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Corporate Governance and Risk Management



Achievement of Short-, Medium-, and Long-term Plans and Goals for Material Topics in Corporate Governance

Timeline	Short-term metrics (2024 - 2025)	Medium-term metrics (2026 - 2029)	Long-term metrics (after 2030)
Corporate governance	The Company's corporate governance evaluation ranking is in the 36th to 50th percentile among all listed companies.	The Company's corporate governance evaluation ranking is in the 36th to 50th percentile among all listed companies.	The Company's corporate governance evaluation ranking is in the 21th to 35th percentile among all listed companies.
Compliance	0 violation of the Company Act or tax regulations	0 violation of the Company Act or tax regulations	0 violation of the Company Act or tax regulations

Material issue objective and performance: Corporate governance and business integrity

Kaori is committed to corporate governance and sustainable management, adhering to the principles of business integrity and transparency in information disclosure. The company follows regulations, enhances operational performance, strengthens internal controls and personnel management mechanisms, and maintains ISO management system certifications. This is all part of fostering a high-quality corporate culture that embodies the Company's business philosophy and ethical standards. The goals and performance related to key issues are outlined as follows:

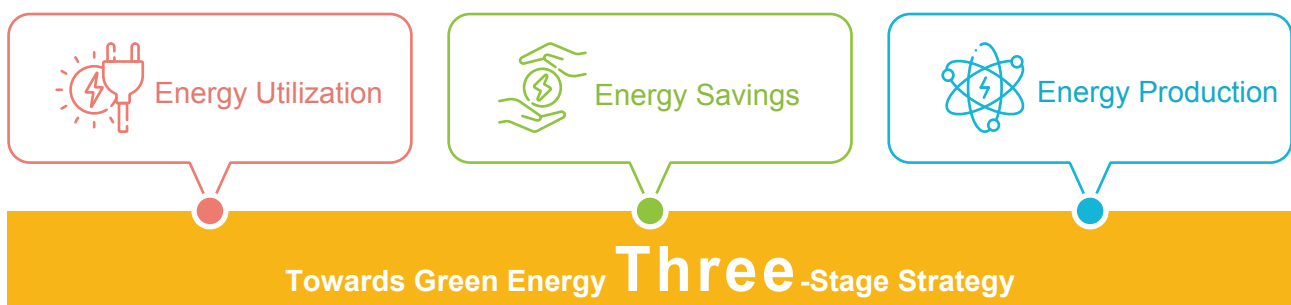
	2024 Goals	2024 Performance Achievement Level	2025 Goals
Corporate governance	The Company's corporate governance evaluation ranking is in the 36th to 50th percentile among all listed companies.	51% - 65% → Not achieved ^(Note)	The Company's corporate governance evaluation ranking is in the 36th to 50th percentile among all listed companies.
Compliance	0 violation of the Company Act or tax regulations	0 cases → Achieved	0 violation of the Company Act or tax regulations

Note: For an explanation of the reasons for unmet targets, please refer to Section 2.2.4 Corporate Governance Practices and Future Plans

2.1 Company Profile

2.1.1 Company Profile

Kaori Heat Treatment Co., Ltd. (TWSE code: 8996) was founded in 1970 with the mission to promote green energy. It is the only business in Taiwan that is concurrently involved in the “use”, “conservation”, and “generation of energy”. Today, Kaori has successfully established its expertise in energy conservation and environmental protection. Over the years, Kaori has been aligning its technology and quality with international markets. In addition to gaining experience through partnerships with global industry leaders, Kaori's equipment is on par with that of advanced countries like the United States, Germany, and Japan. To meet the stringent regulatory standards of major international companies, the Company continues to innovate and transform. To date, Kaori's products have been sold in over 90 countries, with a rapidly growing global customer base, making it the preferred partner for international green energy development companies.



All of the Group's core business activities revolve around energy conservation and green energy, with the main products including plate heat exchangers and critical components for stationary Solid Oxide Fuel Cell (SOFCs). Kaori also offers next-generation green low-carbon solutions through two major technologies: water cooling and immersion liquid cooling and hydrogen power. These efforts support industrial upgrading and align with global trends towards net-zero emissions, environmental friendliness, and sustainable development. The basic information about the Company is as follows:

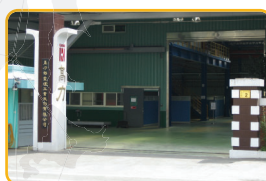
Company Profile

	Company Name	Kaori Heat Treatment Co., Ltd.		Chairman	Chih-Hsiung Wu
	Capital	NTD 910 million (February 8, 2025)		Vice Chairman	Hsien-Fu Han
	Date of establishment	October 11, 1970		General manager	Hsin-Wu Wang
	Employee count	644 (in Taiwan as of December 31, 2023)		Headquarters	No. 5-2, Jilin North Road, Zhongli District, Taoyuan City
	Main products and technologies	Brazen plate heat exchangers, gasket plate heat exchangers, key components for solid oxide fuel cells (SOFCs), water cooling and immersion server cooling technology, and hydrogen power technology (methanol-based hydrogen/heat generation, power generation, purification of industrial waste hydrogen)			
				Operating locations	Zhongli Plant 1, Zhongli Plant 2, operating headquarters and Zhongli Plant 3, Zhongli Ziqiang Plant, Kaohsiung Benzhou Plant, Zhejiang Ningbo Plant

The operating headquarters and plants are shown in the figure below:



Operations Headquarters



Zhongli Plant 1



Zhongli Plant 2



Zhongli Plant 3



Zhongli Ziqiang Plant



Kaohsiung Ben-Chou Plant

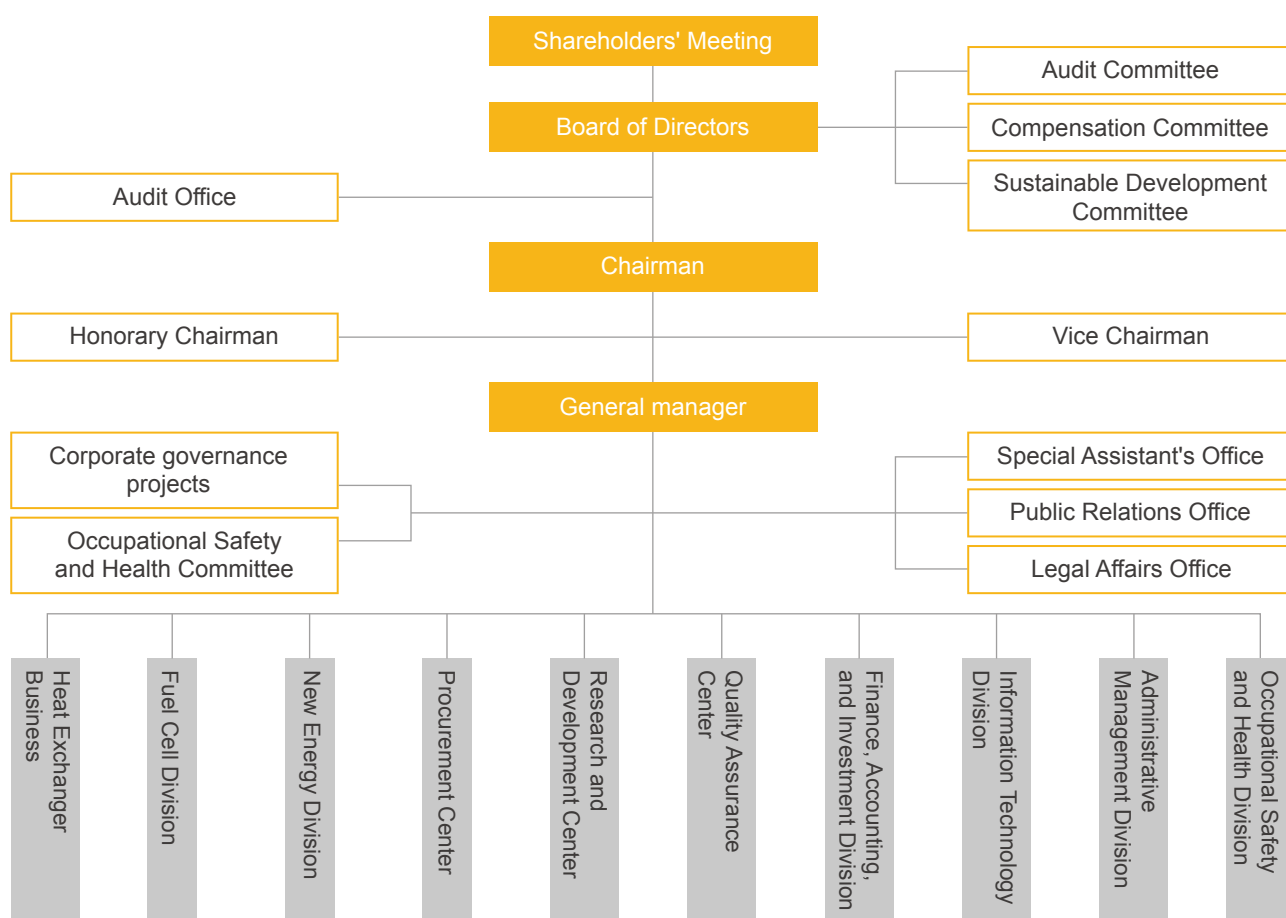


China Ningbo Plant

Establishment of the Company and Major Milestones

Year	Establishment of the Company and Major Milestones
1970	The Company was founded on October 11.
1994	Independently developed brazed plate heat exchangers
2008	Critical heat exchange system for fuel cells, hydrogen fuel cell power generation system
2018	Established a Thermal Department and introduced immersion server cooling system
2021	Integrated energy solutions into sustainability
2022	- Kaori hosted the "Immersion Cooling Technology Forum," during which it invited guest speakers from the industry, government agencies, and academia to deliver speeches on how low-emission, low-energy, and low-water technologies can be used to help businesses accomplish becoming "carbon neutral." - Expansion of the Kaohsiung Plant was completed, adding 7,841m² of factory premises for a total of 17,269m² - Passed third-party certification for the "ISO 14064-1 Greenhouse Gas Inventory" - The 744.51 kW commercial rooftop photovoltaic system installed at the Kaohsiung Plant began production - The first sustainable supplier exchange meeting was held to introduce a sustainable supply chain management system. - Acquired an invention patent certificate in Taiwan for a "Device and method of disposing and reusing organic waste fluids" - Plate heat exchangers passed Water Regulations Advisory Scheme (WRAS) certification in the UK
2023	- The world's first plate heat exchanger manufacturer to receive a dual certification of ISO 14064-1 for greenhouse gas inventory and ISO 14067 for carbon footprint from a third party. - Founder and Honorary Chairman Han Hsien-Shou was awarded an honorary doctorate from National Changhua University of Education - With a focus on energy-saving digitalization in the manufacturing process, the Kaohsiung Plant and Plant 1 have already implemented semi-automated production equipment, achieving energy savings and improving production management efficiency. - Obtained the ISO 45001 Occupational Health and Safety Management System certification - Promote CPR+AED training for all employees to improve emergency care skills - Obtained third-party validation for the ISO 27001 cybersecurity management standard - Implemented the ISO 14064-1 Greenhouse Gas Inventory for two consecutive years and passed the third-party validation
2024	- The Board of Directors established a functional committee, the "Corporate Sustainable Development Committee" - An extraordinary shareholders' meeting approved the spin-off of the Company's Thermal Business Division, which will be transferred through a spin-off arrangement to a newly established wholly owned subsidiary, Kaori Thermal Technology Co., Ltd. - In 2024, the Company received a Grade B in the international CDP Carbon Disclosure assessment - The Ningbo plant passed the international ISO 14064-1:2018 greenhouse gas inventory verification and was rated as a Three-Star Green Factory by Beilun District, Ningbo City - Implemented the ISO 14064-1 Greenhouse Gas Inventory for three consecutive years and passed the third-party validation - Awarded the "Healthy Workplace Certification - Badge of Accredited Healthy Workplace" by the Health Promotion Administration, Ministry of Health and Welfare - Awarded as an outstanding enterprise in the "Active Evaluation of Occupational Health and Safety Performance Disclosure in Corporate Sustainability Reports" by the Occupational Safety and Health Administration, Ministry of Labor - Conducted the first third-party human rights due diligence and issued a corresponding report

