

# Risk Management



We think that an effective management for a sustainable corporate, must comprehensively evaluate and control related risks. For this, we have established complete risk management mechanisms, to distinguish and evaluate possible risks during daily operations of the corporation, and respond to the risks and related control.



New Far Eastern New Century has established Auditing Department, the main goal of which is to effectively control risk. The unit also helps to strengthen the corporation's internal control institutions. The unit aims to reduce errors, prevent corruption, and improve operational achievements, and actively protects and benefits the corporation's overall interests.

## Financial Risk Management

The capital management of Far Eastern New Century mainly includes daily cashier operations and short-term financial management. Cashier work mainly focuses on organizing and predicting each item of the corporation's daily revenue and expenses, executing various forms of income and expense payments, and service operations. On the other hand, short-term financial management mainly focuses on borrowing needed operational capital from financial institutions, or using extra capital to repay loans.

Currently, some of the financial institutions with which we mainly engage in business transactions include local and overseas banks, and finance bills corporations. Our main financing tools are bank loans and the issuing of commercial papers. Our main financial management methods when we have excessive capital include investment tools such as time deposits, repurchasing commercial papers, and money market funds.

### ● Cash flow management

Cash flow management is closely linked to all kinds of operational activities. In order to fully grasp our corporate cash flow we regularly analyze information related to our operational, investment, and finance activities, and effectively predict future cash flows.

### ● Risk management of foreign exchange

Because Far Eastern New Century's exports bring it foreign currency income, if there is a net position of foreign exchange after subtracting foreign exchange debts, we will use the exchange rate at the time of entry into the accounts, and avoid risks of the use of cash commodities and forward exchange contracts, reducing the impact of currency rate fluctuations to our corporation.

### ● Financing of capital market

In order to improve operational adaptability, decentralize financing channels, and strictly control the risks inherent in interest rate rises, our financial department will examine the statuses of capital markets and cash flows, looking for opportunities to issue domestic and overseas long-term fixed interest rate bonds such as straight, convertible, and exchangeable bonds. This will strengthen financial structures and reserve capitals according to future capital needs.

## Internal Risk Control

The internal control system of Far Eastern New Century was established by the board, and through the execution of managerial procedures by the board, managers, and other employees, its goal is to advance the complete operation of the corporation, and appropriately ensure the achievement of the following goals:

1. Operational results and efficiency, including profits, achievements, and capital safety guarantees
2. Reliability of financial reports
3. Compliance with relevant legal regulations

Operational Chart of Internal Control System



New Far Eastern New Century has established Auditing Department, the main goal of which is to effectively control risk. The unit also helps to strengthen the corporation's internal control institutions. The unit aims to reduce errors, prevent corruption, and improve operational achievements, and actively protects and benefits the corporation's overall interests. Annually we present an auditing plan (including the auditing of corporate social responsibility issues) to supervisors and directors for checking and approval so that the board, supervisors and management understand the results of auditing and the state of follow up progress, and engage in good communication.

### Auditing of Corporate Social Responsibility Topics

Topic	Explanation
A. Occupational health and safety	In order to enhance the protection of the safety of our employees and contract workers we audit many categories of occupational and labor safety.
B. Production management	We conduct sustained supervision and control of production efficiency and operation, providing recommendations for procedural improvements, coordinating the views of production units and encouraging communication.
C. Energy saving and carbon emission reducing	<ul style="list-style-type: none"> <li>● We participate in energy saving and carbon emission reducing group, and conduct related work.</li> <li>● We participate in greenhouse gases inventory.</li> </ul>
D. Supplier management	<ul style="list-style-type: none"> <li>● On an irregular basis we cooperate with FEG Purchasing Department and conduct supplier visits and issue reports.</li> <li>● On an irregular basis we cooperate with FEG Purchasing Department and conduct supplier complaint processing.</li> </ul>
E. Customer relationship management	We conduct audits of sales and production departments regarding customer complaints, making sure that all complaints are appropriately processed, then giving our recommendations.
F. Corporate governance	<ul style="list-style-type: none"> <li>● We undertake managerial operational audits of board meetings, and make sure they operate according to legal statutes and don't violate regulations regarding conflicts of interest.</li> <li>● We conduct audits of important internal information processing, ensuring that the protection and procedures of important internal information are appropriately controlled.</li> <li>● We conduct operational managerial audits of the "Remuneration Committee", and make sure it operates in accordance with regulations.</li> </ul>

