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Risk Control

Luxshare Precision has improved its risk identification and assessment system, bolstered internal control management, and established specific measures to identify and address information security risks and privacy divulgence risks. These efforts ensure comprehensive and effective control of various risks.

Risk Identification and Management

Risk Type	Risk Item	Response Strategies
Strategic Risks	Corporate governance risk	• Continuously improve the corporate systems, standardize the Company's production and operations, perfect the corporate governance structure, pay attention to the protection of shareholders' rights and interests and investor relations management, and constantly enhance corporate governance
	Product competitiveness risk	• The Company's products and business layout show diversified and vertical integration characteristics, comprehensively covering components, modules and system assembly. The Company provides one-stop professional services in an all-round way, and accelerates the application of intelligent manufacturing and big data operation and management platform
Operational Risks	New technology and new product development risk	• Continue to actively invest required R&D expenses in the development of new technologies and new products, introduce and cultivate new technology and new product development talents, and improve research and development capacity
	Product quality risk	• Optimize the quality management process, continuously promote an intelligent testing and intelligent quality management system, and improve the quality management at all stages, including supplier management
	Climate change risk	• Regularly monitor climate changes, set science-based targets in line with the requirements of the 1.5° C pathway, which have been officially certified and approved by the SBTi, identify climate-related risks, and regularly review short-, medium-, and long-term carbon reduction goals and action progress; the management takes countermeasures against risks with high importance and urgency
	Labor relations risk	• Improve the labor management system, set up trade unions in each production base, and actively maintain good communications with employees through multiple channels
Compliance Risks	Business ethics risk	• Set up the Disciplinary Committee, perform business conduct compliance management led by the chairman, and conduct regular internal audits of business ethics
	Intellectual property management and protection risk	• Establish the intellectual property management system, and investigate and confirm other companies' intellectual property in the phase of design and development
Information Security Risks	Information security	• Expand the coverage of business continuity and the scope of factory audit and enhance the security of weak electricity system and the security of intelligent parks
	Privacy protection	• Organize privacy protection-related training and appraisals and require that confidential documents should be stored in lockable file cabinets, safes, or other secure furniture when not in use, with the keys entrusted to designated personnel

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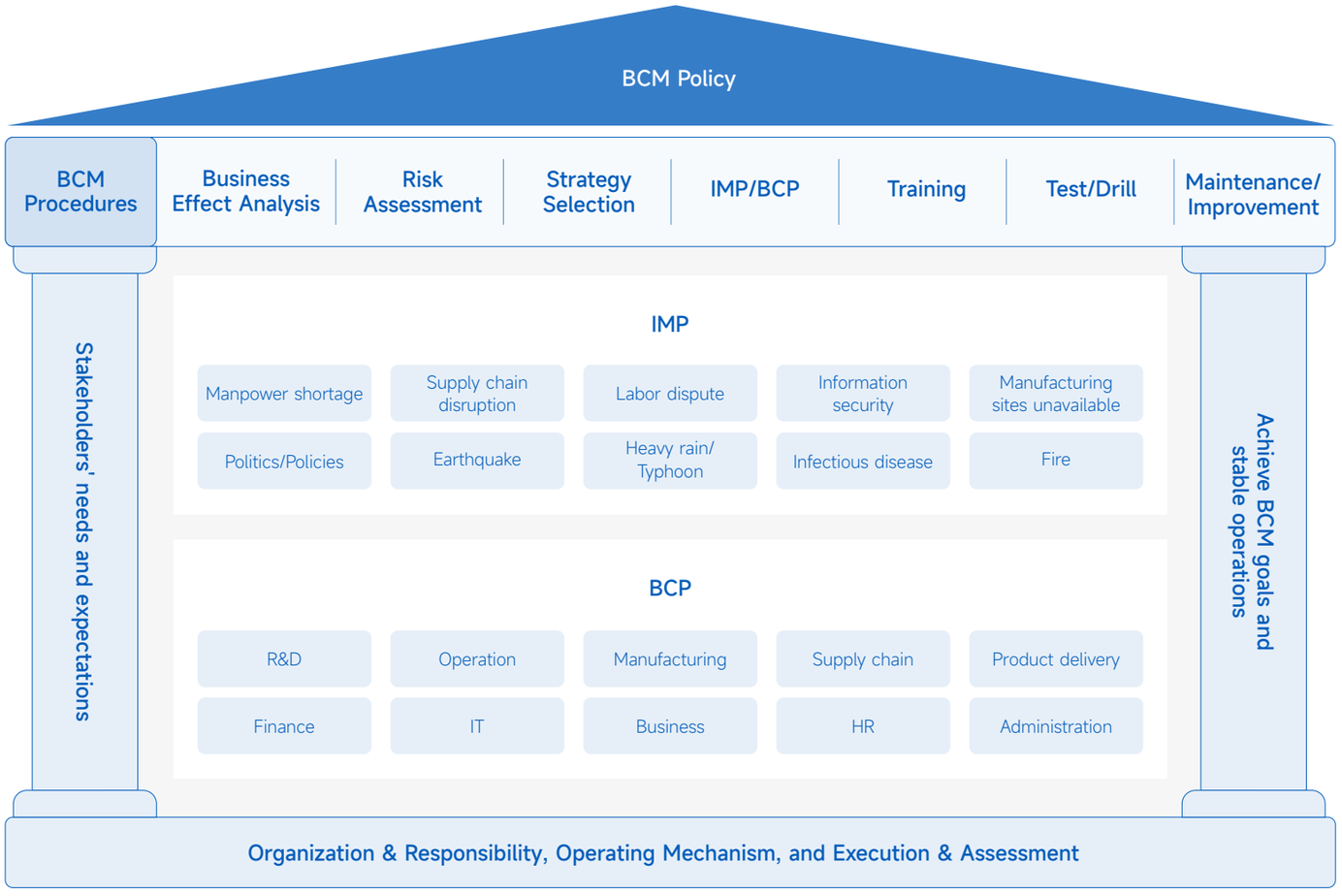
Business Continuity System

