-saving and carbon-reduction initiatives, and to set carbon reduction targets with completion timelines. <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>

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1. Environment	2. Operational Hazard Risks	<p>(1) If uncertainties exist in the production operations involving manpower, machinery, materials, methods, and environment, product defects or customer complaints may easily occur, leading to significant company losses and affecting customer satisfaction.</p> <p>(2) As new products are being gradually introduced, operators need enhanced training to improve their proficiency in handling new product operations.</p>	<p>(1) Thoroughly study customer specifications and international standards to ensure that all employees understand regulatory and customer requirements.</p> <p>(2) Continue implementing production line setup principles: based on the characteristics of each workstation, operators at stations that may be affected by new equipment—either at their own station or adjacent ones—must undergo equipment operation training.</p>

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II、 Social	3. Human Resources Risks	<p>(1) The intense market competition has increased the demand for talent with diversified professional skills.</p> <p>(2) The diverse requirements of projects also call for a wide range of specialized expertise.</p>	<p>(1) Establish multi-skill training for technical personnel to prevent work disruptions caused by employee turnover.</p> <p>(2)</p> <ul style="list-style-type: none"> · Introduce production automation to reduce reliance on manual labor. · Promote the conversion of eSOP and automation systems into multiple languages to ease the learning burden for new employees. · Enhance employee care by providing communication and complaint channels to reduce turnover rates. · Create a happy and fulfilling workplace to strengthen employees' sense of belonging and recognition.

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III - Economic (Including Governance)	4. Market Risks	<ul style="list-style-type: none"> (1) Customer product specifications are frequently changing / introduction speed varies - OEM customers are accelerating the introduction of new products, while internal development schedules and requirements remain uncertain, increasing the cost of repeated project redesigns and causing resource misallocation. (2) Supply chain risks: PCB suppliers are now leaning toward Chinese manufacturers due to price advantages; however, concentration in the same region or country, especially in China, poses high political risks. (3) The Israel– Hamas war and the Russia–Ukraine war are still ongoing, resulting in extended shipping routes, including large-scale shipments being unable to pass through the Suez Canal and border closures in Poland. 	<ul style="list-style-type: none"> (1) Establish an EQ mechanism with customers to verify the accuracy of design data and avoid multiple design changes (RCN) that could affect project schedules. (2) In addition to China, it is necessary to evaluate and onboard suppliers from other regions or countries to diversify and mitigate the risks of concentration in a single area or nation. (3) The Cape of Good Hope route (around the southern tip of Africa) has consistently added 10–14 days to shipping time, and freight rates continue to rise. In addition, Poland’s border closure has disrupted rail and road transport between Central and Eastern Europe. Comprehensive adjustments are being made to the schedules of various shipping companies, with continuous monitoring and booking of newly available routes.

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III - Economic (Including Governance)	4. Market Risks	<p>(4) European ports (Rotterdam, Hamburg, Antwerp) have recently experienced slower customs clearance and unloading due to container congestion, insufficient port automation, and strikes. In particular, ports in Germany and France often face delays caused by union protests and strikes. As global shipping demand declines and fuel costs rise, shipping companies have started reducing sailings or merging routes, leading to fewer available spaces and longer waiting times for containers to be shipped.</p> <p>(5) The group executes USD/TWD hedging positions of approximately USD 8–10 million per month, covering about 10–15% of the net USD exposure. Although monthly foreign exchange losses—arising from valuation positions at month-end—are unrealized, the U.S. Federal Reserve’s shift toward an interest rate cut cycle has led to a high probability of continued USD depreciation. Consequently, the New Taiwan dollar is highly likely to appreciate against the USD, resulting in an increase in unrealized losses on the company’s net USD-denominated assets.</p>	<p>(4) Request the forwarder to use priority customs clearance services to expedite the process and shorten waiting times. Alternatively, adjust customs clearance procedures by utilizing one of the three EU identities (Spain, Germany, or Slovakia).</p> <p>(5) EOI continues to closely monitor fluctuations in the foreign exchange market and has undertaken appropriate hedging transactions to reduce exchange rate losses.</p>

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III、 Economic (Including Governance)	4. Market Risks	<p>(6) Tariffs: U.S. tariffs have been imposed since April. Although EOI can pass on the cost to customers, the company has already communicated with various automotive lighting clients that the tariff amount will be added to their invoices. Alternatively, when declaring imports, the tariffs initially advanced by EOI will be requested for reimbursement from the customers.</p> <p>(7) Exchange Rate Fluctuations: Currency fluctuations have led to reduced profit margins on the company's product sales.</p> <p>(8) Market Concentration Risk: To avoid overreliance on a single market (North America) or a single industry sector (automotive lighting).</p>	<p>(6) As the company has a high proportion of exports, it continuously monitors market information and exchange rate trends to assess foreign exchange risk. Appropriate hedging measures are taken in a timely manner to mitigate the adverse impact of exchange rate fluctuations on operations. At the same time, customer payments and sales prices are regularly reviewed to determine whether adjustments are necessary.</p> <p>(7) Negotiate with customers to transfer tariff adjustment risks to them, while developing alternative suppliers to avoid sourcing materials from high-risk countries.</p> <p>(8) Continue expanding into new markets, customers, and the energy-saving industry. Give priority to developing customers and markets with controllable risks and high potential, while regularly assessing the credit risks of existing major customers.</p>