2.1.2 Organizational Structure and Responsibilities



Main duties of each department

Department	Main duties and responsibilities
Special Assistant's Office	- Oversees the establishment, execution, communication, and coordination of the overall goals of the Company - Research, establishment, execution, and tracking of projects and plans
Corporate governance projects	Provides directors and supervisors with correct, useful, and timely information; assists directors and supervisors with duties and supervisory functions; and bridges communication between the Board of directors, business units, and the competent authority
Legal Affairs Office	Legal affairs, litigation, and patent management
Public Relations Office	- Communicates information relating to the organization; responsible for relationship management and the consultation, planning, implementation, and execution of matters relating to the corporate image - Executes corporate sustainability projects and discloses annual sustainability performance to stakeholders
Audit Office	- Establishes and revises the internal audit system - Examines and evaluates the internal control system; raises suggestions and tracks improvements as necessary
Administrative Management Division	- Responsible for personnel and industrial safety management - Assists business departments with equipment maintenance - Assists business departments with engineering works
Information Technology Division	Plans, maintains, controls, and implements the computerized processes within the Company and subsidiaries
Finance, Accounting, and Investment Division	- Responsible for financial, accounting, and tax-related affairs within the Company and subsidiaries - Responsible for budgeting, shareholder services, financial planning, and investment planning within the Company and subsidiaries

Department	Main duties and responsibilities
Quality Assurance Center	- Executes internal and external audits on the quality assurance system and document management - Plans and executes certification tasks
Research and Development Center	- Researches and develops new products and new technologies - Validates feasibility and plans commercialization of R&D results
Procurement Center	Responsible for supplier/contractor management and ensuring balance between quality and occupational safety
New Energy Division	Responsible for the design, development, production, and sale of methanol fuel cell systems, methanol-based hydrogen/heat generation, and industrial waste hydrogen purification solutions
Fuel Cell Division	Responsible for the production and processing of fuel cell components
Heat Exchanger Business	Responsible for the production, sale, stamping, research, and development of brazed and gasket plate heat exchangers

2.2 Corporate governance

2.2.1 Management approach and policies

Topic	Management Approach
 Corporate Governance	Policy Comply with the Company Act and relevant business regulations to ensure the proper functioning of the Board of Directors and maintain profitable operations without losses, thereby safeguarding shareholders' rights.
	Goals The key to successful business management lies in a governance system that is supported by the management, employees, and shareholders.
	Commitment Utilize due diligence and early warning communication methods to implement the Company's established codes, ensuring the protection of stakeholders' interests.
	Measures - Establish the "Corporate Governance Best Practice Principles" system to ensure the structure, agenda, and obligations of the Board of Directors. - Comply with the laws, regulations to ensure the proper composition of the Board of Directors. - In accordance with the "Business Integrity Code of Conduct," a responsible and transparent corporate governance structure is established, and managers operate with integrity. - In order to seek professionalism in business decision-making, the Board of Directors is composed of people with diverse educational backgrounds. - Adhering to the business philosophy of innovation, quality, responsibility, and honor, we are committed to the sustainable governance of innovation quality. - Update material information on the Market Observation Post System at any time to protect the rights and interests of stakeholders.

Based on the business philosophy of innovation, quality, responsibility, and honor, Kaori is committed to achieving sustainable and steady operations. We also emphasize product innovation, quality management, and employee responsibilities and honors, cultivating a tacit understanding of cooperation and innovative capabilities and thereby building energy efficiency. The outstanding team that exerts the greatest effectiveness for the enterprise continues to inject new competitive niches and become the benchmark in the industry. In addition, we are committed to providing customers with innovative products and high-quality and efficient services. We strive for excellence and an honorable corporate culture to become Taiwan's leading heat treatment company with high growth and high performance.

Kaori has always prided itself on having adopted an accountable and transparent corporate governance framework. The Company holds the conviction that a strong Board of directors provides the foundation for sustainable growth. To enforce these values, the Company has implemented the Corporate Governance Code of Conduct and the Business Integrity Code of Conduct throughout the organization. Through the implementation of governance principles and policies, the Company hopes to develop a culture of integrity, enforce accountability in corporate governance, and empower the Board of directors to the best interest of all stakeholders.

- 2024 Annual general meetings:



2.2.2 Functionality of the Board of Directors

Kaori has established its Board of directors system using standards that are more stringent than what the laws require. The Board of directors serves as the ultimate governance body of the Company; its main responsibilities are to supervise and strengthen the management, devise operating plans, establish key policies, and make decisions on major investments.

Board of Directors Nomination and Election Procedures

Carried out according to the Company's "Directors Election Policy". Director election is held during shareholders' meetings.

- All shareholders of adequate capacity within the Company are eligible to be elected as the Company's directors.
- Election of the Company's directors shall proceed using the candidate nomination system, where shareholders will elect from a list of director candidates using the cumulative voting system. The shareholder account number printed on the ballot shall be used as the identifier for registered votes. Each share is vested with voting rights equal to the number of directors to be elected. These voting rights may be concentrated on a single candidate or spread across multiple candidates.
- Candidates who receive the highest number of votes are assigned the role of director, until the number of director seats mentioned in the Articles of Incorporation are fully filled. If two or more candidates receive the same number of votes, thereby resulting in more electees than the number of seats available, the candidates who receive an equal number of votes shall draw for the remaining seats available. The Chair will draw on behalf of those who are absent during the meeting.
- The Chairman is elected by the Board of Directors. The Board has functional committees such as the Remuneration Committee and the Audit Committee assembled under it to support its duties. Internally, the general manager devises business plans and coordinates departments for execution depending on current market circumstances and the competitive landscape. The roles of Chairperson and general manager are not undertaken by the same person.

The Board of Directors consists of 9 members (including 3 independent directors), each serving a three-year term. The Board convenes at least once every quarter. In the 21st term of 2024, a total of eight Board meetings were held, with an attendance rate of 98.61%. Kaori has rules in place to ensure that independent directors are selected from diverse professional backgrounds and that they individually possess the adequate knowledge, insight, and commercial judgment needed to carry out their duties independently. Three of the nine Board members are independent directors: Hsiang-Wen Hung (Consultant of Li Mei Jia Investment Co., Ltd.), En-Kuang Mao (Secretary General of Taiwan Wind Turbine Industry Association), and Chih-Yao Tang (Vice President, HR Department of Lion Travel Service Co. Ltd.). Independent directors currently represent one-third of the Board.

The powers of the Board of Directors include:

1. The Company's business plan.
2. Annual and semi-annual financial reports. Except for semi-annual financial reports that are not audited and attested by a CPA according to law.
3. Establishment or amendment of the internal control system in accordance with Article 14-1 of the Securities and Exchange Act, and evaluation of the effectiveness of the internal control system.
4. Establishment or amendment of the procedures for the acquisition or disposal of assets, engaging in derivative transactions, lending funds to others, making endorsements or providing guarantees for others, and handling procedures of major financial or business activities according to Article 36-1 of the Securities and Exchange Act.
5. The offering, issuance, or private placement of marketable securities that are of an equity nature.
6. Election or dismissal of the chairperson if the Board of Directors does not have a managing director.
7. Appointment or dismissal of a financial, accounting, or internal auditing officer.
8. Donations to a related party or material donations to a non-related party. However, public welfare donations for emergency relief due to major natural disasters may be ratified at the next board meeting.
9. Matters requiring resolution at a shareholders' meeting or board of directors meeting under Article 14-3 of the Securities and Exchange Act or other laws, regulations, or the Articles of Incorporation, or material matters as specified by the competent authorities.

In line with the Corporate Governance 3.0 - Sustainable Development Blueprint, the Company established a functional committee, the Corporate Sustainability Committee, on May 8, 2024, to promote its vision and strategy for sustainable management.

Educational Experiences of Board Members

Designation	Name	Gender	Current position	Academic and career experience
Chairman	Chih-Hsiung Wu	Male	Chairperson of the Company	- Ph.D. in Materials Science and Engineering, University of Illinois at Urbana-Champaign - Senior Vice President of Motech Industries Inc.
Vice Chairman	Hsien-Fu Han	Male	Vice Chairperson of the Company	- Department of Mechanical Engineering, Tatung University - General Manager of Kaori since June 2000
Director	Hsin-Wu Wang	Male	General manager of the Company	- Graduate Institute of Financial Management, National Central University - Vice President of the Company since January 2006
	Hung-Hsing Huang	Male	Chief Strategy Officer of the Company	- Institute of Technology Management, National Tsing Hua University - Investment Manager of IBF Financial Holdings Co., Ltd.
	Chun-Ying Wu, Representative of Aladdin Investment Co., Ltd.	Male	Vice President of the Company	- J.D., Tulane University - Master of Advanced Business Administration, Université de Lausanne - Investment Partner of MiiCs & Partners Inc.
	Hung-Tao Ku, Representative of Aladdin Investment Co., Ltd.	Male	Chairperson of Kaori Thermal Technology Co., Ltd.	- MSc Financial Economics, University of York - Bachelor of Business Administration, National Chengchi University - Technology Director of Linkupper Co., Ltd.
	Hsiang-Wen Hung	Male	Consultant of Li Mei Jia Investment Co., Ltd.	- Department of Business Administration, National Taiwan University - Trust Fund Manager of Kwanghua Securities Investment & Trust Co., LTD.
Independent Director	En-Kuang Mao	Male	Secretary General of Taiwan Wind Turbine Industry Association	- Deputy Secretary-General, Taiwan Electrical and Electronic Manufacturers' Association 1987: Passed the second-class examination for the general administrative staff of the retired military personnel transferred to the civil service.
	Chih-Yao Tang	Male	Vice President of Human Resources, Lion Travel Service Co. Ltd.	- Master of Business Administration, College of Management, National Taiwan University - Director of the Human Resources Division, Taiwan Star Telecom Corporation Limited

→For the latest updates, please refer to the information available on the Company's official website

Gender and age range of directors

21st term in 2024		Age Distribution of Members of the Board of Directors			
		30 and below	31-50	51 and above	Subtotal
Gender	Female	0	0	0	0
	Male	0	4	5	9
Subtotal		0	4	5	9

Board of Directors Meetings and Attendance

The Board of Directors held 8 meetings in 2024. The attendance of the directors is as follows:

Designation	Name	2024		
		No. of In-Person Attendances	No. of proxy attendance	Actual attendance rate (%)
Chairman	Chih-Hsiung Wu	8	0	100%
Vice Chairman	Hsien-Fu Han	8	0	100%
Director	Hsin-Wu Wang	8	0	100%
Director	Hung-Hsing Huang	8	0	100%
Director	Chun-Ying Wu, Representative of Aladdin Investment Co., Ltd.	8	0	100%
Director	Hung-Tao Ku, Representative of Aladdin Investment Co., Ltd.	7	1	87.50%
Independent Director	Hsiang-Wen Hung	8	0	100%
Independent Director	En-Kuang Mao	8	0	100%
Independent Director	Chih-Yao Tang	8	0	100%
Average attendance rate		98.61%		

Execution of Board of Directors Meetings

The Board of directors convenes meetings on a regular and irregular basis. The general manager is responsible for issues concerning economic performance and management, and briefs the Chairperson or the Board of directors either regularly or irregularly depending on the materiality of the issue in question. The purpose of the meeting is to review business performance and discuss material strategic issues and major concerns, including economic, environmental, and social impacts and risks and opportunities associated with business activities. A responsible unit will be designated for each of the issues discussed during meeting and tasked with the responsibility of making follow-up reports in the next meeting.