In 2023, Luxshare Precision, taking into account the needs and expectations of relevant stakeholders, formulated a business continuity management (BCM) system with the goal of "operational stability" in combination with the incident management plan (IMP) and the business continuity plan (BCP). Additionally, we developed a *Business Continuity Management Manual* based on the ISO 22301 standard to ensure effective planning, implementation, and improvement of the BCM system.

Business Continuity Management System



After undergoing a rigorous review, the Company was successfully certified by ISO 22301 for business continuity, providing a robust guarantee for the Company's steady operations.

ISO 22301 Business Continuity Certificate

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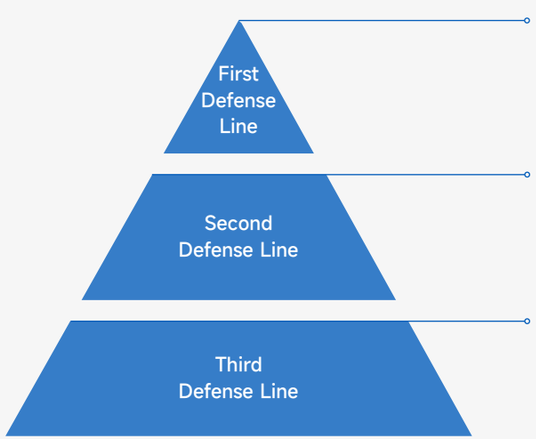
Internal Control Management

Luxshare Precision has established a robust and effective internal control system, comprising three defense lines for risk management and internal control. The Board of Directors oversees relevant reports on internal control risk data and internal control procedures, while the management is responsible for organizing risk control in routine operations.



Business Department

Integrate risk management into daily work to manage risks in the actual operation of each business

Compliance Management

Organize and promote risk management processes and activities, and build the Company's risk management and internal control system

Audit Department

Review the effectiveness and adequacy of the Company's risk management and internal controls, and oversee the implementation of improvement measures

Internal Audit

The Internal Audit Department, as the Company's internal independent audit institution, coordinates with risk control, internal control, and internal audit functions to guarantee the independent performance of our regulatory duties. It covers critical risk areas comprehensively, including corporate social responsibility, financial activities, procurement business, asset management, sales business, contract management, and information security.

In 2023, Luxshare Precision expanded the audits by establishing relevant departments to comprehensively conduct audits for domestic and overseas businesses. It required **an annual internal financial and non-financial audit to be conducted at domestic and overseas factories and operational sites, with marketing and production management audited at least once every half a year. Additionally, supplier management process audits were required to be conducted at least once a year**.

During the Reporting Period

Total number of internal audits Luxshare Precision completed was

56

Information Security

Information Security Risk Management

Luxshare Precision has established a well-refined information security management system encompassing more than 60 internal policies and management procedures. In 2023, the Company added and updated 27 internal policies and management measures. We also expanded the coverage of business continuity and the scope of audits in the dimension of security and further enhanced Operational Technology (OT) security and the security of intelligent parks.

We have set up an Emergency Response Management Team, formulated an information security emergency response plan, and specified an emergency contact list, an emergency command structure, and the emergency response processes and measures. During the Reporting Period, the Company carried out business continuity drills, regular vulnerability scans, failure drills, and penetration tests for key applications, and **fixed a total of 1,553 system vulnerabilities**.

During the Reporting Period

Luxshare Precision

had **0** incident of information leakage

Highlights of Information Security Management Measures

Business Continuity	Expand drills from the core processes of key business to all processes of key business, covering data centers, application equipment redundancy, and emergency drills and recovery of the failure domains across the entire link.
Security Audit	Cover all factories in penetration testing, vulnerability scans, and information security audits and conduct regular refresh audits, completing more than 340 improvement projects.
Data Security	Expand the coverage of equipment to all areas, achieving full coverage of confidentiality areas without exceptions.
Security Advertising Campaign	Utilize posters and comics combined with trending topics to raise information security awareness.
Information Masking	Grant time-limited access to external personnel to strengthen the protection of the personal privacy and data of vendors and customers.