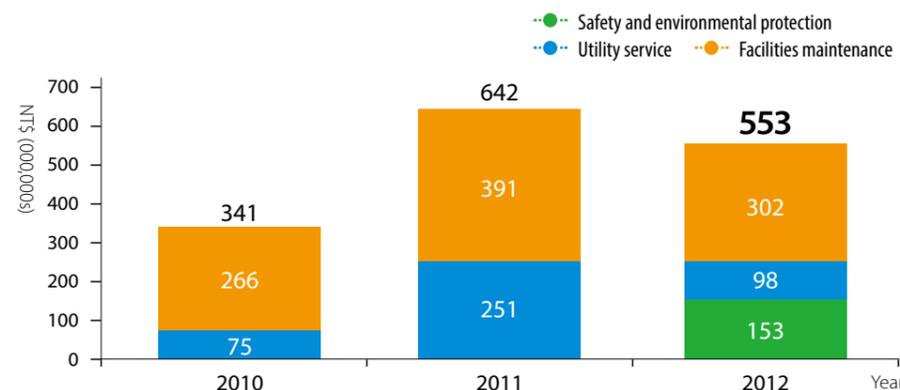
# Climate Change Risk Management

The natural disasters of recent years caused by climate change (e.g. severe storms and droughts) can all harm the supply of raw material and factory areas. As Far Eastern New Century owns many factories and office buildings, we are exposed to the risks of climate change. We effectively use insurance to respond to and control these risks.

Since 2011 we have started pushing through our "risk adaptation plan" in all our factories and formulating a "managerial method of emergency preparation and adaptability." This includes our "emergency adaptability procedures for fire hazards and explosions" and "emergency processing procedures for natural disasters." These are the emergency adaptability mechanisms for when disasters occur, and we hope they can effectively reduce the damages potentially inflicted by typhoons, floods, fire, or earthquakes, and lower insurance expense.



## Risk Management and Capital Expenses



## Ratio of Risk Management and Related Capital Expenses to Total Capital Expense



Note: The amount of capital expense is the budget of capital expenses passed by the board that year.

# Legal Risk Management

We comply with relevant legal policies as a basic social responsibility. Our main legal risks include:

1. Violations of regulations by people who are unaware of legal regulations or changes in legal regulations, resulting in lawsuits and corporate losses.
2. Contracts that are detrimental to the corporation or damage the corporation's rights and benefits.

Because of this, we always pay close attention to the impact on operations of important domestic and international policies and changes in the law. We also formulate coping measures to avoid violations of relevant legal policies. The relevant strategies include:



- We ensure that the contents of the contracts signed by the corporation are clear, fair, and legal.
- Through the evaluation of all types of contracts and the provision of legal consultation, we plan relevant rights and obligations, lowering, transferring, or avoiding risks.
- Through the processing and management of our legal department, we make sure that legal cases can comply with policies in a timely manner and receive beneficial results.
- We process all kinds of conflicts and legal cases caused by contracts and controversial issues, lowering, transferring, and avoiding damage.

## Legal Education Training and Propaganda

In order for all employees to understand the legal standards they could possibly come across and to avoid the risks caused by disparities in messages, Far Eastern New Century legal department will report all cases it sees on the job, analyze them on a case-by-case basis and according to legal regulations, and regularly publish them as electronic legal policies for employees' reference when they're processing related work in the future.

We also analyze related legal knowledge and cases. Through our internal Far Eastern Magazine we then share these with employees in our affiliated enterprises, improving their legal knowledge.

In 2011 we conducted the seven-hour training course "Introduction and Case Sharing to Controversial Issues in labor and management relations." Not only do we reinforce the knowledge of our employees regarding relevant labor regulations, we also strengthen the protection of our employees' labor rights and benefits.

In 2012 we conducted five training courses for "Introduction to the New Personal Data Protection Regulations and Corporate and Personal Response Measures", actively promoting relevant legal regulations in order to protect the corporation's rights and benefits.