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III - Economic (Including Governance)	5. Investment Risks	<p>(1) EOI's revenue denominated in U.S. dollars accounts for approximately 80%–90% of the group's consolidated revenue, resulting in significant exposure to USD-denominated assets, along with a smaller portion of RMB and EUR positions. Therefore, hedging activities primarily focus on the U.S. dollar. However, with the commencement of operations at the Mexico plant, demand for local currency (Mexican peso) will arise, and the exposure amount is expected to gradually increase. This poses potential risks, as the Mexican peso is not a major international currency—its liquidity is limited, yet its volatility is high—thus creating operational risk.</p>	<p>(1) Continue negotiating with partner banks to renew existing credit lines while actively working with new financial institutions to establish additional credit facilities. In a high-interest rate environment, it is essential to increase revenue and control expenses to maintain healthy cash flow, ensuring an interest coverage ratio of more than five times. → Response: Closely monitor foreign exchange market trends and implement hedging measures promptly to reduce exchange rate losses when the U.S. dollar shows signs of weakening.</p>

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III、 Economic (Including Governance)	6. Regulatory Compliance Risks	<p>(1) At present, the company's automotive lighting module products are all designed and developed in accordance with automotive regulations, customer SRS (System Requirement Specifications), or TSR (Technical Specification Requirements).</p> <p>(2) Taiwan's regulations related to lighting, signaling, electrical systems, and autonomous driving are reviewed and amended on a regular basis.</p>	<p>(1) Conduct design reviews with customers to ensure that the design content meets their SRS or TSR requirements.</p> <p>(2) Ensure that all projects comply with local regulatory requirements, monitor legislative update meetings held by industry associations, and regularly update designs to align with new regulations.</p>

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III、 Economic (Including Governance)	7. Operational Risks	<p>(1) The Mexican government has proposed and is currently promoting a plan or draft to impose higher tariffs on products imported from mainland China and other Asian countries. This initiative involves both diplomatic and economic policy considerations, aiming to protect Mexico’s domestic industries, stimulate local manufacturing, and respond to pressure from the United States—particularly regarding automotive and export policies. Additionally, Mexico may be seeking to demonstrate policy adjustments and a willingness to “address U.S. concerns” ahead of the 2026 review of the USMCA (United States–Mexico–Canada Agreement).</p> <p>(2) Market Risks: Significant fluctuations in raw material prices (such as oil and metal prices), as well as risks arising from wars and geopolitical tensions.</p> <ul style="list-style-type: none"> · Impact of War: Supply chain disruptions and logistics obstacles caused by ongoing conflicts. · Changes in National Policies: Policy adjustments or shifts that may affect business operations and market stability. 	<p>(1) Continuously monitor whether the rumored 1,400 tariff codes are approved by Congress and work closely with the procurement team to determine if supplier shifts are necessary.</p> <p>(2) Regularly track changes in international trade policies and regulations, while continuously monitoring and analyzing fluctuations in raw material prices to promptly adjust and control purchasing quantities and timing.</p>

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III、 Economic (Including Governance)	7. Operational Risks	<p>(3) Tariff Policies and Trade Protectionism:</p> <ul style="list-style-type: none"> · High tariffs. · Supply chain restructuring (forcing companies to relocate production bases). 	<p>(3)</p> <ul style="list-style-type: none"> · Supply Chain Diversification: Leverage suppliers' global production capacity layout to obtain competitive quotations and effectively reduce risks associated with tariff policy changes and trade protectionism. · Strategic Cooperation: Strengthen strategic partnerships with key suppliers to achieve cost optimization and risk reduction. · Customer Collaboration: Negotiate solutions with customers to address tariff cost increases and promptly provide data on tariff impacts for business planning and coordination.

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IV、 Other	8. Other Risks	(1) The risk of increased material inventory caused by excessive fluctuations in customer EDI (Electronic Data Interchange) demand.	(1) <ul style="list-style-type: none"> · Promote material standardization to reduce dependence on specific specifications. · Conduct surveys of the latest lead times (L/T) every 1 to 1.5 months to adjust and control orders, preventing material obsolescence risks. · Regularly update material demand forecasts by considering historical data, market sales, and seasonal demand factors.