• Major Resolutions of the Board of Directors in 2024

Date of meeting	Resolution
The 6th meeting of 21st term January 17, 2024	1. Motion to apply for credit limits and handle credit-related matters with financial institutions based on operational needs. 2. Proposal for the company-wide year-end and performance bonuses for 2023. 3. Proposal for the allocation of year-end and performance bonuses for managers in 2023. 4. Proposal for the Company's 2024 Annual Business Plan. 5. Proposal for the change of the Company's spokesperson. 6. Proposal for the revision of the "Regulations Governing Financial and Business Transactions among Affiliated Enterprises" of the Company.
The 7th meeting of 21st term March 8, 2024	1. Motion to apply for credit limits and handle credit-related matters with financial institutions based on operational needs. 2. Proposal for the 2023 business report and financial statements. 3. Proposal for the 2023 earnings appropriation. 4. Proposal to determine the distribution schedule of cash dividends for the 2023 earnings appropriation. 5. Proposal for the employee and director remuneration for 2023. 6. Proposal for the issuance of the 2023 "Statement on Internal Control System". 7. Proposal for the independence and the evaluation of the independence and suitability of the Company's CPAs. 8. Proposal for the revision of the Company's "Audit Committee Charter". 9. Proposal for the amendments to the Company's "Board of Directors' Meeting Rules." 10. Proposal for the details concerning the 2024 annual general meeting.
The 8th meeting of 21st term May 8, 2024	1. Motion to apply for credit limits and handle credit-related matters with financial institutions based on operational needs. 2. Proposal for the change of the Company's certifying CPA in accordance with the internal rotation policy of the accounting firm. 3. Proposal for the 2024 Q1 Financial Report. 4. Proposal for the distribution of directors' and employees' remuneration for 2023. 5. Proposal for the adoption of the Company's "Sustainable Development Committee Charter". 6. Proposal for the establishment of the Company's "Sustainable Development Committee" and the appointment of its members. 7. Proposal for the revision of the Company's Accounting System. 8. Proposal to set the record date for the issuance of new shares upon conversion of the Company's fourth domestic unsecured convertible corporate bond. 9. Proposal to authorize the Chairman to handle the necessary assessments and preparations related to the spin-off of the thermal dissipation business. 10. Proposal to appoint Chun-Ying Wu, Vice President of the Company, as General Manager of the subsidiary, Kaori Technology (Ningbo) Co., Ltd., to be officially appointed by the subsidiary's Board of Directors with a separate effective date to be determined.
The 9th meeting of 21st term August 9, 2024	1. Motion to apply for credit limits and handle credit-related matters with financial institutions based on operational needs. 2. Proposal for the 2024 Q2 Financial Report. 3. Proposal for the revision of the Company's "Pre-approved Non-assurance Services" list. 4. Proposal to set the record date for the issuance of new shares upon conversion of the Company's fourth domestic unsecured convertible corporate bond in Q2 2024. 5. Proposal for the Company's equity investment in the establishment of Kaori Thermal Technology Co., Ltd. 6. Proposal to adopt the Articles of Incorporation for the newly established subsidiary and appoint its directors. 7. Proposal to establish a subsidiary in Thailand and authorize the Chairman to handle all matters related to its establishment with full authority.
The 10th meeting of 21st term September 13, 2024	1. Motion to apply for credit limits and handle credit-related matters with financial institutions based on operational needs. 2. Proposal for the business transfer through spin-off of the Company's Thermal Business Division. 3. Proposal for matters related to the 2024 First Extraordinary Shareholders' Meeting. 4. Proposal to authorize the Chairman to negotiate the purchase of land in an industrial zone in Thailand. 5. Proposal to establish a subsidiary in Thailand and appoint directors for the newly established subsidiary. 6. Proposal to open a bank account for the Thailand subsidiary and authorize designated signatories. 7. Proposal for the revision of the Company's "Procedures for the Management of Related Party Transactions." 8. Proposal for the amendments to the Company's "Corporate Governance Code of Conduct."
The 11th meeting of 21st term October 9, 2024	1. Supplementary explanation regarding the business transfer through spin-off of the Company's Thermal Business Division

Date of meeting	Resolution
The 12th meeting of 21st term November 8, 2024	1. Motion to apply for credit limits and handle credit-related matters with financial institutions based on operational needs. 2. Proposal for the 2024 Q3 Financial Report. 3. Proposal to set the record date for the issuance of new shares upon conversion of the Company's fourth domestic unsecured convertible corporate bond in Q3 2024. 4. Proposal for the revision of the Company's "Internal Control System." 5. Proposal for the 2025 Annual Audit Plan. 6. Proposal for the adoption of the Company's "Procedures for the Preparation and Assurance of Sustainability Reports." 7. Proposal for the revision of the Company's "Procedures for Changes in Accounting Policies and Estimates." 8. Proposal for the revision of the Company's "Regulations Governing the Preparation Process of Financial Statements." 9. Proposal for the amendments to the Company's "Regulations for Distribution of Year-end Bonuses." 10. Proposal for the revision of the Company's "Performance Bonus Guidelines."
The 13th meeting of 21st term December 20, 2024	1. Motion to apply for credit limits and handle credit-related matters with financial institutions based on operational needs. 2. Proposal to appoint directors for the subsidiary, Kaori Thermal Technology Co., Ltd. 3. Proposal to appoint Chairman Chih-Hsiung Wu as Chief Executive Officer of the subsidiary, Kaori Thermal Technology Co., Ltd. 4. Proposal to appoint Vice President Wu-Hsing Chou as General Manager of the subsidiary, Kaori Thermal Technology Co., Ltd. 5. Proposal to waive the non-competition restrictions for directors. 6. Proposal for the company-wide year-end and performance bonuses for 2024. 7. Proposal for the allocation of year-end and performance bonuses for managers in 2024. 8. Proposal for the Company's 2025 Annual Business Plan.

The execution of recusal by directors with conflicts of interest shall specify the director's name, the content of the proposal, the reason for recusal, and the voting participation status:

- At the Board Meeting held on January 17, 2024, Proposals 2 and 3 were discussed:
The Board approved the Company-wide year-end and performance bonus proposal and distribution plan for 2023, as reviewed by the Remuneration Committee. For the discussion on the year-end and performance bonuses of managers, directors and managers who were stakeholders in the matter recused themselves from both the discussion and voting. The remaining attending directors raised no objections, and the proposals were approved as presented.
- At the Board Meeting held on January 17, 2024, Proposal 5 was discussed:
Approved the proposal for the change of the Company's spokesperson. For this proposal, managers who were stakeholders recused themselves from both the discussion and voting. The remaining attending directors raised no objections, and the proposal was approved as presented.
- At the Board Meeting held on May 8, 2024, Proposal 4 was discussed:
The Board approved the distribution plan for directors' and employees' remuneration for 2023, as reviewed by the Remuneration Committee. For the discussion on directors' and managers' remuneration, the directors and managers who were stakeholders in the matter recused themselves from both the discussion and voting. The remaining attending directors raised no objections, and the proposal was approved as presented.
- At the Board Meeting held on May 8, 2024, Proposal 6 was discussed:
Approved the proposal for the establishment of the Company's "Sustainable Development Committee" and the appointment of its members. For the discussion on the appointment of committee members, the directors who were stakeholders in the matter recused themselves from both the discussion and voting. The remaining attending directors raised no objections, and the proposal was approved as presented.
- At the Board Meeting held on May 8, 2024, Proposal 10 was discussed:
Approved the proposal to appoint the President of the subsidiary, Kaori Technology (Ningbo) Co., Ltd. For the discussion on the appointment of the manager, the manager who was a stakeholder in the matter recused himself from both the discussion and voting. The remaining attending directors raised no objections, and the proposal was approved as presented.
- At the Board Meeting held on August 9, 2024, Proposal 6 was discussed:
Approved the proposal to appoint directors for the subsidiary, Kaori Thermal Technology Co., Ltd. For the discussion on the appointment of board members, the directors who were stakeholders in the matter recused themselves from both the discussion and voting. The remaining attending directors raised no objections, and the proposal was approved as presented.

7. At the Board Meeting held on September 13, 2024, Proposal 5 was discussed:

Approved the proposal to appoint the director of the subsidiary, Kaori Technology (Thailand) Co., Ltd. For the discussion on the appointment of board members, the directors who were stakeholders in the matter recused themselves from both the discussion and voting. The remaining attending directors raised no objections, and the proposal was approved as presented.

8. At the Board Meeting held on December 20, 2024, Proposal 3 was discussed:

Approved the proposal to appoint the Chief Executive Officer of the subsidiary, Kaori Thermal Technology Co., Ltd. For the discussion on the appointment of the manager, the director who was a stakeholder in the matter recused

himself from both the discussion and voting. The remaining attending directors raised no objections, and the proposal was approved as presented.

9. At the Board Meeting held on December 20, 2024, Proposals 6 and 7 were discussed:

The Board approved the Company-wide year-end and performance bonus proposal and distribution plan for 2024, as reviewed by the Remuneration Committee. For the discussion on the year-end and performance bonuses of managers, directors and managers who were stakeholders in the matter recused themselves from both the discussion and voting. The remaining attending directors raised no objections, and the proposals were approved as presented.