## Credit Risk Management



We take "zero bad debts" as our goal of credit risk management, and we implement control of customer credit and account receivables. The relevant control and response measures and mechanisms are as follows:

1. We work with domestic and international credit agencies to promptly grasp the operational statuses of customers' credit.
2. We sign contracts with account receivable insurance companies to spread the credit risks involved inherent in exporting.
3. We regularly conduct credit investigation team and credit committee meetings to evaluate the level of customer credits and the risks of managerial credit.
4. We regularly revise relevant methods of credit management and respond to external changes in the environment.
5. We adopt relevant management measures. For example, we established supervisory lists, reduced credit amounts, and took out credit insurance in order to respond to the possible credit risks caused by the global financial crisis of 2007-08 and the European debt crisis.
6. We regularly publish "National Risk Reports" to help business units develop advance risk evaluations and post-event risk management when engaging in export trading. This is in order to in good time set off the warning mechanisms for high-risk export countries and reap the benefits of export credit risk management.

## Intellectual Property Rights Management

We place great emphasis on intellectual property rights, and below we will explain the following four aspects of patents, trademarks, copyrights, and business secrets.

### Patents

1. Patent searches are conducted on all patent cases prior to application, and all applications are requested to fully implement all the listed items on the "Patent Content Disclosure Manual" and then submit the applications, in order to avoid infringement of rights.
2. We keep in continual touch with all units, and fully understand the application demands.
3. We cooperate with patent firms from various areas of expertise. In order to ensure the quality and protection of patent applications we select cooperation partners according to their professional characteristics.
4. We keep managing and monitoring the patent database system, and strengthening our contact confirmation with partner firms to lower the risks of patent capital losses.

### Trademarks

1. In order to avoid ineffective application and infringement of rights, all our trademarked cases are inspected by trademark firms before application.
2. We maintain a sustained understanding of the status of demand for corporate product trademark applications.
3. To ensure the quality and protection of our trademark application cases, all our trademark cases must be processed by our legal department or trademark firms.
4. We keep managing and monitoring the trademark database system, and strengthening our contact confirmation with partner firms to lower the risks of patent capital losses.

### Copyrights

1. The signing of contracts is strictly required for all cases involving copyrights ownership.
2. Regardless of whether employees have completed their work on the job or pay others to finish the work, Far Eastern New Century should be clearly stated as the publisher in order to avoid risks produced by future use.
3. Contracts that involve copyright should clearly request companies to independently complete the work without plagiarism. In order to avoid controversies surrounding rights infringements, if there are matters which require authorization from other people then it should be guaranteed that they have already gained legal authorization.

### Business Secrets

Before cooperating with other companies or conducting business negotiations all units within the corporation should sign confidentiality agreements in order to ensure the protection of the relevant business secrets and information disclosed by Far Eastern New Century.

## Information Security Control

In order to maintain the normal operation of network information systems, ensure the safety of network information transfers and trade, and protect the confidentiality and completeness of Far Eastern New Century's information processing, in 2007 have established the internal "The Supervisory Committee of Information Safety." In order to ensure the security of information, systems, facilities, and networks, this committee is responsible for the promotion and coordination of all kinds of information security matters, policy formulations, and taskforces.

Having referred to the international standards ISO/IEC17799:2000 and BS7799-2:2002, we have stipulated information policies and regulations for Far Eastern New Century's employees, temporary workers, and overseas staff.

With regards to control and management, each year we conduct a self-evaluation of all kinds of control operations listed below to make sure all operations meet information security standards. It includes:

- Risk management
- System development, procurement, and maintenance
- Information system processing
- Safety control and management of computer facilities, system software, and network systems

