



CHAPTER 3

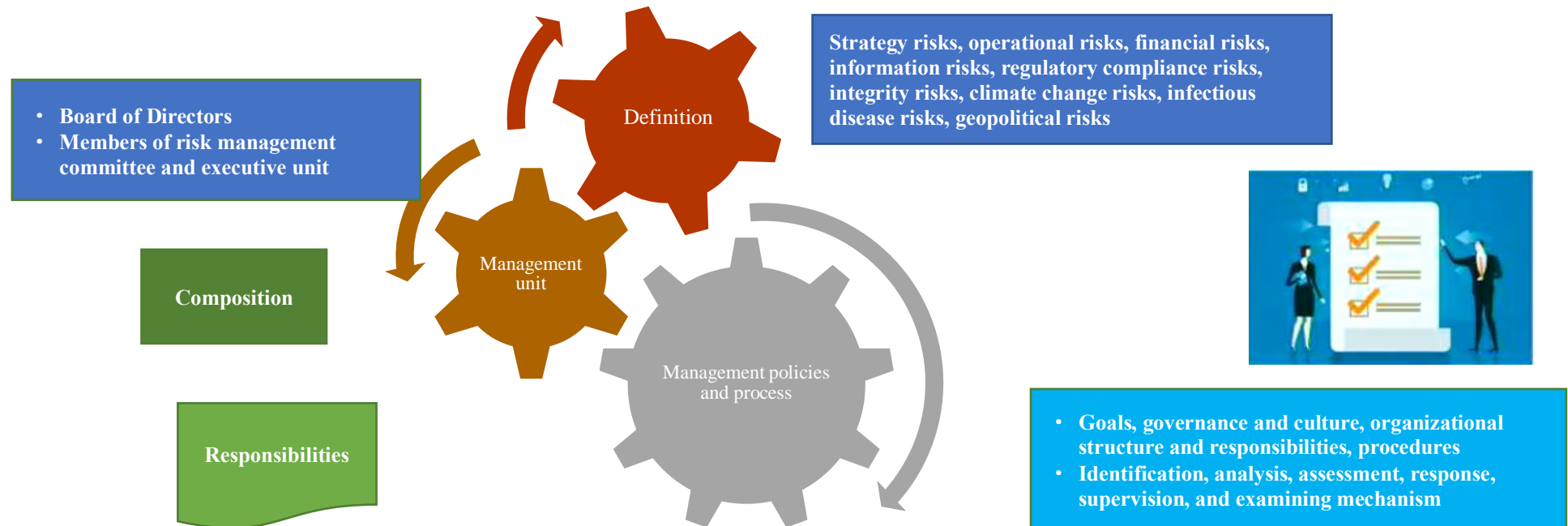
Strengthen Corporate Governance

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3. Strengthen Corporate Governance

3.1 Promoting Strategies

Promote risk control and management according to Risk Management Best-Practice Principles for Taiwan Stock Exchange and Taipei Exchange listed Companies



Management principles: definability, standardization, quantification, analyzability

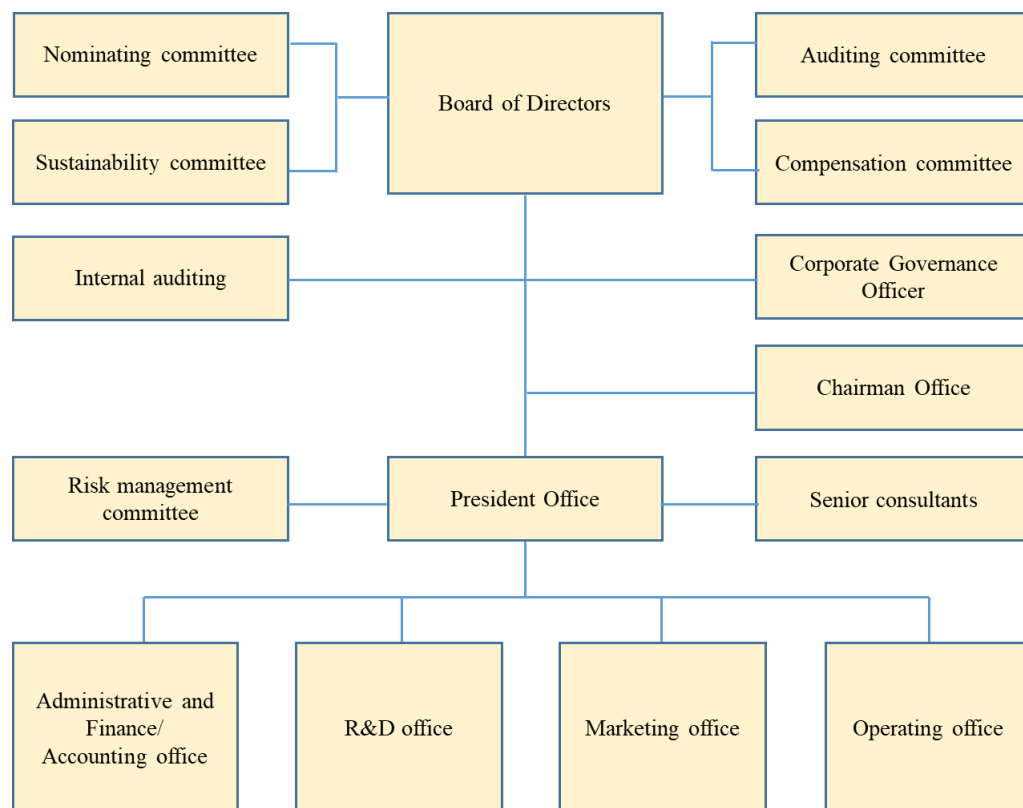
■ **Definition and management goals**

◆ Strategy risks	Due to inappropriate investment strategies or allocation of assets to inappropriate investment items, enterprises have results of investment deviating from expectation or even incur loss risks. For selecting investment strategies and allocating assets, enterprises should consider balance between risks and return on investment, risk tolerability and investment periods to reduce strategy risks.
◆ Operational risks	Loss risks arising from internal management, external environment, natural disasters in enterprises' routine operation. Since operational risks are among unavoidable risks incident to enterprises' operation, it is necessary to establish a complete risk management system to minimize losses due to such risks.
◆ Financial risks	For enterprises' fund raising, financial management and capital structure, there exist risks which are likely to cause failure in due repayment of debts, funding shortfall, increases in financial cost, drops in stock price, decreased investment return and other negative influence for enterprises. Financial risks also include risks concerning market, credit and liquidity, such risks are incident to enterprises' operation and enterprise have to take risk management measures to avoid or lower the risk, therefore to ensure healthy financial foundation.
◆ Information risks	Information risks are risks arising from problems concerning uncertainty, secrecy, authenticity and completeness of information. Information risks may negatively influence enterprises' operation and decision making, such as information leaking, computer viruses, disruption of systems and cyberattacks. Enterprises have to carry on effective planning and control for information management at reasonable cost, such as strengthening cybersecurity and protecting information, to reduce losses due to information risks.
◆ Regulatory compliance risks	Enterprises may face regulatory compliance risks due to failure in complying with laws, authorities' regulatory requirements and professional standards. Such risks are likely to subject enterprises to fining, litigation, reputation losses and even revocation of business operating licenses. Being risks that enterprises cannot neglect, regulatory compliance risks render enterprises necessary to set up management systems for legal compliance to ensure legal and regulation-complying operation.
◆ Integrity risks	Integrity risks are the risks that may incur losses due to enterprises' or personal lack of honesty/faith, ill conception of moral/ethical values or fraudulent behavior. Integrity risks cover the risks concerning enterprises' honest/faithful behavior in treating clients, shareholders and employees, mainly misleading statement, broken-promise contracts, fraudulent sell-off, embezzlement of assets, corruption/cheating and unethical behavior which severely impact enterprises' reputation and image. Enterprises should establish sound internal control and management systems as well as enhance corporate cultural construction to systemically and ethically regulate their behavior in order to reduce integrity risks.
◆ Climate change risks	These are the risks that may incur losses to natural environment and human societies due to global warming, sea-level rises and extreme weather conditions. Climate change risks concern environmental, social and economic negative influence including flooding, drought, storms, tsunamis, crop failure and transmission of diseases. To cope with climate change risks, enterprises have to give importance to reduction in carbon emission, sustainable development and strategic readiness to tackle problems arising from disasters in a bid to set up green-oriented corporate culture and management systems.
◆ Infectious disease risks	These are the risks that personal and public health may be influenced by infection and transmission of infectious diseases. With infectious disease risks arising from dissemination of pathogens in the midst of crowds, outbreaks of such diseases will have large impact on human societies including economic losses, threat to lives and wellness as well as breakdown in social order. Especially under situation of globalization, infectious disease risks among countries are highly concerned about. To cope with infectious disease risks, it is necessary to strengthen health education, promote hygienic habits, monitor pandemic of diseases as well as beef up construction of public health infrastructure.
◆ Geopolitical risks	These risks arise from political, economic, military conflicts or other factors among countries or areas. These conflicts are usually concerned with tense relations between countries such as wars, terrorist attacks, coup d'état, sanction measures and trade wars. Geopolitical risks bring negative influence on enterprises' operation and investment and lead to problems such as shrinking market shares, limited availability of resources and decreased revenues. Enterprises have to pay attention to changes in international situation and evaluate risks involved in trade to cope with them.