2.2.3 Continuing education, performance, capability, and remuneration for members of the Board of Directors

In addition to the board members with relevant industry backgrounds and practical experience in business management, all the Company's directors participated in the continuing education in accordance with the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies" in 2024, and the hours of training are as follows:

Designation	Name	Training hours in 2024 (hours)
Chairman	Chih-Hsiung Wu	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours - Practical Performance Evaluation in Corporate "ESG Sustainability" and "Risk Management" 3 hours
Vice Chairman	Hsien-Fu Han	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours - Practical Performance Evaluation in Corporate "ESG Sustainability" and "Risk Management" 3 hours
Director	Hsin-Wu Wang	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours - Practical Performance Evaluation in Corporate "ESG Sustainability" and "Risk Management" 3 hours
Director	Hung-Hsing Huang	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours - Practical Performance Evaluation in Corporate "ESG Sustainability" and "Risk Management" 3 hours
Director	Aladdin Investment Co., Ltd. Representative Chun-Ying Wu	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours - Practical Performance Evaluation in Corporate "ESG Sustainability" and "Risk Management" 3 hours - Taiwan's Capital Market Summit 3 hours
Director	Aladdin Investment Co., Ltd. Representative Hung-Tao Ku	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours - Practical Performance Evaluation in Corporate "ESG Sustainability" and "Risk Management" 3 hours
Independent Director	Hsiang-Wen Hung	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours - Practical Performance Evaluation in Corporate "ESG Sustainability" and "Risk Management" 3 hours
Independent Director	En-Kuang Mao	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours 2024 Cathay Sustainable Finance and Climate Change Summit 3 hours 2024 Insider Trading Prevention Awareness Seminar 3 hours
Independent Director	Chih-Yao Tang	- What Are Investors Thinking? - Corporate Sustainability Transformation through ESG Investment and Financing 3 hours - Practical Performance Evaluation in Corporate "ESG Sustainability" and "Risk Management" 3 hours

Board Performance Evaluation Procedures and Frequency

The Company has established a “Board Performance Evaluation Policy” and discloses assessment outcomes in its annual report. Evaluation of the Board of Directors is conducted regularly, at least once a year, through internal self-assessment. Directors are asked to assess several aspects, such as the functionality and culture of the Board and functional committees, management of internal/external relationships, and individual performance. The Board meeting organizer then consolidates the outcomes and reports them in a Board of Directors' meeting along with proposed improvements. The overall performance evaluation of the Board of Directors and functional committees in 2024 was rated as “Excellent,” demonstrating the Company’s continued efforts to strengthen board functions and the effective operation of its functional committees. Going forward, the Company will remain committed to continuous improvement to further enhance the effectiveness of corporate governance.

The overall performance evaluation of the Board of Directors and functional committees in 2024 was rated as “Excellent.” The detailed assessment is as follows:

	5* to 4 points	4* to 3 points	3* to 2 points	2* to 1 points	1* point
Evaluation criteria	Excellent	Good	Fair	Needs Improvement	Poor

Note: “5* to 4 points” refers to scores greater than 4 and up to 5 (inclusive). The same logic applies to the other ranges

- Board of Directors:

Self-evaluation of the Five Key Dimensions	Number of Questions	Average Score	
		113	112
A. Participation in Company Operations	12	5.00	4.75
B. Enhancement of Board Decision-making Quality	12	4.92	4.83
C. Board Composition and Structure	7	5.00	4.71
D. Director Selection and Ongoing Training	7	4.43	4.43
E. Internal Control	7	5.00	4.71
Total/Average Score	45	4.87	4.69

- Board Members:

Self-evaluation of the Six Key Dimensions	Number of Questions	Average Score	
		113	112
A. Understanding of the Company's Goals and Mission	3	4.89	4.85
B. Awareness of Directors' Responsibilities	3	5.00	4.96
C. Participation in Company Operations	8	4.81	4.81
D. Internal Relationship Management and Communication	3	4.96	5.00
E. Professionalism and Ongoing Training of Directors	3	4.85	4.85
F. Internal Control	3	4.81	4.81
Total/Average Score	23	4.89	4.88

- Functional Committee:

Self-evaluation of the Five Key Dimensions	Audit Committee			Compensation Committee		
	Number of Questions	Average Score		Number of Questions	Average Score	
		113	112		113	112
A. Participation in Company Operations	4	4.75	4.67	4	4.75	4.67
B. Awareness of Functional Committees' Responsibilities	5	4.87	4.67	5	4.67	4.53
C. Enhancement of Decision-making Quality in Functional Committees	7	4.67	4.57	7	4.67	4.57
D. Composition of Functional Committees and Selection of Members	3	5.00	4.67	3	5.00	4.67
E. Internal Control	3	4.78	4.56	-	-	-
Total/Average Score	22	4.81	4.63	19	4.77	4.61

Conclusion:

Overall, the performance evaluation was rated as “Excellent,” demonstrating the Company’s continued efforts to strengthen the functions of the Board of Directors and the effective operation of its functional committees. The Company remains committed to ongoing improvement to further enhance corporate governance effectiveness. The evaluation results will be disclosed in the annual report.

Board diversity

The board members have backgrounds in professional fields such as business management and financial accounting and possess the knowledge, skills, and attainments required to perform their duties, including operational judgment, industry experience, leadership decision-making, and operational judgment.

Name of Director \ Diversity Items	Operation and management	Accounting	Operational judgment	Industry knowledge	Leadership decision-making	Crisis, conflict, and risk management capabilities		
						Crisis management	Conflicts and risks	International markets
Chih-Hsiung Wu	•		•	•	•	•	•	•
Hsien-Fu Han	•		•	•	•	•	•	•
Hsin-Wu Wang	•	•	•	•	•	•	•	•
Hung-Hsing Huang	•	•	•	•	•	•	•	•
Aladdin Investment Co., Ltd. Representative Chun-Ying Wu	•	•	•	•	•	•	•	•
Aladdin Investment Co., Ltd. Representative Hung-Tao Ku	•	•	•	•	•	•	•	•
Independent Director Hsiang-Wen Hung	•	•	•	•	•	•	•	•
Independent Director En-Kuang Mao	•		•	•	•	•	•	•
Independent Director Chih-Yao Tang	•	•	•	•	•	•	•	•

Directors' remuneration

According to the Company's Articles of Incorporation, no more than 5% of the Company's profit shall be allocated as remuneration to directors, and the proposal to distribute remuneration to directors shall be submitted to the annual shareholders' meeting. Directors and independent directors who do not hold positions within the Group shall receive fixed remuneration regardless of the Company's profit or loss. Directors holding positions within the Group are considered based on their positions in the Company, representatives serving as directors of subsidiaries, and involvement in the Company's operations. The abovementioned proposed remunerations are subject to the recommendations of the Remuneration Committee and then submitted to the Board of Directors for approval.

2.2.4 Corporate Governance Practices and Future Plans

The Company has established and disclosed its own Corporate Governance Code of Conduct in accordance with the “Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies” and is committed to enforcing a sound corporate governance philosophy and practices throughout the organization. During the meeting held in November 2021, the Board of directors passed the resolution to appoint one corporate governance officer and made short-, medium-, and long-term plans to enforce sound governance practices. The Company will continue making amendments to relevant policies, enhancing information transparency, and empowering the Board of directors in ways that support sound corporate governance.

- Explanation for Not Meeting the Target Ranking in the 2024 Corporate Governance Evaluation:

The primary reason is that the Company is entering a transitional phase in its operational policies and organizational structure during a period of rapid growth. As the business expands and market demands evolve, time is needed to optimize internal processes, integrate resources, and adjust the management framework to ensure the Company's governance system can adapt to a more complex operating environment. Although the importance of enhancing corporate governance has been recognized and corresponding plans have been established, the Company is still in the midst of organizational and policy adjustments. Therefore, achieving the target ranking may require a longer period to be realized gradually. Over the next one to two years, efforts will focus on stabilizing internal operations, improving management efficiency, and strengthening key governance indicators. As the organizational structure matures, the Company's corporate governance performance is expected to improve progressively, ultimately reaching the intended goals.

- Key Areas of Focus Going Forward (The following items are listed in no particular order and will be promoted according to the Company's operational progress)

1. Enhancing Board Structure, Functionality, and Diversity:

The Company plans to strengthen the structure and functionality of the Board by implementing board succession planning, establishing mechanisms to link the performance evaluation of directors and managers with their compensation (conducting external board evaluations every three years), and increasing the number of female directors to promote diversity.

2. Strengthening Internal Control and Risk Management:

The Company aims to enhance the effectiveness of its risk management mechanisms to ensure timely identification and response to various internal and external risks, particularly in the areas of compliance, finance, and market operations.

3. Information Disclosure and Transparency:

The Company seeks to strengthen the timeliness and completeness of its information disclosure, particularly in relation to financial statements, such as earlier publication and the provision of English versions, so that investors can gain a clearer understanding of the Company's operational status.

4. Protection of Shareholder Rights:

Shareholders' meeting month (to be held in May starting from 2025)

5. Corporate Sustainability (ESG) Carbon Management and Related Investment Plans:

Establish greenhouse gas reduction targets, invest in energy-saving or green energy equipment, and allocate resources to support domestic cultural development.

6. Performance Evaluation of Senior Management:

Link manager performance evaluations with compensation, implement a policy connecting executive remuneration with ESG performance, and incorporate performance evaluation into the governance framework to ensure management decisions align with shareholder interests and support the Company's long-term growth.

7. Strengthening of Compliance Policies:

Prohibit insider trading (training programs), promote corporate ethics units, disclose ethical business policies, and establish a sound compliance management system to ensure legal compliance across all business activities and prevent compliance risks.

8. Enhancement of Legal Support:

Provide stronger legal support in the management of legal affairs, particularly by offering professional guidance in contract management and intellectual property protection. (Develop an intellectual property management plan)

Functional Committee

The Company has always been transparent about its operations and valued shareholders' interests. We believe that sound corporate governance is possible only with a strong and efficient Board of directors. This is why the Board of directors has assembled and delegated part of its authority to functional committees such as the Audit Committee and the Compensation Committee, whose responsibilities are to assist the Board of directors with supervisory duties. All committees have had their charters approved by the Board of directors, and the chief of each committee makes regular reports to the Board regarding activities and resolutions. The Audit Committee and Remuneration Committee consist entirely of independent directors.

Audit Committee

The Audit Committee assists the Board of directors by supervising the quality of internal practices such as accounting, auditing, financial reporting, and financial controlling. Outcomes of assessments are raised for discussion by the Board of directors. The Audit Committee consists entirely of independent directors and was assembled directly under the Board of Directors following the approval of the Audit Committee Charter. One member serves as the convener, and at least one member possesses accounting or financial expertise. The Audit Committee convenes meetings at least once a quarter; five meetings were held in 2024.

Kaori has also established channels to facilitate communication between the Audit Committee and CPAs and the chief internal auditor. The CPAs make irregular reports to the Board of Directors on various issues, including the Company's financial position, the financial and operating performance of overseas subsidiaries, and audit findings concerning internal control. They also communicate with the Company on major adjustments to accounting entries and how regulatory changes affect accounting practices. The Company's audited consolidated financial statements and CPAs' independent auditor's report are reviewed by the Audit Committee. The chief internal auditor makes regular reports to the Board of directors concerning the execution of internal audits and regular follow-ups on improvement measures.