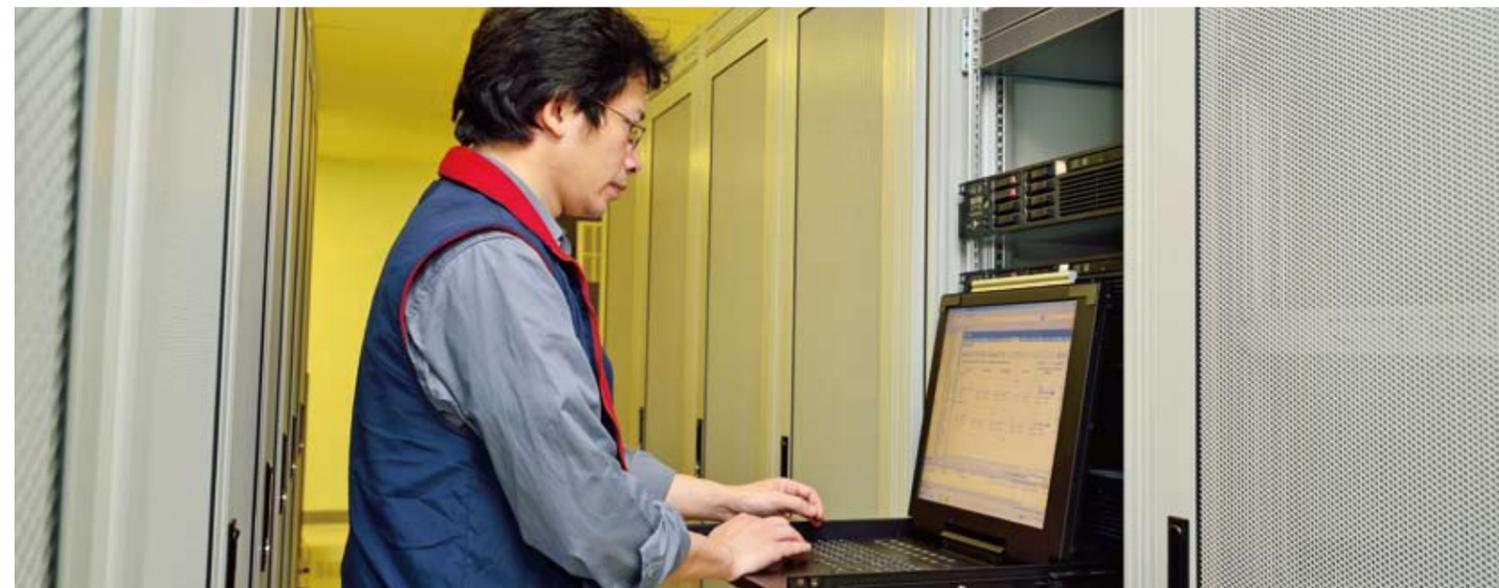
In addition to this, to make sure that all computer operations meet the standards of safety and legal regulations, each year we engage the services of an external unit to conduct inspections of information centers' computer system structures; operational procedures; information security policies; account control and management of authoritative limits; developmental management of systems and patterns; management of transaction records; batch operations and information transfers; regular maintained operations; and information backups.

### Information Security Training and Guidance (Information Center)

We cooperate with the "Information Safety Sub-committee" working under the "IT Committee" to promote various information security policies and promote personal data protection policies. The main items are as follows:

- Each season we hold meetings of the "IT Committee" and provide training and guidance on information security and personal data regulations.
- We adhere to information security and personal data policies stipulated by the information security teams.
- We cooperate with information security teams to announce various information security reports, and reinforce internal information management, warning mechanisms, and protection work within the corporation.

## Personal Data Management



In response to the personal data protection regulations implemented in 2011, we have tried to lessen its influence and keep its impact to a minimum.

1. In 2010, after the personal data protection regulations were revised and passed, we conducted seminars focusing on Far Eastern New Century and affiliated corporations. We transmitted information on all the measures in the new regulations, and strengthened employees' knowledge of new regulations.
2. In 2012 we actively participated in relevant seminars on personal information regulations and the implementation of detailed law revisions, planning related response strategies:
  - (1) We took an inventory of internal personal information and conducted investigations of the internal control situation.
  - (2) Based on the results of the investigations we stipulated the "Manual for Personal Data Protection Management Methods and Information Security Management."
  - (3) We have established adaptability processing mechanisms in case of leakage of personal information.
  - (4) We have promoted and implemented maintenance systems of personal data security (including employee training, information security systems, and legal policy guidance).
  - (5) We have integrated the results of Far Eastern New Century's response strategies, and helped affiliated corporations together to establish related responding measures.
3. In 2012 we conducted numerous seminars on personal data protection mechanisms within the company and at affiliated corporations. We actively promoted relevant legal policies in order to protect the rights and benefits of the corporation.
4. We have stipulated response policies within the personal data regulations in all kinds of contracts, and have fully implemented related policies.