3.2 Governance system

With “integrity and honesty” being the basis for enterprises’ sustainable operation and “insistence on integrity” the sustainability cornerstone of our operation, we hold the vision of hiking our operational performance and brand value by virtue of a complete corporate governance system. We practice system-based management and realize transparent operation to optimize performance in corporate governance, secure sound development of business operation and protect investors’ and other stakeholders’ interests.

■ Governance framework



■ Important company’s internal rules

- Articles of Incorporation
- Regulations Governing Procedure for Board of Directors Meetings
- Rules of procedure for shareholders’ meetings
- Operational Procedures for Loaning Funds to Others
- Operating procedures for acquiring or disposing of assets
- Method of endorsement guarantee
- Management procedures for preventing insider trading
- Propaganda for preventing insider trading
- Operating procedures of application for temporarily suspension or resumption of stock trading
- Method of processing reported cases of illegal and unethical or dishonest behavior
- Significant Incident Reporting Procedures

■ Our important committees

Name	Operating definition
Risk management committee	Established according to our risk management operating guidelines. Management framework covers auditing committee, president as well as R&D, engineering quality, production, marketing, factory affairs, finance units.
R&D meetings	Established according to our development guidelines for R&D strategies. Management framework covers president, R&D unit, engineering quality unit.
Information security committee	Established according to our information security operating guidelines. Management framework covers units under digital management and network governance.
ISO committee	Established according to ISO 9001 regulation. Management framework covers president and R&D, marketing, operating, administrative and finance/accounting office.
Carbon inventory committee	Processed according to our internal carbon inventory operating guidelines. Management framework covers board of directors, administrative and finance/accounting office, factory affair unit.

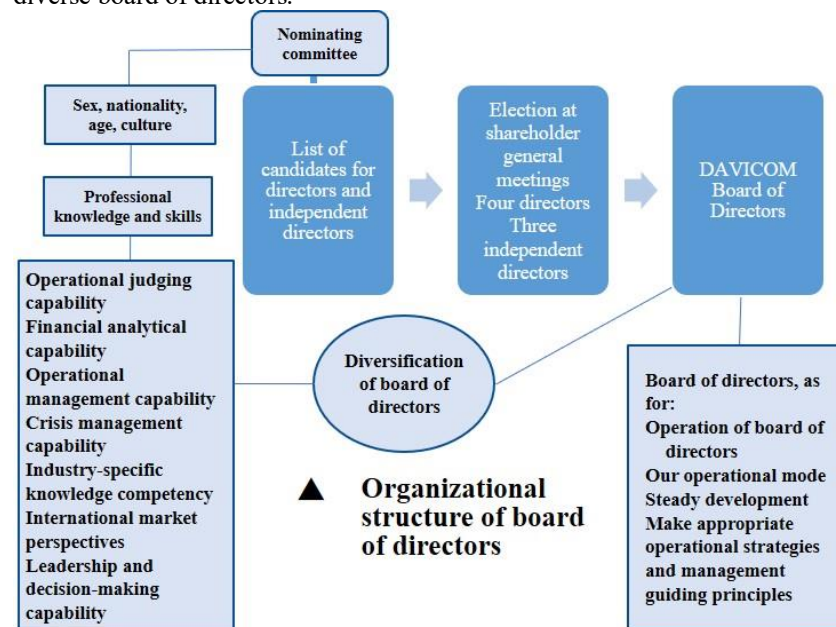
■ Risk control Framework

Procedures of risk control and management		
Category	Management framework	Supervision and examination
Strategy risks	Chief strategy officer	Auditing committee, board of directors
Operational risks	Risk management committee	Internal auditing, auditing committee, and board of directors
Financial risks	Administrative and Finance/Accounting office	Internal auditing, auditing committee, and board of directors
Information risks	Information/communication security committee Confidential information protection committee	Internal auditing, auditing committee, and board of directors
Regulatory compliance risks	Administrative and Finance/Accounting office, Operating office	Internal auditing, auditing committee, and board of directors
Integrity risks	Administrative and Finance/Accounting office, Marketing office, Operating office	Internal auditing, auditing committee, and board of directors
Climate change risks	Risk management committee	Internal auditing, auditing committee, and board of directors
Infectious disease risks	Administrative and Finance/Accounting office	Internal auditing, auditing committee, and board of directors
Geopolitical risks	Chief strategy officer Marketing office	Internal auditing, auditing committee, and board of directors

■ Board of Directors and Functional Committee

Board of directors is our highest-level governance organization and important operational decision-making center. Our board of directors consists of four directors and three independent directors. The terms for a director and an independent director are three years each. Board of directors' responsibilities include nomination and supervision of management executives, assessment of operational performance, prevention of interest conflicts, ensuring that business execution comply with the regulations concerned, corporate self-disciplinary rules and resolutions of shareholders' meeting, a bid to maximize shareholders' equity and interests.

In order to strengthen corporate governance and facilitate sound development of board of directors' composition and structure, we amended item 3 under article 20 of Corporate Governance Best Practice Principles on November 11, 2016 including gender diversity and expertise diversity, in line with the spirit of modern enterprise management to form a diverse board of directors.



Our board is composed of four directors and three independent directors, with them required to have professional knowledge and experience in accounting, finance, high-tech, industrial know-how and management. Besides, we give importance to gender equality regarding composition of the board. Currently, there is a female director, taking 1/7 of the total number of directors. Our shareholders elected the 10th board of directors (including independent directors) at 2022 general meeting. The term for the 10th board of directors is from June 29, 2022 to June 28, 2025. The list of 10th Board of Directors is as follows:

