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Sustainable Supply Chain Management



In order to establish a sustainable supply chain, in addition to complying with laws and regulations and ethical procurement, Kaori assists in sustainable management of the supply chain, and has short-, medium- and long-term sustainable management goals and work plans as follows:

Timeline	Short-term metrics (2024 - 2025)	Medium-term metrics (2026-2029)	Long-term metrics (after 2030)
	The average rating of qualified suppliers is 80 points and above.	The average rating of qualified suppliers is 85 points and above.	The average rating of qualified suppliers is 90 points and above.
Sustainable supply chain	- Suppliers are required to conduct self-assessment through the "Supplier Sustainability Self-Assessment Questionnaire." - The goal is to have 11 suppliers complete the questionnaire.	- Suppliers are required to conduct self-assessment through the "Supplier Sustainability Self-Assessment Questionnaire." - The goal is to have 15 suppliers complete the questionnaire.	- Suppliers are required to conduct self-assessment through the "Supplier Sustainability Self-Assessment Questionnaire." - The goal is to have 20 suppliers complete the questionnaire.
	- Compliance with the RBA Code of Conduct - Request suppliers to sign the "Supplier Code of Conduct" as the basis for implementation, and achieve the goal of 100%	- Compliance with the RBA Code of Conduct - Request suppliers to sign the "Supplier Code of Conduct" as the basis for implementation, and achieve the goal of 100%	- Compliance with the RBA Code of Conduct - Request suppliers to sign the "Supplier Code of Conduct" as the basis for implementation, and achieve the goal of 100%

Material issue objectives and performance:

In addition to achieving regulatory compliance and ethical procurement, Kaori has defined the material issues and performance as follows:

2024 Goals	2024 Performance Achievement Level	2025 Goals
The average rating of qualified suppliers is 80 points and above.	Average score of 86 → Achieved	The average rating of qualified suppliers is 80 points.
All suppliers have signed the code of conduct, achieving a 100% completion rate.	All suppliers have signed the code of conduct, achieving a 100% completion rate. → Achieved	All suppliers have signed the code of conduct, achieving a 100% completion rate.

5.1 Supplier Management Policy and Overview

As the general public and global partners have become increasingly aware of corporate social responsibilities, they now require suppliers/contractors to exert social influence and act in the interest of social issues, environmental protection, and social responsibilities, in addition to meeting conventional performance measurements such as product quality, technological capacity, delivery, collaboration, and other factors directly associated with service and production. Kaori requires new suppliers/contractors and existing suppliers to comply with social, environmental, economic, and ethical regulations, thereby responding to the public's expectations.

Suppliers are important partners in Kaori's operations, and in order to promote green products, it is especially critical for the Company to manage the supply chain at the source. In addition to quality, delivery, and collaboration, Kaori has also begun assessing suppliers for issues such as worker rights and socioeconomic contributions. By exerting influence over suppliers, the Company hopes to promote the sustainable growth of the entire supply chain and enforce sustainability to the benefit of all parties involved.

Supplier Management Policy

- Procurement policy:

Select business partners primarily based on the quality, timeliness, and consistency of goods/services supplied and their willingness to commit to long-term relationships.

- Supplier selection system:

Kaori conducts annual supply audits for effective management and maintenance of relationships with qualified suppliers. Suppliers are evaluated on product quality, delivery timing, service, technological background, and the quality management system. Furthermore, Kaori requires suppliers to present quality system certificates issued by independent third parties, and to complete questionnaires on the management of hazardous substances. All raw material suppliers are required to sign a commitment to ethical conduct and anti-bribery.

Suppliers are evaluated not only for the prices they offer, but also for their overall contribution to Taiwan as well as their ability to complement the Company's role and position. With the introduction of the sustainable supply chain management system in 2022, Kaori will gradually replace suppliers that are found to be incompetent, thereby creating a more resilient and sustainable supply chain.