Matters reviewed by the Audit Committee mainly include:

1. Establishment or amendment of the internal control system in accordance with Article 14-1 of the Securities and Exchange Act.
2. Evaluation of the effectiveness of the internal control system.
3. Establishment or amendment of the procedures for the acquisition or disposal of assets, engaging in derivative transactions, lending funds to others, making endorsements or providing guarantees for others, and handling procedures of major financial or business activities according to Article 36-1 of the Securities and Exchange Act.
4. Matters involving the interests of directors.
5. Significant asset or derivative transaction.
6. Lending funds, making endorsements, or providing guarantees for material loans.
7. The offering, issuance, or private placement of marketable securities that are of an equity nature.
8. Appointment, discharge, or remuneration of CPAs.
9. Appointment or dismissal of a financial, accounting, or internal auditing officer.
10. Annual and semi-annual financial reports.
11. Other matters that are material to the Company or as regulated by the competent authority.

- In 2024, the Audit Committee convened five meetings. The attendance record is as follows:

Designation	Name	2024		
		No. of In-Person Attendances	No. of proxy attendance	Actual attendance rate (%)
Convener	Hsiang-Wen Hung	5	0	100%
Committee member	En-Kuang Mao	5	0	100%
Committee member	Chih-Yao Tang	5	0	100%
Average attendance rate		--	--	100%

Compensation Committee

Kaori has complied with the requirements of the “Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Taiwan Stock Exchange or the Taipei Exchange” by having the Board of directors approve a Compensation Committee Organizational Charter and assembling a Compensation Committee. More than half of the Compensation Committee members are independent directors. The committee exercises the duty of care as a prudent manager to establish and regularly review policies, systems, standards, and procedures concerning directors' and managers' performance evaluation as well as compensation. The committee has authority over the assessment of directors' and managers' compensation and raises proposals for discussion by the Board of directors. In 2024, the Remuneration Committee convened five meetings.

The Remuneration Committee has the following terms of reference, and submits recommendations to the Board of Directors for discussion:

- I. Regularly review the Charter and propose amendments as needed.
- II. Establish and regularly review the annual and long-term performance goals and the policies, systems, standards, and structures of remuneration for the Company's directors and managers.
- III. Assess the achievement of performance targets of the Company's directors and managers regularly and set the content and amount of individual compensation.

- In 2024, the Remuneration Committee convened five meetings. The attendance record is as follows:

Designation	Name	2024		
		No. of In-Person Attendances	No. of proxy attendance	Actual attendance rate (%)
Convener	Hsiang-Wen Hung	5	0	100%
Committee member	En-Kuang Mao	5	0	100%
Committee member	Chih-Yao Tang	5	0	100%
Average attendance rate		--	--	100%

Compensation Policy

- I. Directors' individual compensations are disclosed in Section Three of the annual report: III. Compensation paid to directors, supervisors, the general manager, and vice presidents in the last year.
- II. Regarding independent directors' compensation, the Board of Directors is authorized under the Articles of Incorporation to set a maximum amount of NT\$1 million and determine the standards for monthly payment per person. Payment of directors' remuneration is linked to corporate profit and performance; according to the Articles of Incorporation, no more than 5% of profit concluded in a year is appropriated for directors' remuneration.
- III. A “Performance Bonus Policy” has been established to provide incentives for senior managers to pursue growth and profit targets while focusing on the Company's long-term competitiveness and continuity.

Information Disclosure

Kaori maintains an official website (<https://www.kaori.com.tw/>), where it discloses the company's basic information, product offerings, and financial data. The Company also has a spokesperson and an acting spokesperson responsible for handling and responding to shareholders' rights-related matters. In addition to holding corporate briefings from time to time or through investment forums held by financial institutions, where the company's operational status and future outlook are presented and explained, relevant information is also uploaded to the "Market Observation Post System" for stakeholders' reference. Additionally, we regularly disclose information about business activities, organizational structure, financial status, and operational performance in accordance with relevant applicable laws and major industry practices.

2.2.5 Tax Management Approach

The Company's tax policies support product and technology innovation and sustainable development and are committed to controlling tax risks, pursuing sustainable development, and fulfilling corporate social responsibility. Kaori is committed to:

- Major operational decisions are made in compliance with relevant laws and regulations, and the impact of tax risks is assessed accordingly.
- Comply with the OECD's Base Erosion and Profit Shifting Action Plan (BEPS), ensuring that the Company generate profit with economic substance and obtain tax residency status in the respective countries, complying with local tax regulations.
- Do not engage in tax planning or transactions in low-tax jurisdictions for the purpose of tax avoidance.
- Disclosure in financial reports is conducted in accordance with relevant laws, and tax information is fully disclosed as required by applicable regulations.
- Establish a relationship of mutual respect and good communication with the tax authority under the tax jurisdiction based on good faith.
- In 2024, the Company complied with tax policies and regulations and did not receive any government financial subsidies.

2.3 Business integrity

Kaori has implemented a business integrity policy with the Board of directors' approval and developed its own accounting policies and internal control system to enforce business integrity. Internal auditors have been assigned to audit compliance on a regular basis. Kaori has clearly stated its core values of innovation, quality, responsibility, and honor in external communications and established business integrity policies that all directors, senior managers, employees, and the controller must obey when carrying out their duties. The Company has established the "Business Integrity Code of Conduct," "Business Integrity Procedures and Behavioral Guidelines," relevant "Ethical Conduct Guidelines," "Investor Relationship Management Policy," and "Risk Management Policy" in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies."

Integrity Management Approach

1. Incorporating integrity and moral values into the Company's operating strategies and establishing integrity assurance and fraud prevention measures in accordance with laws.
2. Implementing measures against dishonest conduct, including standard operating procedures and behavioral guidelines.
3. Planning internal organization and duties and implementing checks and balances for business activities that present higher risks of dishonest conduct.
4. The promotion and coordination of integrity policy training have been incorporated into the onboarding training for new employees. In the future, the Company will evaluate including it in the annual training program.

The Company has designated the Special Assistant's Office as the unit responsible for the amendment, execution, interpretation, and consultation of the procedures and behavioral guidelines, as well as the supervision of regulatory reporting and filing works. The Special Assistant's Office operates under the supervision of the Audit Office, which is an independent unit created directly under the Board of directors. The Audit Office conducts regular audits on business integrity and compliance and is responsible for monitoring internal operations and presenting audit reports to the Board of directors.

The Company convenes "monthly general assemblies" to verbally promote the importance of avoiding dishonest conduct in all business activities. Employees are also encouraged to undergo internal and external training on a regular basis. Kaori incurred no financial losses from legal cases related to bribery or corruption in 2024. One report concerning a violation of integrity and ethics was received at the end of 2023 and was closed in 2024. The case had no material impact on the Company and was handled in accordance with relevant internal procedures, along with the implementation of strengthened preventive measures.

Building an Integrity Culture

Kaori upholds “innovation, quality, responsibility, and honor” and recognizes integrity as the core of its corporate culture. By implementing a set of ethical behavior guidelines, the Company enforces values such as fair trade, avoidance of improper gains, protection of business secrets, human rights, and compliance in all aspects of business operations. The Company has implemented rigorous preventive and disciplinary measures to enforce high ethical standards among employees and prevent violations when engaging in business activities. Misconduct reporting channels have also been set up, and any employee that violates the behavioral guidelines will be disciplined according to the Work Rules.

In addition to tracking yearly internal control self-assessments conducted by various departments and making adjustments to policies and laws that affect corporate operations, Kaori also reiterates the importance of corporate governance and ethics to employees from time to time. Employees who commit violations of the law, safety rules/regulations, employment contracts, or commercial ethics will be subject to legal consequences and disciplinary measures. These violations will also be considered in employee performance evaluations as part of our efforts to build a culture of integrity within the organization.

Complete Grievance Systems, Channels, and Investigation Procedures

Kaori upholds integrity in all business activities and prohibits corruption and all forms of fraud. All reports of suspicious activities or violations against ethical behavior guidelines that involve Kaori's employees or any personnel related to the Company are handled in secrecy unless otherwise specified by law, for which the Company will assign relevant departments to investigate in a timely manner.

An Investors Section has been created on the corporate website to disclose the contact number and e-mail of service personnel for institutional customers and shareholders and to handle investors' suggestions, queries, and disputes. The Company has open communication channels in place to maintain productive interaction with investors, suppliers, customers, and stakeholders. Interactions with the above-mentioned parties are carried out with the utmost integrity and in conformity with the Company's internal control system and management policy.

Employees are required to report, using the following channels, any violations of laws, policies, or contract terms or any attempts to exploit the vested authority for improper gains against the Company's interests:

- Physical Mailbox:
No. 5-2, Jilin North Road, Zhongli District,
Taoyuan City 32030
Special Assistant's Office of Kaori Heat
Treatment Co., Ltd.
- Website “Integrity - Grievance mailbox”



Misconduct reports are handled by the Special Assistant's Office under the supervision of the Audit Office. Employees who are found to have violated the Company's behavioral or ethical guidelines will be disciplined and instructed to make improvements within a given period of time. Incidents of high severity may be referred to judicial institutions. The Company has zero tolerance for criminal behavior and takes legal action against all violations. Whistleblowers' identities, the information they provide, and subsequent progress are kept strictly confidential so that whistleblowers may communicate with the management free of concern for retaliation, threat, and harassment.

Investigation Procedures:

1

Misconduct reports that involve general employees are escalated to the heads of departments, whereas misconduct reports that involve directors or senior managers are escalated to independent directors.

2

Upon receiving a report, the responsible unit and the head or staff of the appropriate department shall proceed to investigate the facts immediately, and they may seek help from compliance or other departments if necessary.

3

If the reported misconduct is verified to constitute a violation of the law or the Company's business integrity policy or rules, the violator will be ordered to cease and desist such conduct and subjected to disciplinary action and claims through legal proceedings if necessary to protect the Company's interests and reputation.

4

Details including the misconduct report, investigation process, and findings must be maintained in written or electronic form and retained for five years. Should any litigation arise in relation to the reported misconduct before expiry of the retention period, the above documents will have to be retained until the litigation is concluded.

5

For every verified misconduct report, the department concerned is required to examine the internal control system and operating procedures and propose improvement measures to prevent similar occurrences in the future.

6

The responsible unit shall report to the Board of directors the reported misconduct along with details on how they are handled and the improvement measures undertaken. Violators may also be reported to the competent authority or judicial institutions if necessary.



Enhancing Integrity Awareness Across the Value Chain and Among Suppliers

Kaori exerts ESG influence by requiring all key (Grade A) suppliers to sign a "Supplier Code of Conduct" that outlines the integrity principles as well as the environmental, labor, human rights, and occupational safety regulations that suppliers are bound to comply with during production activities. 100% of suppliers have signed the commitment to the clause to date.