Job title	Personal name	Sex	Main career (education) experience	Double as the company's or other companies' positions
Chairman	Ting Hao	Male	Doctor of Business Administration, Victoria University, Switzerland M.S. in EECS, University of California, Berkeley	United Integrated Services Co., Ltd. Independent director MiTAC Holdings Corporation Independent director
Directors	Goodyears Investments Ltd. (Representative person : Wen-Chen Lin)	Female	Department of Information Management, Ming Chuan University Senior engineer, Taiwan Semiconductor Manufacturing Company	DAVICOM Semiconductor, Inc., director
Directors	Tzay Hua Ltd. (Representative person : Cheng -Feng Chiu)	Male	Master, Institute of Electronics under National Chiao Tung University (has been renamed as National Yang Ming Chiao Tung University) Vice president, Medicom Corp.	DAVICOM's assistant vice president for new product business unit
Directors	Yun-Ping Lin	Male	Master, leadership section of EMBA under National Chung Hsing University Person in charge, Sane Way Enterprises Co. Ltd. Person in charge, Crown Star International Investment Co., Ltd.	Person in charge, Sane Way Enterprises Co. Ltd. Person in charge, Crown Star International Investment Co., Ltd.
Independent directors	Chang-Yue Ueng	Male	Ph.D in statistics, University of Colorado Chief financial officer, Sonavox Electronic Inc. Vice president for administration center and chief financial officer, Ichia Technologies, Inc.	Finance department manager, Kwo Ger Metal Technology Inc.
Independent directors	Jen-Jyh Hwang	Male	Ph.D in Mechanical Engineering, University of Pennsylvania State Adjunct associate professor, Department of Mechanical and Electro-mechanical Engineering under National Sun Yat-sen University	Independent director of JG Environment Tech.
Independent directors	Niang-Shou Wei	Male	Shanghai Fanfeng Vacuum Technology Co., Ltd. Director general for production and operation center	DAVICOM Semiconductor, Inc., independent director

■ **Diversification of the board of directors**

	Basic composition								Industry-specific experience				Professional capability			
	Sex	Nationality	Simultaneously our employees	Age		Tenure of office of independent directors			Networking/ communication	Information management and security	Semiconductor IC design	Industry- specific knowledge	Accounting	Information technology	Risk management	Financial management
				(aged) 51-60	(aged) 61-70	Below 3 years	3-9 years	Over 9 years								
Chairman: Ting Hao	Male	Republic of China (Taiwan)	V		V				V	V	V	V	V	V	V	V
Goodyears Investments Ltd. (Representative person : Wen-Chen Lin)	Female	Republic of China (Taiwan)		V								V	V		V	V
Tzay Hua Ltd. (Representative person : Cheng -Feng Chiu)	Male	Republic of China (Taiwan)	V	V					V	V	V	V		V		
Director: Yun-Ping Lin	Male	Republic of China (Taiwan)			V							V			V	V
Independent director: Chang- Yue Ueng	Male	Republic of China (Taiwan)		V			V			V		V	V	V	V	V
Independent director: Jen-Jyh Hwang	Male	Republic of China (Taiwan)			V		V			V		V			V	
Independent director: Niang-Shou Wei	Male	Republic of China (Taiwan)			V		V		V		V	V		V		V

Directors' advanced studies

Our 4 directors and 3 independent directors in 2023 individually received further education for at least 6 hours each in Securities & Futures Institute, Chinese National Association of Industry and Commerce, Taiwan Stock Exchange Corp. and The Allied Association for Science Park Industries. Please refer to our website:

https://www.davicom.com.tw/investor-governance01.php?lang_id=tw

Operation of board of directors

2023: Board of directors convened meeting for six times, passing many proposals and motions (Please refer to our website: investor relations → corporate governance → board of directors → board's important resolutions.

https://www.davicom.com.tw/investor-governance01.php?lang_id=tw

Compensation for Directors

Our articles of association stipulate: Of pre-tax profit before it is deducted for employee compensation and director compensation, at least 8.5% is appropriated for employee compensation and up to 2% appropriated for director compensation; accordingly, we appropriated NT\$ 1,259,244 for director compensation in 2023.

Evaluation of board of directors' performance

To enhance corporate governance and strengthen the Board's effectiveness, we established performance objectives and implemented the "Davicom Board Performance Evaluation Guidelines" on August 10, 2015. This initiative aims to encourage self-discipline among Board members and improve the overall functioning of the Board. Accordingly, the Davicom Board conducts annual internal performance evaluations of the Board and its functional committees, and every three years, it engages an independent professional organization (or external experts) to conduct an external Board performance evaluation.

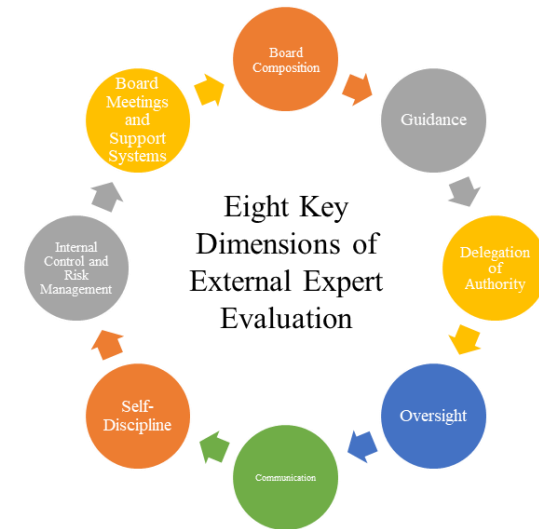
2023 Board Performance Evaluation Results

Self-Evaluation by the Board: The Chairman, representing the entire Board, scored a 5, indicating excellence (strongly agree); individual Board members, comprising seven directors, scored an average above 4, indicating high performance (agree). The functional committee evaluations, led by the conveners of the Audit Committee (Independent Director Chang-Yue Ueng) and the Compensation Committee (Independent Director Jen-Jyh Hwang), each received a score of 5, denoting excellence (strongly agree). For further details, please refer to Davicom International's official website:

https://www.davicom.com.tw/investor-governance01.php?lang_id=tw

External Expert Evaluation :

In 2023, we commissioned the Taiwan Corporate Governance Association to assess the Board's performance from November 1, 2022, to October 31, 2023. The assessment report was delivered on January 5, 2024.



Procedure and content of external expert evaluation:

The evaluation procedure included open-ended questionnaires, Board meeting minutes, functional committee meeting minutes, publicly available information, and video interviews with relevant members.

Summary of External Expert Evaluation

The Board exhibits a commendable level of independence and professionalism, with independent directors possessing the requisite expertise in alignment with the principles of division of labor and diversity, ensuring the rigor and objectivity of Board decisions. The Chairman demonstrates enlightened leadership by personally communicating with directors on future business plans and major proposals. The Chairman and independent directors effectively engage with the management team through functional committees, fostering a positive Board culture. The Chairman also leads the Sustainability Committee, which includes both regular and independent directors, supported by dedicated staff to advance sustainability efforts, reflecting Davicom's commitment to sustainable business practices. Davicom continues to engage independent external bodies to conduct Board performance evaluations and implement recommendations to refine corporate governance practices, underscoring the company's proactive approach to enhancing Board effectiveness.

Suggestions

Recommendations by Experts	Davicom's Actions:
Formalize the policies, systems, and standards for director and executive compensation, with regular reviews and revisions by the Compensation Committee.	The Compensation Committee, based on the recommendations, formulated the "Director and Executive Compensation Policy," which was approved and implemented by the Board.
Further strengthen the whistleblower mechanism, establishing direct links with independent directors.	Following the expert advice, measures were taken to protect the rights of stakeholders.
Set clear objectives and performance evaluations for the internal audit supervisor to enhance the independence of internal audits and the oversight effectiveness of the Audit Committee.	Starting from 2024, the objectives and performance evaluations for the internal audit supervisor will be jointly conducted by the convenor of the Audit Committee and the Chairman.
Establish clear reporting procedures for significant unforeseen information to ensure all Board members are promptly and comprehensively informed of critical incidents.	Davicom has adopted the recommended "Major contingencies notification procedures," which were approved by the Board and published on the company's website.

Note: For detailed information on the results of Davicom's external Board evaluation, please refer to our official website:

https://www.davicom.com.tw/investor-governance01.php?lang_id=tw

Management of conflict of interest

For our rules of procedures for board of directors' meetings as well as organizational norms for auditing/accounting and nominating committees, there are rules concerning interest avoidance. If items to be discussed at board meetings are concerned with directors' interests or interests of the juridical persons they represent, the subject directors should clearly state the main content of such interests at the corresponding meetings. If such interests are suspected to negatively impact DAVICOM Semiconductor's benefits, the subject directors should refrain from joining discussion and voting as well as proxy voting on behalf of other directors at the corresponding meetings. The names of the subject directors, the main content of interests concerned and conditions of avoiding interests have to be stated in meeting minutes.