Overview of Supply Chain Partners

Kaori had a total of 845 supply chain partners in 2024, with total purchases amounting to NTD 2.2 billion. Among the top 80% of procurement spending, 51.8% was allocated to components, followed by raw materials and outsourced processing. The percentage of localized purchases (from local suppliers in Taiwan) was 50.8%. Suppliers are categorized based on procurement types: raw material suppliers, equipment suppliers, component suppliers, engineering service providers, gas suppliers, and outsourced processing suppliers. Qualified suppliers in 2024 (top 80% in annual procurement amount) included 36 domestic suppliers, accounting for 71%, and 15 foreign suppliers, accounting for 29%, totaling 51 suppliers.

Type of supplier	Raw materials	Equipment	Parts and accessories	Engineering	Gas	Outsourced manufacturing	Total
Total number of suppliers	12	2	26	2	1	8	51
Percentage	23.5%	3.9%	51.0%	3.9%	2.0%	15.7%	100%

Kaori's suppliers include steel mills and foreign providers of advanced technologies and products, all of which are capital-intensive businesses and have imposed high standards on environmental protection, green energy, and public interest. Kaori operates in the midstream of the industry and provides end customers with products that are processed and assembled from the above-mentioned materials.

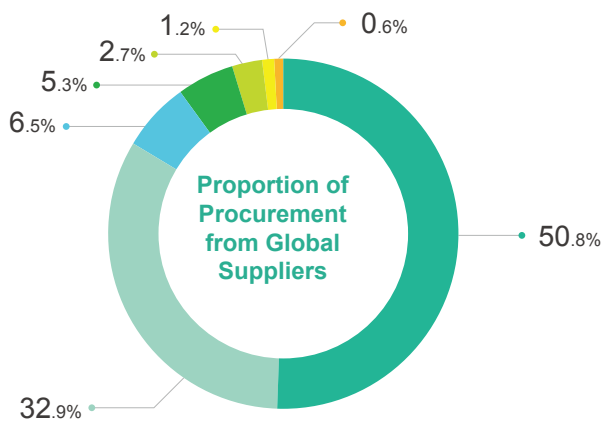
Local Procurement

In terms of local procurement strategy, Kaori selects excellent local manufacturers. Refers to suppliers whose manufacturing plants are located in the same country as Kaori's production sites (Zhongli Plant/ Kaohsiung Plant), and to support Taiwan's local economy and employment opportunities, local suppliers are preferred in procurement efforts over the years. This strategy effectively implements material localization, reduces unnecessary air or sea freight costs, and lowers the carbon footprint generated during material transportation. This approach fulfills our environmental responsibility of energy conservation and carbon reduction and directly reduces procurement costs.

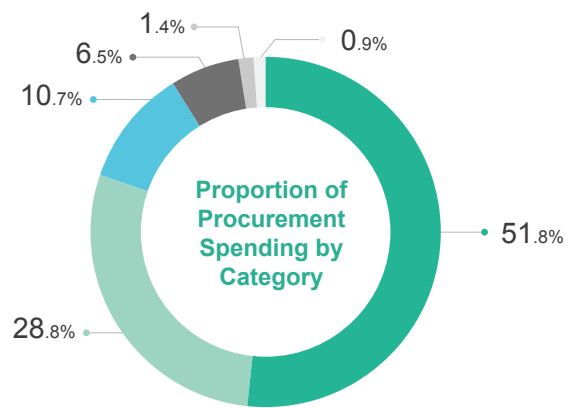
5.2 Supplier Distribution

In 2024, the distribution of suppliers and procurement spending showed an increase in the purchase of domestic goods compared to 2023, primarily due to expenditures on product components by the Thermal Energy Business Group.