Ethical Behavior Guidelines

- | | |
|--|---|
| 1. Offering and acceptance of bribes. | 5. Infringement on business secrets, trademarks, patents, copyrights, and other intellectual property rights. |
| 2. Offering of illegal political donations. | |
| 3. Inappropriate donation or sponsorship. | 6. Engagement in unfair competition. |
| 4. Offering or acceptance of inappropriate gifts, treatment or benefits. | 7. Direct or indirect damage to consumers' or stakeholders' interests, health or safety during research, development, procurement, manufacturing, offering, or sale of products and services. |

Reporting and Grievance Mechanism and Its Implementation Results

Kaori focuses on respecting human rights, protecting intellectual property, and preventing the improper transfer of benefits that could harm the interests of the company, customers, and suppliers. To ensure the implementation of business integrity, we have established an independently operated Audit Office. This department conducts regular or ad-hoc internal audits each year and provides convenient and accessible grievance channels for internal and external stakeholders to report issues and receive appropriate responses. These measures help reduce operational risks and foster a positive interaction model with stakeholders. In 2024, there were no violations of integrity principles by any managers or employees.

2.4 Business Philosophy and Legal Compliance

2.4.1 Management Philosophy

The Company's business philosophy is guided by four core principles: innovation, quality, responsibility, and honor. With the primary goal of pursuing profit and surplus, we are committed to ensuring the creation of new products, increasing added value and profitability, and continuously improving our team's professionalism and leadership skills to enhance operational performance.

Anti-bribery and anti-corruption

Kaori has established an "Employee Code of Conduct" to ensure the normal operation of the enterprise and maintain fair competition. The code regulates commercial purchase and sales behaviors and prohibits any form of improper gains, such as corruption, extortion, and embezzlement. Kaori strictly regulates all business activities and external interactions, including contact with government departments, negotiations with customer representatives, customer QC inspections, and impartial execution of product testing, inspections, and audits. In these activities, any improper practices, such as offering or accepting kickbacks, promotional fees, advertising expenses, service fees, expense reimbursements, or providing domestic or international travel under any guise, are prohibited. These rules are in place to prevent the direct or indirect exchange of cash, goods, or other benefits outside of the transaction.

Kaori complies with the RBA Code of Conduct and accepts relevant audits and self-evaluation activities from customers. In areas such as labor, health and safety, environment, ethics, and management systems, there have been no major non-compliance issues. Additionally, the Company continuously implements relevant training and awareness activities each year.

2.4.2 Compliance

Kaori complies with regulations by regularly collecting and compiling relevant business-related laws and regulations for identification. If there are any new or revised regulations, the responsible departments immediately review whether the current business practices and operations are in compliance. Additionally, they assist in communicating and promoting these regulations to all departments. To protect the legal rights and interests of the Company, the Company periodically holds legal courses and produce legal materials to enhance employees' legal knowledge.

The Company's compliance with corporate governance, environmental, economic, and social regulations, including relevant important legal sources, internal policies, or procedures, as well as any violations in the past two years (2023–2024), are detailed in the table below:

Category	Important legal sources in Taiwan	Corresponding measures or procedures of the Company	Whether there was any violation in 2023-2024
Corporate governance	Company Act, Corporate Governance Best Practice Principles, Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies, Audit Committee Charter, Remuneration Committee Charter	Articles of Incorporation, Corporate Governance Best Practice Principles, Ethical Corporate Management Best Practice Principles, Audit Committee Charter, Remuneration Committee Charter	The Company complies with laws and regulations, and has not been penalized for violating laws and regulations
Employee labor rights and conditions	Labor Standards Act, Employment Service Act, Gender Equality in Employment Act, Labor Insurance Act, Labor Pension Act, National Health Insurance Act, Employee Welfare Fund Act, Regulations of Leave-Taking of Workers, Regulations for Implementing Labor-Management Meeting, etc.	Employee Code of Conduct, Labor-Management Meeting Election Measures, Personal Data Protection Management Measures	
Health and safety	Occupational Safety and Health Act, Enforcement Rules of the Occupational Safety and Health Act, Labor Health Protection Rules, Labor Safety and Health Facilities Rules, Occupational Safety and Health Education and Training Rules, etc.	Occupational Safety and Health Work Principles Verification and Backup, Occupational Safety and Health Organization and Personnel Verification and Backup, ISO 45001 Occupational Health Management System and related procedures	
Environmental	The Basic Environment Act, Climate Change Response Act, Waste Disposal Act, Resource Recycling Act, Air Pollution Control Act, Noise Control Act, Drinking Water Management Act, Effluent Standards, Water Pollution Control Act and its Enforcement Rules, etc.	ISO 14001 Environmental Management System and related procedures, SOPs, and forms, including waste disposal procedures, noise control procedures, drinking water management procedures, wastewater management procedures, etc. Introduce the ISO 14064-1 greenhouse gas inventory operation system and issue the greenhouse gas inventory report	
Economic	Fair Trade Act, Patent Act, Copyright Act, Intellectual Property Act, Trade Secrets Protection Act, Computer Processing and Personal Data Protection Act, etc.	Labor contract, code of ethics for employees below the section level, code of ethics for managers and senior professionals, personnel-related management system	
Social	Civil Code, Communicable Disease Control Act, Sexual Harassment Prevention Act		
Product	Fair Trade Act, Computer Processing and Personal Data Protection Act, QC 080000 Hazardous Substance Process Management System	ISO 9001 Quality Management System and related procedures, SOPs, and forms Introduce the ISO 14067 carbon footprint criteria to comply with the international carbon reduction trend	

Kaori has several effective controls in place to ensure compliance. The Company checks new regulatory amendments on a monthly basis and conducts compliance audits on all plant sites on a yearly basis. In 2024, there was no record of violation of safety and health, environmental protection, fire safety, and other laws and regulations. Aside from the above, no major compensations or losses were reported in annual internal audits.

2.5 Cybersecurity

2.5.1 Cybersecurity risk management framework

In accordance with international cybersecurity management practices, personal data protection standards, and legal regulations, and in consideration of the "concerns of internal and external stakeholders," the Company has established the "Cybersecurity Management System" to ensure that our IT infrastructure and information systems meet the requirements for confidentiality, integrity, availability, and legality.

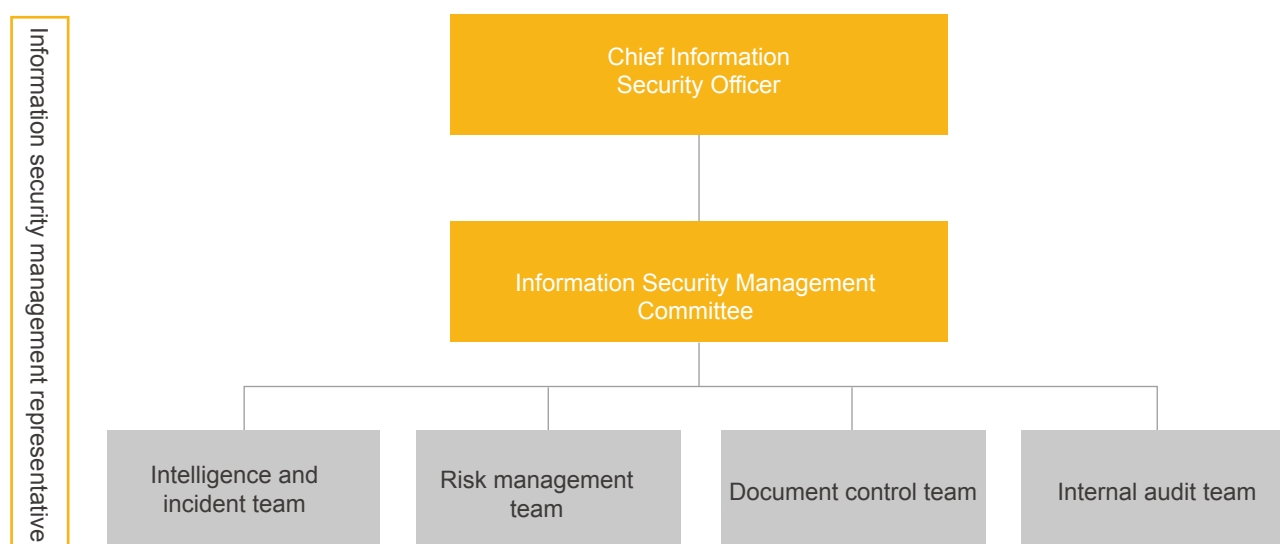
We also integrated and strengthened the cybersecurity management system based on the continuous improvement of the PDCA cycle process management model. In March 2024, the Company obtained certification for the latest and highest international standard for information security management, ISO/IEC 27001:2022, demonstrating our commitment to the highest standards of information security. We actively strive to establish a secure system environment to ensure the safety and stability of all operations, thereby supporting the Company's long-term sustainable development.

2.5.2 General Policy for Cybersecurity Management

The Chairman of the Company has appointed an Assistant Manager of the IT Department to set up an internal Cybersecurity Management Committee to be responsible for formulating the Company's cybersecurity management policy. A dedicated unit, managers, and personnel are set up to plan and implement cybersecurity operations. Based on the principles of simplicity, easy-to-remember, and compliance with cybersecurity management objectives, the Company has formulated the cybersecurity policy statement: "Cybersecurity is everyone's responsibility."

2.5.3 Cybersecurity Management Organization

In order to ensure that the operation of the Company's cybersecurity management system can meet the Company's policies and goals, and to confirm its continuous application and the effectiveness of its operation, the Company has established the "Cybersecurity Organization and Management Review Procedures" to regulate the Company's information and serve as the basis for the management's regular evaluation of the cybersecurity management system. Below is the organization chart:



- Scope of application: The Company's headquarters and plants in Taiwan.

- Goals:

The Company's cybersecurity goal is to ensure the confidentiality, integrity, availability, and compliance of important and core systems.

Quantitative metrics of cybersecurity performance are defined and measured according to each hierarchy and function to confirm the implementation status of the cybersecurity management system and whether the cybersecurity goals are achieved.

Confidentiality	Avoid leaking any sensitive information about the Company to the internet.
Completeness	Ensure the accuracy of the Company's sensitive data (e.g. financial information, personnel data, system information)
Usability	Ensure that important data held by the Company are backed up.
Compliance	The Company shall ensure that it does not violate the cybersecurity requirements of laws, regulations, or contractual obligations.