We have formulated guiding principles for integrity management, ethical behavior norms, a method of processing reported cases of illegal and unethical or dishonest behavior, operating procedures for managing trade among stakeholders, ethical behavior norms for directors and executives, professional ethics guiding principles for employees as well as rules of circumventing interest conflicts, and have reported the implementation of professional ethics guiding principles for employees to auditing/accounting committee. In order for communication with stakeholders, we have set a specific area at our website and detailly disclosed the rules and information concerned; our spokespersons and e-mail box are responsible for responding to stakeholders' questions and suggestions.

■ Function-specific committee

● Nominating committee

Nominating committee is organized according to organizational rules of the committee and consists of chairman and two independent directors, holds at least two meetings every year. The current nominating committee was organized on June 29, 2022, with independent director Niang-Shou Wei convening and chairing meetings. The term for the current nominating committee is from June 29, 2022 to June 28, 2025.

The committee's performance in 2023

The committee convened for twice in 2023, separately on January 16 and November 19, all with 100% attendance and many proposals passed. (Please refer to our website: Investor relations → corporate governance → functional committee → nominating committee's important resolutions)

- **Compensation Committee**

According to "Regulations Governing Appointment and Exercise of Power by the compensation committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange", we established our compensation committee on June 18, 2012, with the committee consisting of three committee.

The term for the current compensation committee is from June 29, 2022 to June 28, 2025. The committee convenes for at least twice every year, not including meetings held for emergency cases.

The committee's performance in 2023

The compensation committee convened for five times in 2023, separately on January 16, February 7, May 11, August 9 and November 09, all with 100% attendance and many proposals passed. For the content of what was discussed at meeting and corresponding resolutions, please refer to our website: Investor relations → corporate governance → function-specific committees → compensation committee's important resolutions.

- **Auditing/accounting committee**

According to Article 14-4 of Securities and Exchange Act and Article 3 of Regulations Governing Exercise of Power by Audit Committee of Public Companies, we have established auditing/accounting committee and formulated its organizational rules. The committee is intended to supervise appropriateness of financial reports, disinterest and effect in selecting (dismissing) certified public accountants, effectiveness of internal control measures, regulatory compliance, control of potential risks to the company including interest conflicts.

The committee's performance in 2023

Auditing/accounting committee convened for five times in 2023, separately on January 16, March 07, May 11, August 09 and November 09, all with 100% attendance and many proposals passed. For the content of what was discussed at meeting and corresponding resolutions, please refer to our website: Investor relations → corporate governance → functional committee → auditing committee's important resolutions)

- **Sustainability Committee**

Sustainability committee is composed of two directors and an independent director with the tenure of office the same as that for directors and independent directors. The committee convenes twice every year in principle.

The committee's performance in 2023

Sustainability committee convened for twice on January 16, November 09 in 2023 and separately passed our 2023 detailed planning for social concern and passed the material topics of 2023 sustainability report.

- **Corporate Governance Officer**

Our board of directors, at its 21st meeting on May 13, 2019, decided to appoint a corporate governance officer in order to protect shareholders' equity and strengthen board of directors' functions. The position was concurrently assumed by chief financial officer.

Staff members of corporate governance are mainly responsible for:

- Handle meetings of board of directors and shareholders and related affairs
- Prepare meeting minutes
- Help directors in their induction into office and advanced studies
- Provide directors with data needed in performing their duties and information on latest development of regulations concerning operation of companies
- Help directors comply with regulations and laws

For corporate governance officer's business execution, please refer to our website: Investor relations → corporate governance → corporate governance → corporate governance officer)

In 2023, Davicom's corporate governance officers attended courses at the Ministry of Environment, the Securities and Futures Institute, and the Taiwan Stock Exchange, covering topics such as "Creation of sustainability through green chemistry," "Insider Trading Prevention," and the "2023 Cathay Sustainable Finance and Climate Change Summit." The total training time was 12 hours.

■ Internal auditing

We have established internal auditing which directly belongs to board of directors, with the main purpose of establishment and its main duties as follows:

Main purposes of establishing internal auditing	Items of execution for internal auditing
<ul style="list-style-type: none"> · Check and evaluate the effectiveness of internal control system · Measure operational efficiency and performance. · Report reliable, immediate, transparent compliance as well as compliance with the regulations concerned. · Timely recommend improvement in order to ensure continuously effective execution of internal control system 	<ul style="list-style-type: none"> · According to regulatory requirements by the authorities concerned and based on consideration of risks, we have made annual auditing plans to practice auditing. · Prepare auditing reports to keep tracking improvement · Regularly revise internal control system, auditing practice rules, annual self-evaluation of internal control

The objectives and performance evaluations for the internal audit supervisor are established with reference to the opinions of the Audit Committee, thereby enhancing the independence of internal audits and the effectiveness of Audit Committee oversight. The annual performance of the internal audit supervisor is jointly assessed by the Chairman and the Audit Committee convenor.

The internal audit supervisor and independent directors meet at least quarterly during Board and Audit Committee meetings and submit the previous month's audit report and deficiency tracking report before the end of each month, reviewing the execution of the annual audit plan and the status of internal control deficiency rectifications. To strengthen the interrelationship between internal and external audits, Audit Committee members hold closed-door meetings with the audit supervisor and the certified public accountant, with written communication records maintained.

Our internal auditors receive outside professional training annually to hike quality of internal auditing. In 2023, internal auditing supervisor and acting persons each received 12-hour training at Institute of Internal Auditors-Chinese Taiwan and thereby obtained certification.

For our internal auditing disclosure, please refer to our website: Corporate governance → execution of internal auditing http://www.davicom.com.tw/investor-governance04.php?lang_id=tw

■ High-level managers' compensation

The Board of Directors of Davicom has approved the remuneration policies, systems, and standards for directors and managers. These are regularly reviewed and revised by the Compensation Committee to align with operational development and incentive needs. Furthermore, strategic, long-term, and sustainable performance indicators are formalized in writing, ensuring that managerial compensation is closely tied to the company's operational performance and future growth. This approach is designed to motivate the management team to pursue long-term benefits, laying the foundation for sustainable development.

Compensation of president, vice president and high-level supervisors includes salaries, bonuses and pensions which are regularly disclosed in our annual reports. In order to maintain momentum of seeking breakthrough innovation in steady operating environment, president's and high-level supervisors' compensation mainly consists of fixed and variable portions. In order to keep boosting "environment, social, governance" to ensure sustainability, we have set mid- and long-term goals for sustainable development in the hope of creating common prosperity for both the enterprise and society. Managers' compensation on the whole are based on consideration of competitiveness in the corresponding industry and, in addition, evaluation factors of fixed and variable salaries include support to our sustainability goals.

Fixed compensation	In accordance with duties of job positions and relative importance of duties.
Variable compensation	Financial indicators: Compensation on shareholders' equity (%), operating profit margins (%), etc. Other indicators related: Hike in profitability, innovation R&D, expansion of marketing and client management

Note: Considering different incentive purposes, we provide incentives of diverse content For example, performance bonuses, incentive bonuses, employee compensation and stock option warrant, with these calculated based on current cash incentives.

3.3 Integrity management

Insistence on integrity is the most important core value for our operation. We are in strict discipline and continue to promote professional ethical culture with high standards in order to abide by various regulations and our self-disciplinary rules thoroughly from top-level executives to common employees.