Region	Category	Purchase amount (NTD)	Percentage
Domestic	Outsourced processing	190,955,523	10.7%
	Raw materials	188,181,211	10.5%
	Gas	15,710,708	0.9%
	Equipment	20,249,450	1.1%
	Components	466,692,111	26.1%
	Construction	25,424,000	1.4%
USA	Raw materials	96,012,431	5.4%
	Equipment	95,390,930	5.3%
	Components	396,887,174	22.2%
Germany	Raw materials	115,313,822	6.5%
Mainland China	Raw materials	44,546,836	2.5%
	Components	50,202,838	2.8%
Japan	Raw materials	48,643,756	2.7%
The Netherlands	Raw materials	20,718,643	1.2%
Sweden	Components	10,852,470	0.6%



Domestic USA Germany Mainland China
Japan The Netherlands Sweden



Components Raw materials Outsourced manufacturing
Equipment Construction Gas

5.3 Graded Management of Suppliers

Kaori cooperates with suppliers and divides suppliers according to the type of procurement: raw material suppliers, equipment suppliers, component suppliers, engineering service providers, gas suppliers, and outsourced processing suppliers.

Ratings of qualified suppliers:

Preface	Evaluation category	Direct material proportion	Evaluation unit
1	Quality evaluation	50%	Quality control
2	Delivery time evaluation	50%	Procurement

Judgment and disposal of the evaluation results:

Evaluation Grades	Scoring	Judgment and Disposition
A	Score ≥ 70	Qualified suppliers
B	$70 > \text{Score} \geq 60$	Monitored suppliers Implement simulated improvements for lower-scoring items.
C	Score < 60	- Improvement is required within a set deadline for the first time, and the Company may consider reducing the order volume. And take supporting measures. - Transactions are ceased for receiving consecutive low scores.

2024 Raw materials/parts supplier delivery count and grades:

Grade A	Grade B	Grade C	Grade D	Total
20	0	0	0	20

Qualified Supplier Audit:

Audit frequency is determined based on supplier evaluation performance, with an audit plan for the following year.

Number of audits conducted:	Major deficiencies	Minor deficiencies	Recommendations	Number of outstanding cases	Case closure rate
6	0	0	11	0	100%

5.4 Establishment of a sustainable supply chain

Steps of Sustainable Supply Chain Management



Sustainable Supply Chain Management System

1. Establishment of a supplier management system:

Conduct a thorough inventory of existing procurement policies and documents, strengthen the "Supplier Control Procedures", and explicitly add a "New Supplier Sustainability Evaluation Form" to evaluate suppliers who can better comply with the sustainable policy and grow together. For existing suppliers, we have also explicitly signed the "Supplier Code of Conduct" to move towards better corporate governance together with suppliers.



2. Supplier Sustainability Review

To ensure that suppliers continue to comply with regulations and the Company's sustainability requirements in areas such as environmental protection, social responsibility, and corporate governance (ESG), Kaori conducts regular sustainability audits of its suppliers every two years. The audit covers indicators such as labor rights, environmental management, business ethics, and risk control, aiming to assess the suppliers' sustainability performance and compliance status. Through this regular audit mechanism, we aim to establish long-term, stable, and sustainable partnerships with our suppliers, thereby promoting responsibility and transparency throughout the supply chain.