2.5.4 Cybersecurity management measures and implementation effectiveness

Management items	Scope of operation	Implementation measures	Execution Progress
1. Network security protection	1. Prevent hacker intrusions and damage 2. Ensure smooth network operation	1. Network infrastructure has been established in the plants, separating IT and OT networks 2. Introduced zero-trust network architecture 3. Continue to refine the management strategy of network protection equipment and optimize the control operation process	No incidents of hacking occurred in 2024
2. Email security control	1. Protect the Company's sensitive data from being leaked 2. Reduce the risk of external cybersecurity threats entering employee mailboxes	1. Established advanced email defense management system 2. An email audit system has been established	No abnormal event occurred in 2024
3. Device safety protection	1. Protect the Company's internal information equipment from virus attacks or malicious intrusion 2. Protect the Company's sensitive data from being leaked	1. Anti-virus software and endpoint protection software protection devices (PC/NB, machine computers) are in place 2. Controlled the use of NB/PC external devices and cloud space 3. The privileged account management system has been introduced to strengthen the security of system account management. 4. Continue to improve system cybersecurity vulnerability control items	No abnormal event occurred in 2024
4. System/measure education and promotion	1. Optimize cybersecurity policies and information security operating regulations 2. Cybersecurity policy/regulation promotion and education training	1. The ISO27001 cybersecurity management system has been introduced, and management measures, specifications, and operating guidelines have been continuously updated 2. Provide training for new recruits 3. Regularly promote cybersecurity-related topics through email	100% achieved by 2024
5. Disaster recovery and response	1. Data backup integrity and compliance 2. System backup and activation capability	1. Build a cloud backup system to enhance the emergency response capability 2. Regularly implement disaster recovery system drills 3. Optimize the efficiency of backup system switching operations and shorten the operation time for emergency activation	No abnormal event occurred in 2024

2.6 Risk management

2.6.1 Risk management policies and approach

Material topic	Management Approach
 Risk management	Policy Comply with laws and regulations related to finance, environment, labor, and safety and health to ensure the normal operation of the Company and the interests of shareholders.
	Goal Effectively monitor and manage various risks to reduce the impact in the event they occur.
	Commitment Utilize due diligence and early warning communication methods to implement the Company's established codes, ensuring the protection of stakeholders' interests.
	Management Measures 1. We implemented the Risk Assessment Procedures in accordance with the ISO 9001 Quality Management System, ISO 14001 Environmental Management System, and ISO 27001 Cybersecurity Management System. 2. In response to the possible impact of climate change on the business environment, we have formulated management measures to reduce corporate risks.

Kaori is well-aware of the challenges that risks may pose to business operations. To minimize the influence of the external environment, managers of various business segments within the Company have identified and defined risks that are relevant to operations, so that they can be properly managed to ensure continuity. By taking risk identification, risk assessment, risk management, and risk response measures, Kaori aims to minimize potential risks and even turn them into opportunities. The PDCA cycle has been incorporated into risk management to facilitate real-time corrections and improvements and thereby protect the interests of the Company, employees, shareholders, customers, and suppliers.

2.6.2 Risk management process and countermeasures



Risk analysis outcome and response/management measures for 2024

Risk Type	Risk Description	Management Measures
 Financial risk	Interest rate changes The Company's interest rate risks arise mainly from operation-related liabilities and treasury investments. Interest income and expenses of the Company are mainly affected by fluctuations of TWD and USD interest rates. To minimize interest rate risk, the Company mainly depends on cash receipt from operations and short-/medium-/long-term bank borrowings for working capital requirements. With regards to financial investment, the Company mainly invests in fixed income bond funds or equity funds of high liquidity and strong rating for capital security and marketability.	- The Company actively manages interest rate risks by constantly monitoring market rate movements, gathering interest rate quotes, evaluating borrowing rates, and maintaining positive relationship with banks. We pay particular attention to maintaining good credit records with banks, which entitles us to more privileged borrowing rates. If a financing requirement arises, the Company will evaluate capital requirements and credit history with banks to borrow at a preferential rate. - The Company will undertake short-term or long-term borrowing in such a way that minimizes the risks of interest rate fluctuations and funding costs on the Company's operations. - With regards to financial investment, the Company mainly invests in fixed income bond funds or equity funds of high liquidity and strong rating for capital security and marketability. However, this hedging practice only mitigates part of the risks and cannot fully eliminate the financial impacts of interest rate fluctuations.
Exchange rate changes	More than 80% the Company's raw material purchases are paid in currencies other than TWD, such as USD and EUR. Considering that the Company exports most of its products and that more than 80% of its revenue is also denominated in USD and EUR, much of the risk exposure is mitigated through natural hedging, but a significant change in exchange rates may still have an adverse impact on the Company's financial position.	The financial department constantly monitors exchange rate information and maintains close communication with our main banking partners to keep track of exchange rate fluctuations, so that managers are adequately informed of exchange rate changes to make adjustments at appropriate times.
 Legal risk	Change of key policies and laws Kaori supports the government's sustainability policies, such as the FSC's 2020 "Corporate Governance 3.0 - Sustainability Blueprint," the 2022 "Sustainability Development Roadmap for TWSE/TPEx-Listed companies," the National Development Council's "Taiwan 2050 Net Zero Roadmap and Strategy," and the Environmental Protection Administration's "Greenhouse Gas Reduction and Management Act (Climate Change Response Act)," and continues adopting practices that enhance the transparency of sustainability information and promote sustainability in line with global trends.	- A broad diversity of legal awareness campaigns is being organized to promote employees' compliance awareness. - Information such as compliance requirements, guidelines, tips, and FAQs has been made available on the Intranet, whereas educational documents are sent via e-mail to keep employees up-to-date on the latest laws. - Training courses of different attributes: The Company offers training courses on important regulations and policies; each course is tailored to the needs and duties of different employees to ensure proper understanding of applicable regulations and policies. - Kaori invites outside experts to host seminars or assigns employees to participate in external training courses from time to time to keep up-to-date on regulatory developments.
 Business risk	Plant expansion risks Heat Exchanger Business - Changes in heat pump policies in Europe have slowed down product demand. - Dilemma whether to replicate successful experiences for quick expansion or to adopt cost-effective production methods that take time to implement. Fuel Cell Business - The Company runs the risk of suffering losses if it cannot generate additional revenue from increased customer demand to support the additional depreciation and overhead incurred on plant expansion. New Business Development - Hydrogen Power - Increased operating costs New Business Development - Thermal Energy - Increased operating costs	Heat Exchanger Business - Sign long-term contracts with customers, and confirm volume forecasts with customers on a regular basis. - For short-term expansion projects, the Company will take into consideration the potential of market saturation and adopt next-generation technologies. Fuel Cell Business - Kaori confirms with customers and obtains reliable estimates on the potential increases in demand for assurance. - Kaori avoids dependency on the demand of any single major customer and takes into consideration the demand of other external as well as internal customers to maximize utilization of equipment and personnel capacity. New Business Development - Hydrogen Power - Develop validation sites at the customer end. New Business Development - Thermal Energy - Adopt the use of multi-functional and multi-purpose production equipment in response to the fast-changing industry. - Progressively develop automated and semi-automated production lines.

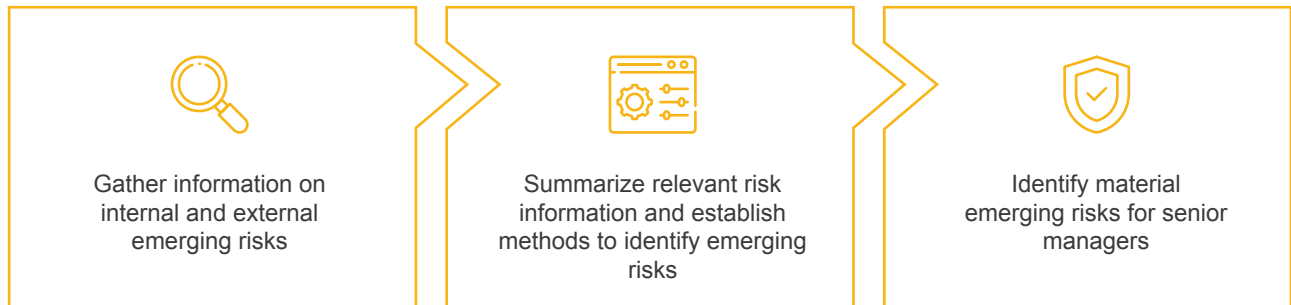
Risk Type	Risk Description	Management Measures
 Supply chain and raw materials risk Raw material procurement risk	- The Company uses large volumes of raw materials in its production, such as stainless steel plates, special steel plates, copper foil, and stainless steel bars. - Some raw materials are overly concentrated in few suppliers, which poses the risk of being unable to source adequate supplies. The Company may encounter a decline in revenue and profit if it is unable to source the needed materials in a timely manner or if it cannot transfer the additional costs associated with rising raw material prices directly to customers.	- Diversify supply sources and secure the supply of raw materials by making purchases from suppliers in different regions. - Sign long-term supply contracts with suppliers to control cost, given the volatility of raw material prices. - Make localized purchases of raw material where possible to shorten the supply chain and minimize risk of shipment delay caused by logistics shortage.
 Climate change Cost of transition to low-carbon technology Changes in domestic/foreign regulations Increasing severity of typhoons, floods, and extreme events	- Uncertain access to raw materials: Kaori has plans to make use of low-carbon materials, but there are limitations associated with the development and access to low-carbon materials such as eco-friendly steel and copper. Any uncertainty in the supply would make product delivery timelines more difficult to control - Low-carbon transformation increases costs: In an attempt to conform to low-carbon requirements, the Company will have to commit R&D personnel and capital to low-carbon products, which in turn increases the costs and compromises the competitiveness of the Company's products - Domestic and foreign carbon taxes: Carbon pricing systems are taking shape at increasing rates at home and abroad. The Company may incur additional carbon taxes and see costs rise over time - Delayed delivery: Extreme weathers affect factory operations and cause disruptions to production activities, raw materials supply, and transportation. Delivery may be delayed by several days to one week	- Supplier Diversification: Kaori maintains relationships with several suppliers to reduce uncertainties associated with the cost of and access to low-carbon materials - Monitoring of regulations and trends: A dedicated team will be assembled to keep track of new product regulations and trends on a regular basis. Regular training will be organized to discuss current trends and to evaluate the needs for product re-modification and re-certification - Compensating production capacity with efficiency: If work is suspended due to typhoons, Kaori will evaluate the extent of the delay and ask suppliers to increase production efficiency to make up for capacity shortfall, thereby averting production halt due to supply disruption.



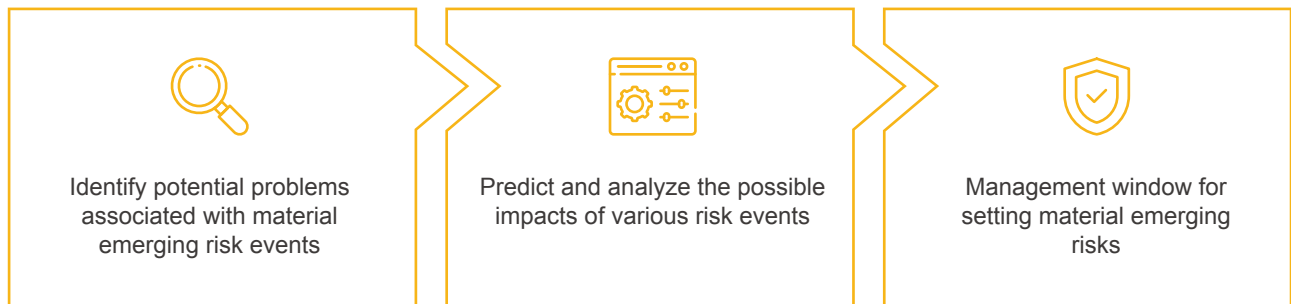
2.6.3 Identification, assessment, and management of emerging risks

Kaori continuously monitors trends in the economic environment, identifies long-term risks and opportunities, and appropriately adjusts its business strategies to achieve sustainable operations and long-term performance. Therefore, each risk management team collects relevant domestic and foreign information to evaluate the Company's long-term operating risks. Through methods such as surveys, meetings with senior management, or discussions within the ESG Steering Committee, the topics with the highest potential impact are identified. The strategies for mitigating these impacts and response measures are then reviewed and submitted to the senior management meeting for decision-making, serving as important references for future business strategy development.