Laws, regulations, orders	Our self-disciplinary rules
Company Act, Securities & Exchange Act, Business Entity Accounting Act, Political Donations Act, Anti-Corruption Act, Government Procurement Act, Act on Recusal of Public Servants Due to Conflicts of Interest, regulations concerning listing on the Taiwan Stock Exchange and Taipei Exchange and commercial business operation	<ul style="list-style-type: none"> · DAVICOM Semiconductor, Inc. “Corporate Governance Best Practice Principles” · DAVICOM Semiconductor, Inc. “Integrity Principles for Corporate Management” · DAVICOM Semiconductor, Inc. “Ethical Behavior Norms for “Directors and Managers” and “Integrity Management Principles” · DAVICOM Semiconductor, Inc. Operating procedures of administration for preventing insider trading

Integrity Management Goals and Implementation Status

Administrative goals	Substantial measures	Performance
External trading Constraint by special clauses of contracts	Contracts signed with clients, sales agents and suppliers should require compliance with integrity management policies and stipulate that contracts may be terminated or clauses of contracts may be annulled anytime if trading parties are concerned with dishonest behavior.	Attain
Within the company Education, propaganda, whistle blowers	Concerning integrity management and prevention of insider trading, regular education and propagandization of directors, managers and common employees enable them to know their duty and obligation of immediately reporting to units responsible for prosecution if they find cases with suspected violation of integrity management principles.	Attain
Preventing measures Internal control, internal auditing	Specifically for operating activities with higher risks of dishonest behavior, we have established effective accounting system and internal control system as well as regularly report to board of directors via internal auditing system and, in addition, review results of execution anytime and keep improving in order to substantially execute integrity management policies.	Attain

■ Professional ethics and anti-corruption

We are committed to conforming to business ethics through having all employees comply with the regulations concerned and demanding that they meet ethical requirements such as integrity and honesty in executing business, with the purposes of protecting our assets and image as well as our and all stakeholders' interests to reach the goals of sustainable operation and continued development.

According to "integrity management principles" and "ethical behavior norms for directors and managers", our operating office supervises execution of ethical regulation for directors, managers, employees as well as suppliers, sales agents and clients; we also strictly prohibit directors, managers and employees from securing inappropriate benefits (money of any form for any reason, gifts, commissions, job positions, services, preferential treatment, feedback, etc.) or anyhow behaving that would influence our corporate image and competitiveness through capitalizing on relations and/or opportunities arising from their business execution, a bid to promote honest and ethical professional behavior.

Our business activities are by fair and transparent means and, before trading, we investigate credit of sales agents, suppliers, clients or parties in trading with us in order to avoid business activities with parties with records of bad behavior in terms of integrity. Contracts signed with stakeholders stipulate that they should comply with our integrity management policies, and there are special clauses that if they are concerned with dishonest behavior, we can terminate or rescind contracts anytime and ask for damages.

Employee care Hotline

We have channels of prosecution such as employee suggestion box and grievance methods through auditor inspection, which encourage employees, clients and suppliers to prosecute dishonest behavior, with their identity to be in absolute secrecy.

Email : esther_lin@davicom.com.tw (TEL : +886-3-5798797 #8569) ◦

People can prosecute such behavior violating professional ethics via e-mail or company telephone, and our independent auditing unit will secretly find facts and keep strict secrecy of the identity of the persons. Fact-finding reports are delivered to our executive level for making decisions and, in case of violations, violators are internally punished according to our corresponding punishment measures or externally punished through our legal prosecution.

We have established channels of prosecuting stakeholders' and employees' behavior that violates professional ethics, and persons inside and outside our company can offer their opinions through our e-mail at our website or our company telephone numbers.

Tablet of prosecution (grievance) cases received in 2023

	Total number of prosecution cases	Total number of grievance cases	Total number of cases that were disposed of
Anti-corruption	0	0	0
Environmental issues	0	0	0
Social issues	0	0	0

■ Regulatory compliance

Category of regulations		Substantial measures of complying with important regulations	Cases of violation
Business activities	Listing on the Taiwan Stock Exchange, listing on the Taipei Exchange	We formulate our internal rules for corporate governance according to Company Act, Securities and Exchange Act and regulations regarding listing on the Taiwan Stock Exchange and the Taipei Exchange.	None
	Tax	Declare taxes according to the tax regulations concerned and pay the taxes	None
	Accounting	Our accounting execution is according to business accounting regulations and our value assessment is based on international accounting standards in line of government policies.	None
	Intellectual properties	For developing new products, we include patent indexes in the first step.	None
	Privacy	Obligation of strictly protecting employees' and clients' personal information as well as clients' business secrets.	None
	Political parties	Expressly prohibit directors, independent directors, managers, employees and subsidiaries from offering illegal political donations.	None
	Government Procurement Act	Comply with government procurement regulations, deliberately evaluate cost and benefits of open-bid projects and faithfully fulfill contracts.	None
	Anti-Corruption Act	We operate company according to disciplinary regulation and never request favor from, make long-term promises for, bribe public servants related to business operation.	None
	Circumvention of conflict of interest	With reference to legal clauses concerning recusal of public servants due to interest conflicts, we set internal rules and ask directors to notice circumvention of interest conflicts to avoid misconduct.	None
Labor regulations		Ministry of Labor regulations	None
Environmental laws and regulations		Environmental protection regulations under the Ministry of Environment	None

3.4 Realization of Risk Management

Viewing that risk management is necessary for sound corporate governance and realization of corporate management, we set up a risk management platform in 2016. The platform is systematic operation for risk management to strengthen strategies of coping with risks, reduce the probability that serious operational risks worsen to become crises and realize risk management.

The risk management platform, according to our organizational structure and internal control system, mainly consists of two promoting units:

(1) Promoting unit of sustainability risk management: President coordinates operating units of R&D, engineering, production, marketing, business, finance to identify risk topics and corresponding management factors across these operating units.

(2) Supervising unit of risk management mechanism: Internal auditing unit checks whether sustainability risk management is carried on according to the regulation concerned and regularly submit risk monitoring reports to auditing committee.

Our risk management strategies

Reduce impact on operation and maintain operational stability

Establish efficient risk management mechanism

Identify newly emerging risks and make evaluation to see if such risks will bring operational opportunities

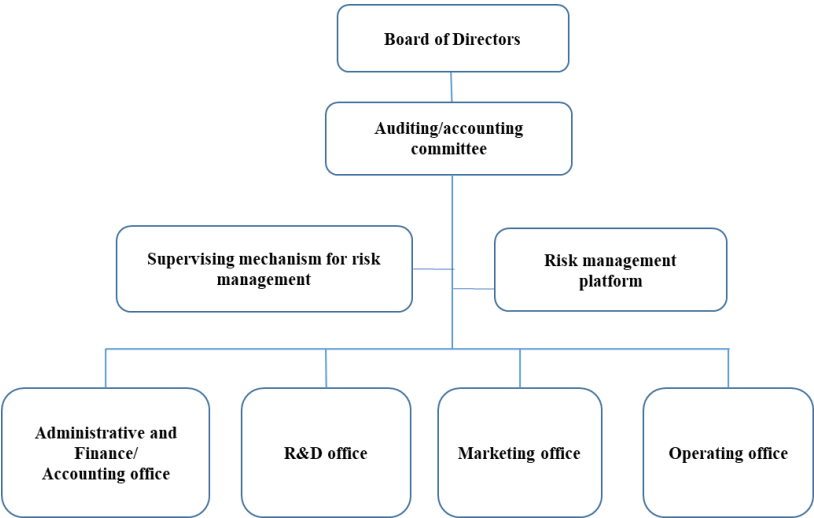
Prioritize strategies for coping with factors of high risks

Regularly review performance in coping with risks and assess corresponding cost incurred

Operating team and all employees make joint efforts to reach risk control goals.

Risk management platform is to systematically identify and assess risks and a mechanism of handling and monitoring risks. By virtue of combining ISO 9001 quality management system and the risk management of internal control system, promotion of risk management platform in 2023 mainly covered the nine aspects: Strategy risks, operational risks, financial risks, information risks, regulatory compliance risks, integrity risks, climate change risks, infectious disease risks, geopolitical risks, and focused on climate change actions, sustainable supply chains for procurement and supplier quality management. For operating achievement, please refer to our 2023 annual report (Our website: Investor relations → our annual report https://www.davicom.com.tw/investor-annualreport.php?lang_id=en)

Risk management framework



Business Continuity Management, BCM

Davicom have undertaken risk management based on BCM (business continuity management) method, with the risk management focusing on prevention and improvement specific to various types of possible disruption of business operation. Through risk management platform and using BCM core concepts, we have taken preventive measures before risks occur, mitigated impact when risks occur, restored situation influenced by risks. In addition, we have simulated scenarios due to serious risks in order to promote development of corresponding responsive plans and measures.

Stabilize organizational operation	Stabilize supply chains	Financial response
Ensure employees' safety and continuing execution of their duties	Monitor supply chains and respond quickly to ensure long-term flexibility of supply chains	Ensure financial liquidity to fight troubles
Client relations	External communications	Information system
Services of responding to clients for coping with market impact	Due diligence statement for investors through keeping in touch with the authorities concerned	Ensure that operation of information system will not be disrupted

Viewing that COVID-19 pandemic has raged rapidly and impacted enterprises' operation globally, we have responsively integrated operational strategies and reviewed organizational resilience to adjust risk management framework. Through integration of risk topics across operating units and emphasis on mid- and long-term planning and response, decision-making executives understand opportunities arising from risks and cope with disasters at a common platform to minimize impact and ensure continued stable operation of the company.

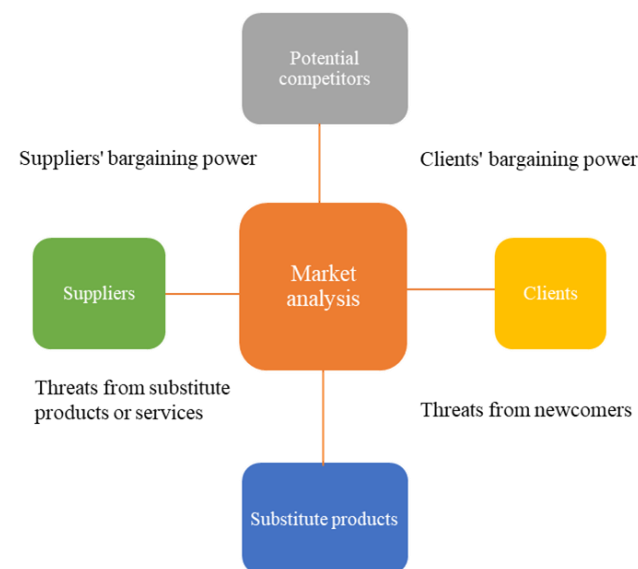
We regularly collect international topics related to sustainability risks and changes in industrial development trend to dynamically adjust material topics and include the collected information in our risk management reports. Faced with more unpredictable impact arising from newly emerging risks, we hope to combine internal and external resources via link in risk management to enable us to predict, prepare for, cope with and adapt ourselves to continued change in environment. Even if company operation is abruptly disrupted, we are still able to exist, make breakthrough in development and develop adaptability to large changes to create more development opportunities.

Infectious disease risks: Continue infectious disease preventive measures and management

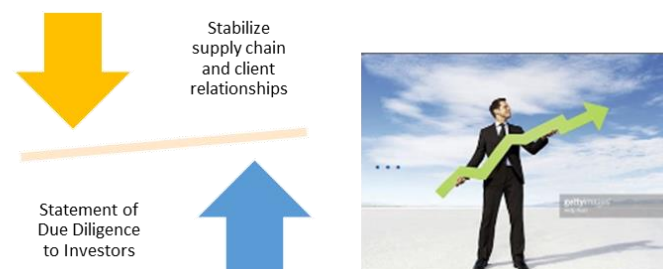
■ Ensure employees' safety and continuing execution of their duties

Preventive measures	Detail items of important management
Measure body temperatures	People coming in Davicom Building are required to pass temperature measurement and disinfect their hands. There are forehead thermometers and medical kits on each floor of Davicom Building; there is sufficient inventory of alcohol disinfectant and medical face masks.
Life-supporting equipment	Supply of disinfecting materials for sufficient disinfection of working space, pantry rooms and restrooms on each floor.
Employees were assigned to work on different floors (remotely)	<ol style="list-style-type: none"> 1. Announce ways of transferring official documents to cope with COVID-19 pandemic. 2. Require certain social distance among people in public space. 3. Maintain original one-hour flexible time of going to/off work to reduce time of contact among employees on duty. 4. Encourage employees living in areas with severe pandemic conditions to apply for remote working. 5. Restrict employees on each floor to use designated public elevators. 6. Announcement regarding COVID-19 preventive measures include restriction of the number of passengers in a public elevator. 7. Propagandize use of communication software for meetings as much as possible.
Reported records of a COVID-19 infection suspect's visiting places and personally contacting other people	Every employee is required to personally report body temperature and body health conditions after he or she go to work on weekdays. If employees have personally contacted COVID-19 infected people or have been regarded as persons with high risks of being infected, they should notify the company/human resource unit and execute preventive measures as required by the Taiwan government
Rapid antigen screening at home	Procure Fora/Vtrust COVID-19 antigen self-test reagents and arrange employees' self-screening. In line with the policy of working on different floors, designate some employees to help others undertake self-screening and interpret results.
Disease alert	Transfer information on footprint of COVID-19 infection cases released by the Central Epidemic Command Center to remind employees of careful prevention. After assigning employees to work on different floors, remind employees of not freely and casually going to other floors nor conversing in elevators.

Market competition strategy and client management



Through continuous learning, innovation, and optimization of business processes, the company also establishes robust resilience and adaptive mechanisms to respond to environmental changes. By reserving funds, maintaining effective communication, diversifying business operations, rigorously implementing PDCA, and establishing risk management mechanisms, Davicom remains flexible and steady in the face of various challenges.



3.5 Identification and Management of Operational Risks

The company's internal audit operations cover eight major cycles, including sales and collections, procurement and payments, production, payroll, financing, property, plant and equipment, investments, and R&D, with 57 control items. Additionally, 28 control tasks related to electronic data processing and daily management are identified for risk recognition, evaluation, and analysis of their significance to the company's operations. This serves as the basis for monitoring and supervision, strengthening the management of operational risks and the effectiveness of internal controls.

Top Five Operational Risk Analysis Results for 2023

No.	Category of Risk	Score	Content of Strengthen management
1	Sales and collection cycle	53	<ul style="list-style-type: none"> •Stringent selection of agents •Control of credit limits
2	R&D cycle	43	<ul style="list-style-type: none"> • Evaluation of new product ROE for reasonable profitability •Assessment of new product sales contribution against expectations
3	Production cycle	29	<ul style="list-style-type: none"> •Supplier sustainability policies •Supplier capacity and quality
4	Acquisition and payment cycle	28	<ul style="list-style-type: none"> •Adoption of digital management •Regular and ad-hoc audits
5	Payroll cycle	9	<ul style="list-style-type: none"> •Review of employee compensation regulations •Enhanced performance management

Note: The operational risk analysis results are based on the evaluations conducted by members of Davicom's Internal Control Committee, using a Likert scale on 15 items, including eight cycles and seven controls.