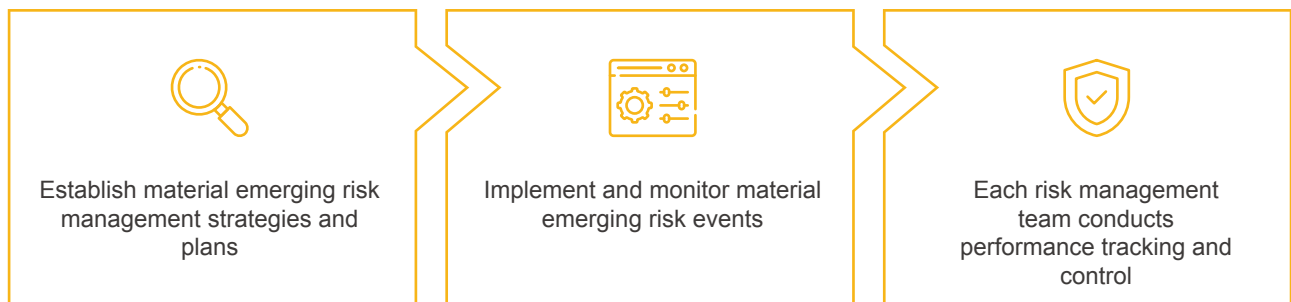
Identification of material emerging risks for the year



Assessment of material emerging risks



Management of material emerging risks



2.7 Internal audit and management verification system

2.7.1 Internal audit

Kaori's Audit Office is an independent internal audit unit directly reporting to the Board of Directors. Its purpose is to thoroughly review and assess the effectiveness of internal controls, measure the effectiveness and efficiency of operations, reliability, timeliness, and transparency of reports, and ensure legal compliance.

Audit process

1. Formulate an annual audit plan based on the risk assessment results and execute audit operations according to the plan.
2. Implement project audits as needed and let the management understand the existing deficiencies or potential risks in a timely manner.
3. Issue an audit report after the implementation of the audit work, and propose suggestions and improvement methods.
4. Continuously track the improvement of auditing deficiency items, and produce a quarterly follow-up report until the completion of the improvement is confirmed.
5. After the audit report and follow-up report are submitted, they shall be submitted to the independent directors for review by the end of the month following the completion of the audit item.

Audit work is conducted based on risk assessment results, with an annual audit plan developed and approved by the Board of Directors. The audits are carried out to provide management with information on the operation of internal controls. Additionally, special audits are conducted as needed. Any findings are thoroughly communicated with the audited units to help management understand current deficiencies or potential risks.

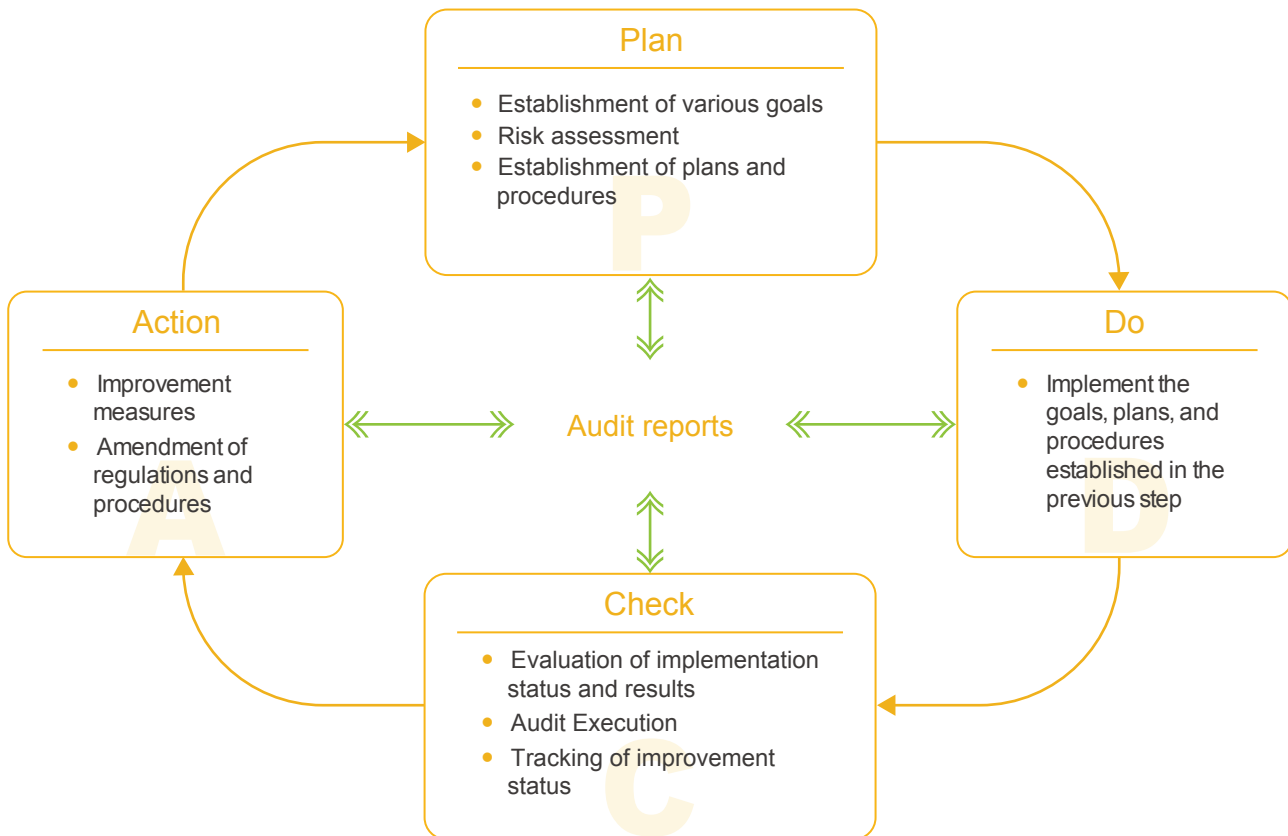
The internal audit unit issues a written audit report and follow-up report after the audit, which is reported to the Chairman and the Audit Committee on a monthly basis or when necessary, in addition to reporting at the regular board meeting every quarter.

Internal Audit and Correction

Kaori has implemented internal controls in accordance with the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and the competent authority's instructions, and taken steps to ensure that they remain effective at supporting the operational goals of the Company. Annual audit plans and special audits are organized as requested by the competent authority or the Board of directors or as suggested by the management.

The Company has an Audit Office that carries out audit tasks according to the annual audit plan and on specific issues. Findings are compiled into official reports and distributed to the respective auditees. According to the proposed 2024 audit plan, the Company issued 87 audit reports, and the reports issued are communicated to the audited units. All audit reports were presented to the Audit Committee for review and reported in Board of directors' meetings. For any defects or abnormalities discovered during the audit, the auditee will be instructed to rectify or make improvement plans, and progress will be tracked on a quarterly basis until improvements have been made.

Audit operations management follows the PDCA management cycle as illustrated in the figure below:



2.7.2 Internal management system

The Company's Board of Directors and managers have established an internal management system in accordance with the "Regulations Governing Establishment of Internal Control Systems by Public Companies" and related laws and regulations to improve business management effectiveness and product quality.

The internal management system is mainly divided into the following three items:

1. Internal control system

The internal control system covers the entire operation of the Company, including the "management" functions in terms of planning, organization, and control, as well as the scope of business related to sales, production, procurement, financing, salary, fixed assets, computer information, investment, and R&D. The nine major cycle procedures and standard measures adopted are the scope of the internal control system.

Its main purpose is to "promote the effective operation of the enterprise organization and identify problems and solve them immediately."

2. ISO management system

Establish the ISO management system for production, quality, and environmental issues. The relevant ISO certifications that have been passed are as follows:



ISO 14001:2015
Environmental Management
System



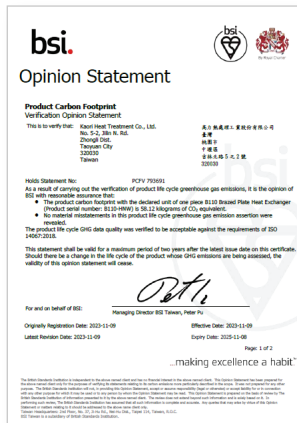
ISO 9001:2015
Quality Management System



AS9100:D
Quality Management System
Standard for Aviation and Space



ISO 14064-1:2018
Greenhouse Gas Inventory



ISO 14067:2018
Product Carbon Footprint
Inspection



ISO 45001:2018
Occupational Safety and Health
System



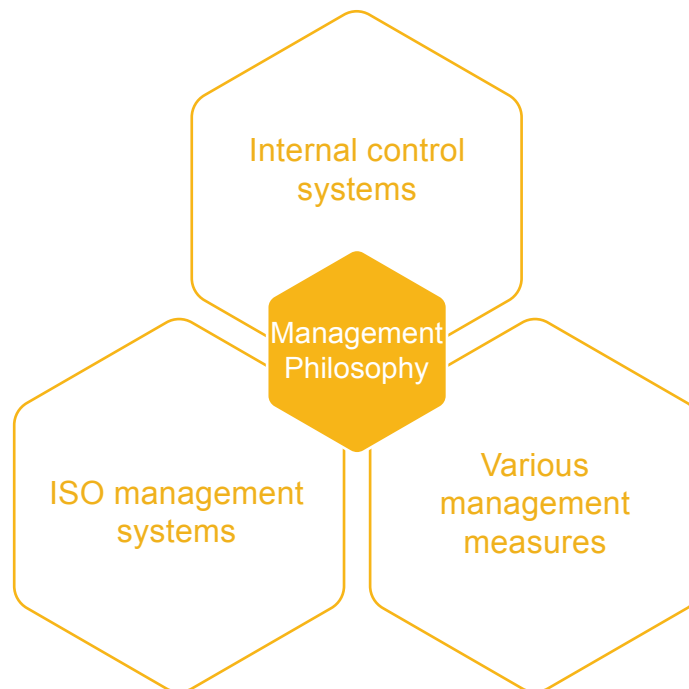
ISO 27001:2022
Cybersecurity Management
System

3. Management measures

Relevant management regulations have been established to reduce operational risks for special control items with high operational risk, such as the personnel management system, credit management operations, and the authority to approve various expenses.

These three internal control management systems are built on the principles of regulatory compliance, business integrity, ethics, corporate culture, and our business philosophy. By ensuring their effective operation and continuous improvement, we align with Kaori's sustainable business philosophy, thereby enhancing operational management effectiveness, product quality, and added value and ultimately achieving our vision and mission of sustainable corporate growth.

Below is a diagram of the internal control management system:



Legal Compliance, Ethical Corporate Management, and Corporate Culture