Operational risk management mechanism: Guiding principles → our internal control rules

Items of affairs	Items under evaluation	Order in terms of importance	Methods of coping with
Sales and collection	Credit management, order processing, shipping operations, delivery management, shipping confirmation, shipping documentation, packaging operations, invoice issuance, invoice cancellation requests, accounts receivable, letter of credit operations, collection operations, client complaint handling, analysis of complaint cases, return handling communication, return/replacement processing, completion of complaint cases, and sales returns and allowances.	1. Credit management	Orders are subject to approval by appropriate supervisors
		2. Processing of orders	Control line of credit.
		3. Operation for shipments	Complete documentation and punctual deliveries are required.
R&D	New product planning, design and layout, product trial production, design verification, product development and data filing, verification of product production, new product release	1. New product planning	1. Control schedule of product development. 2. Cater to market demand. 3. Keep scheduling, cost and benefits under control.
		2. Design and layout	
		3. New product release	
Production	Operation for planned production, outsourced processing, operation for warehousing management, outsourced quality control operation, calculation of production cost and operation for differential analysis, analysis of stock age and sluggishness	1. Operation for planned production	1. Planned production (begin production upon receiving orders). 2. Sufficient inquiry about, comparison and negotiation of prices. 3. Strictly control quality and the number of suppliers. 4. Safety indication on products.
		2. Inventory aging and obsolescence analysis	
		3. Warehouse management operations.	
Acquisition and payment	Operation for general procurement, production procurement, engineering control, importation, inspection and acceptance, failure to comply with contracts, payment	1. Production procurement	Mutually linked to and audited with production cycle.
		2. Operation for payment	
		3. Operation for inspection and acceptance	
Payroll cycle	Human resource planning, unit staffing needs, recruitment, selection, hiring, training, attendance, performance evaluation, promotion, transfer, rewards and penalties, compensation, benefits, resignation, layoffs, leave of absence, and retirement operations.	1. Human resource planning	1. Analyze the current and future human resource supply and demand situation to inform the next year's staffing needs and recruitment planning. 2. Employment applications must be properly approved before execution. 3. Training plans and further education applications must be appropriately approved before execution. 4. Departmental/individual performance evaluations must be appropriately approved before execution.
		2. Training	
		3. Performance evaluation	

3.6 Understanding of Climate Change Risks and Related Opportunities

In response to global climate change and the transition to a low-carbon economy, Davicom has proactively addressed the potential risks and opportunities that climate change may bring. To enhance the transparency of climate-related risk and opportunity disclosures, Davicom has referenced the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The company has analyzed risks and opportunities across various dimensions, including government policies and regulations, market and technological shifts, as well as reputational and physical risks, to develop strategies for adaptation and mitigation.

TCFD Disclosure Framework and Davicom 's Management Practice

Governance	Strategies
<ul style="list-style-type: none"> ➤ Board of directors and function-specific committees: Supervise climate change risks and opportunities, execution of responsive strategies and related plans as well as actual achievement in terms of set goals, including product research and development and budget execution, budget amendment and addition, auditing of cost and benefits, tracking of performance. ➤ Corporate risk management committee: Coordinates the company's operating units concerned to jointly review internal and external risks (including climate change risks) that the company is faced with and develop responsive strategies specific to the company's material risk topics, and reports to board of directors every year. ➤ Sustainability committee: Proposes and executes vision, duties and system of our corporate social responsibility or related management guidelines as well as substantial promoting plans (including climate change), and reports execution of climate change-related promoting plans and corresponding results to board of directors every year. 	<ul style="list-style-type: none"> ➤ According to Davicom 's climate change risk and opportunity assessment methodology, the short term is defined as within 3 years, the mid-term within 10 years, and the long term as beyond 10 years. Davicom has formulated a climate change policy as the company's highest guiding principle in response to climate change, and has established a low-carbon commitment to guide the overall project implementation strategy. ➤ Following the TCFD framework, Davicom analyzes the impact and contributions of climate change risks and opportunities on operations. ➤ Closely monitoring major upstream suppliers' climate risk analyses under various scenarios. These include considering the International Energy Agency's 2°C Scenario (IEA 2DS), Announced Pledges Scenario (IEA APS), and Stated Policies Scenario (IEA STEPS), as well as the Intergovernmental Panel on Climate Change's (IPCC) AR5 RCP8.5, AR6 SSP1-2.6, and SSP5-8.5 physical scenarios, adjusting product design directions in line with Davicom's sustainability goals.
Risk management	Indicators/indexes and objectives
<ul style="list-style-type: none"> ➤ Through identifying policies, regulations, shifts in market and technology, goodwill and substantial risks which are likely to be derived from different scenarios, we undertake analysis of risks and opportunities in these aspects. Assess our operations and upstream and downstream value chain (such as suppliers and clients). ➤ Through the participation of relevant departments in assessing climate change risks and opportunities, Davicom has identified the top three risks and formulated corresponding adaptation and mitigation strategies. The overall assessment results and related response measures are submitted to the Corporate Sustainability Committee for approval. Davicom has established climate-related risk and opportunity assessment management indicators, including water usage, energy consumption, greenhouse gas emissions, and the development of low-energy consumption product technologies. ➤ Emission-related information has been audited in accordance with the Greenhouse Gas Protocol and ISO 14064-1 standards and will be verified by a third party within the statutory deadline. 	<ul style="list-style-type: none"> ➤ Davicom has established management indicators for assessing climate-related risks and opportunities, including water usage, energy consumption, greenhouse gas emissions, and the development of low-energy consumption product technologies. ➤ Emission-related information has been inventoried in accordance with the Greenhouse Gas Protocol and ISO 14064 standards and will be verified by a third party within the statutory deadline, ensuring compliance with regulations. ➤ Every year, Davicom reviews changes in policies, regulations, technology, market conditions, and reputational risks and opportunities in the context of transition risk. Every three to five years, during updates to the IPCC climate scenarios and Taiwan Climate Change Projection Information and Adaptation Knowledge Platform (TCCIP), Davicom revisits the results of physical and transition risk and opportunity assessments, making rolling adjustments as necessary. ➤ Set key climate KPIs for 2025 and 2030, including greenhouse gas reduction, renewable energy, water and electricity conservation, and product design. The greenhouse gas reduction targets include achieving net zero emissions by 2050 and science-based targets by 2030.

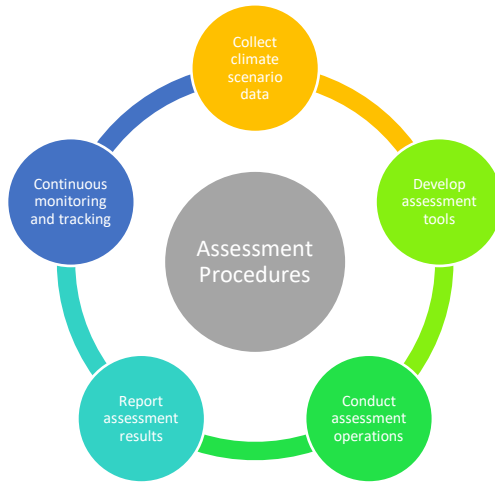
Climate change risk and opportunity assessment reporting mechanism

Each year, the Sustainable Development Task Force conducts assessment work, develops adaptation and mitigation strategies, and submits the assessment results for approval by the Risk Management Committee. If the assessment results identify company-wide major risk issues, the Risk Management Committee will simultaneously incorporate them into management and regularly track the progress of response measures, reporting to the Sustainability committee for decision-making, the Auditing committee for supervision, and the Board of Directors.



Significant recent matters related to climate risk and opportunity management.

Management requires that external wafer manufacturing suppliers must have substantial emission reductions to ensure products meet carbon reduction targets.	In 2023, the Board of Directors formulated the "Davicom Sustainable Development Best Practice Principles " (to be approved in early 2024), including enhancing energy use and Scope 3 greenhouse gas emissions management.	In 2022, the Board approved linking employee compensation with ESG KPIs, including climate change-related indicators. The results were audited in 2023, with all targets met.
In 2021, multiple climate change-related sustainable strategy blueprints, including short, medium, and long-term goals and action plans, were established. The Sustainability committee reviews the achievement of these targets semi-annually, with the goals for 2022 and 2023 fully achieved.	Planning to participate in the international renewable energy initiative "RE100" to set a phased goal of a 30% reduction in collaboration with major suppliers by 2030 and achieving 100% renewable energy use by 2050.	Davicom aims to achieve a 50% reduction in carbon emissions by 2030, based on carbon footprint reports from major suppliers.



Climate change risk assessment procedures

Assessment Procedures	Explanation.
Collect climate scenario data	Refer to the International Energy Agency's 2DS, APS, STEPS transition risk scenarios, the Intergovernmental Panel on Climate Change's (IPCC) AR5 and AR6 reports, and government downscaling simulations for physical risk scenarios, gathering and updating climate simulation data.
Develop assessment tools	Reference ISO 14090 Adaptation to Climate Change, the United Kingdom Climate Impact Programme (UKCIP), and the TCFD to develop climate change risk and opportunity assessment methodologies.
Conduct assessment operations	Invite relevant departments to participate in climate change risk and opportunity assessments, developing adaptation and mitigation strategies for identified risks.
Report assessment results	Submit the assessment results and corresponding measures to the Corporate Sustainability Committee for approval.
Continuous monitoring and tracking	Regularly review the effectiveness of risk mitigation and adaptation measures through the TCFD assessment process to achieve management objectives.



Transitional Risk

- 1 Regulation on greenhouse gas emissions leading to carbon fees/taxes.
- 2 Customer demand for low-carbon strategies to align with trends.
- 3 Corporate reputation impact.
- 4 Increased investment and operational costs due to green energy policies.
- 5 Uncertainty in infrastructure supply resilience.
- 6 Water consumption fees during drought periods.
- 7 Focus on R&D for low-energy/low-carbon products.

(Note: Items marked in red are the top three risks.)

Physical Risk

- 8 Global warming leading to increased electricity consumption.
- 9 Strong typhoons/extreme rainfall increasing the frequency of work stoppages and voltage drops.
- 10 Extreme weather raising supply chain coordination costs.
- 11 Droughts severely impacting production.

Opportunity

- 12 Increased market demand for environmentally friendly products.
- 13 Opportunities for carbon trading and offsets.
- 14 Strengthening hardware protection to enhance climate resilience.
- 15 Improving energy efficiency of facility operations.

Dimension of Risks	Category	Risk	Description of Risks	Affected Regions	Davicom 's Response Measures
Transition risk	Policies and Regulations	Greenhouse gas emission control, The imposition of carbon fees/taxes	The imposition of carbon fees/taxes, and rate increases lead to higher operational costs.	Taiwan, Europe, and the United States	<ul style="list-style-type: none"> • Implement greenhouse gas reduction initiatives, such as reducing fluorinated greenhouse gases and energy-saving projects. • Participate in government's voluntary greenhouse gas emission reduction projects • Apply for carbon offset projects to secure carbon credits. • Develop in-house solar power generation facilities. • Purchase green electricity or green electricity certificates. • Evaluate the introduction of carbon-negative technologies to promote net-zero emissions. • Engage in carbon trading markets to purchase carbon credits for offsetting.
		Green energy policies also contribute to increased investment and operational costs	Electricity price hikes	Taiwan	<ul style="list-style-type: none"> • Expand energy-saving initiatives • Increase self-built renewable energy and energy storage facilities. • Purchase renewable energy certificates.
Physical risk	Immediacy	Extreme climate events elevate supply chain coordination costs	Extreme climate changes disrupt transportation, escalating product logistics and supply chain management expenses.	Taiwan	<ul style="list-style-type: none"> • Establishment of a risk detection mechanism to proactively prevent and manage these challenges. • Monitor supplier production areas and key transportation nodes. • Manage supplier capacity information to preemptively assess supply and demand dynamics. • Conduct supplier risk assessments to avoid or minimize procurement from high-risk areas. • Establish diversified transportation routes and avoid high-risk paths. • Increase internal storage capacity.

Top Three Climate Risks and Corresponding Responses

In addition to identifying climate change risks, Davicom has conducted potential financial impact analyses across various regions, listing the financial implications of the "greenhouse gas emission control and carbon tax/carbon fee risks" as follows :

- Greenhouse gas emission control and carbon tax/carbon fee risk.
- In Taiwan, the imposition of carbon fees is assumed at NT\$300 per ton, which may lead to cost transfers from upstream suppliers (such as wafer manufacturers) to contracted foundries, with the carbon fee burden shared by the company.
- In mainland China, the imposition of carbon fees is currently assessed as low-risk in the short term. In the mid-term, the assumed rate is NT\$300 per ton.
- The European Union's Carbon Border Adjustment Mechanism (CBAM) and the United States' Clean Competition Act (CCA) are expected to have no short-term impact on the company. In the mid-term, an assumed rate of NT\$300 per ton is projected.

3.7 Management for Information and Communication Security

Davicom aims to build a rigorous and effective cybersecurity defense network as part of its cybersecurity governance vision, appointing a cybersecurity officer to oversee cybersecurity matters. Based on cybersecurity governance consistency, the company gradually enhances its comprehensive protection capabilities, striving to become an enterprise with outstanding cybersecurity governance maturity. Its management processes include four major categories: information asset classification, email usage, physical environment security, and computer usage security.

Category	Davicom 's Response Measures
Information asset classification	<ol style="list-style-type: none"> 1. People: Including all employees and outsourced suppliers. 2. Document: Paper-based documents, data, reports, forms and tables including official documents, printed tables, forms, plans used in projects. 3. Software: Operating systems, application system programs, packaged software, etc. including source codes, application codes, databases, etc. 4. Communication: Networking equipment, networking security equipment, information transmission/switch lines or services. 5. Hardware: Main equipment and related hardware facilities. 6. Data: Digital information stored in hard disks, magnetic tapes, optical discs., etc. 7. Environment: Related infrastructure and services including offices, rooms to house information equipment, electric facilities, firefighting facilities etc.
E-mail usage	<ol style="list-style-type: none"> 1. Use of e-mail to transfer electronic documents classified as above “confidential” (secret or top secret) is prohibited. 2. Documents containing personal data have to be encrypted for transfer. 3. E-mail should be attached with signatures to avoid anonymity or forgery. 4. E-mail should not be used to infringe on other people’s rights or interests or in illegal behavior. 5. Formulate regulation on using the Internet to include clauses concerning restricted use of e-mail.
Physical environment security	<ol style="list-style-type: none"> 1. In order to ensure equipment and information security. Adopt safety doors equipped with functions of personal recognition for the purpose of entrance control. 2. Except managing staffs of information equipment rooms, other people who need to come into such rooms should be accompanied by members of staffs and their names and purposes should be recorded. 3. When employees come into information equipment rooms, they have to notice whether there are unauthorized persons following them. 4. Outside people or outsourced suppliers’ employees coming into the company for business purposes have to bear the company’s identification cards and work in designated environment. 5. Protect sources of power supply to avoid failure in power supply and disruption of supply of supporting public services. 6. In information equipment rooms, temperatures are controlled at 18-28 degrees Celsius and humidity at 30-70%. 7. Special fire extinguishing equipment is installed in information equipment rooms. 8. Sign maintenance contracts with qualified professional providers for regularly maintaining important equipment in information equipment rooms.
Computer usage security	<ol style="list-style-type: none"> 1. According to security control regulation regarding desktop and screen clearance, undertake desktop clearance and place important documents in safekeeping. 2. When saving information in mobile devices and portable media, encrypt the information or adopt protective measures pursuant to regulation on removable media so as to avoid leakage of the information if mobile devices and portable media are lost. 3. According to regulation on disposal of information assets, storage of information and data classified as confidential, restricted use, internal use in any form should be in locked areas for safekeeping. 4. According to testing/formal environment for application systems and security maintenance rules for databases, it is necessary to separate sensitive systems. 5. Sealed personal data, paper-based documents and portable storage media, when not in use or in off-duty time, should be placed in drawers or cabinets and lock the drawers or cabinets in compliance with desktop clearance policy.