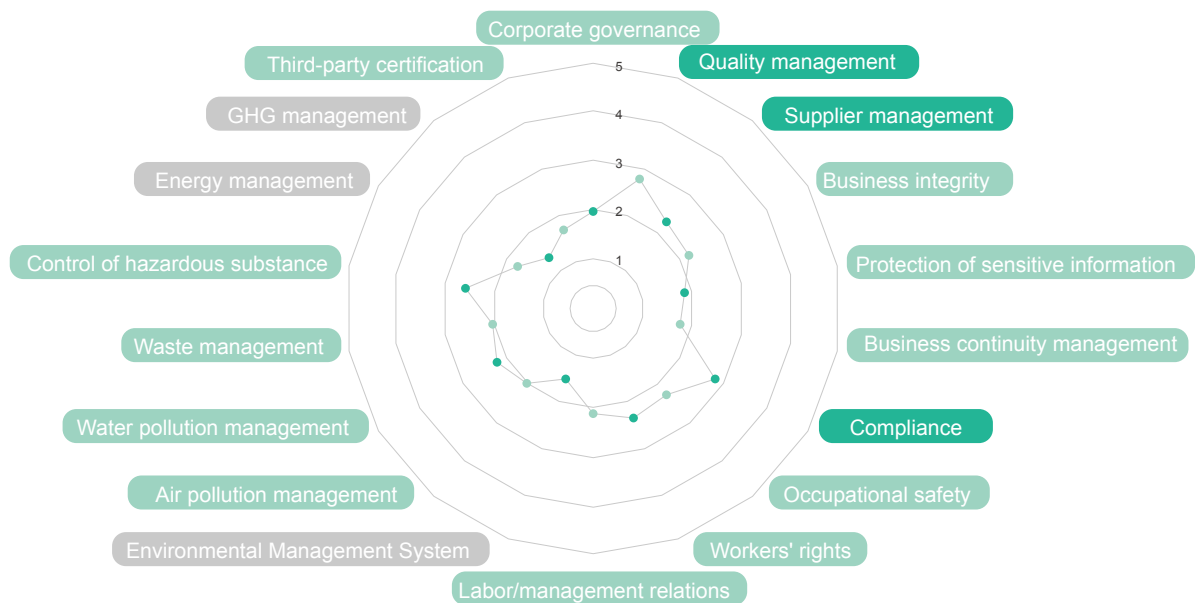
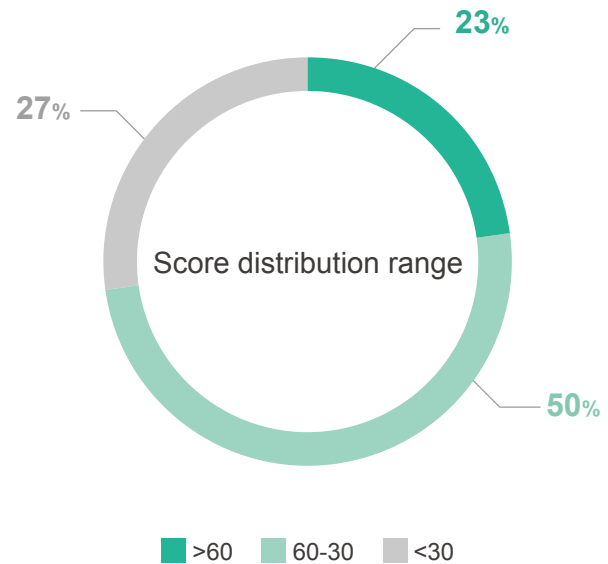
Status of ESG Engagement with Suppliers

In September 2022, Kaori held its first supplier communication meeting, achieving a 100% attendance rate. The event conveyed the Company's vision for sustainable governance and guided suppliers in completing the Sustainability Self-Assessment Questionnaire. In October, two internal training sessions were conducted for procurement staff, followed by a documentation review of 30 supplier self-assessments and one on-site sustainability audit.



Overview of 2023 Supplier Sustainability Audits:

- A total of 30 suppliers filled out the supplier sustainability evaluation form, and the return review rate was 100%.
- Averaged a score of 44.7; a total of 7 suppliers (23%) scored above 60.
- Governance, social, and environmental issues: Suppliers scored highest in the governance aspect and lowest in the environmental aspect
- Distribution of Scores by Section: "Compliance," "Quality management," and "Supplier management" were the categories that suppliers scored the highest in, indicating that suppliers have undertaken robust management practices with regards to compliance, quality, and supplier management. "Greenhouse gas management," "Energy management," and "Environmental management system" were the categories that suppliers scored the lowest in. Many scores in the environmental aspect were lower than average, indicating room for improvement; occupational safety is an issue that all suppliers must pay attention to, and it will be at the top of Kaori's requirements.



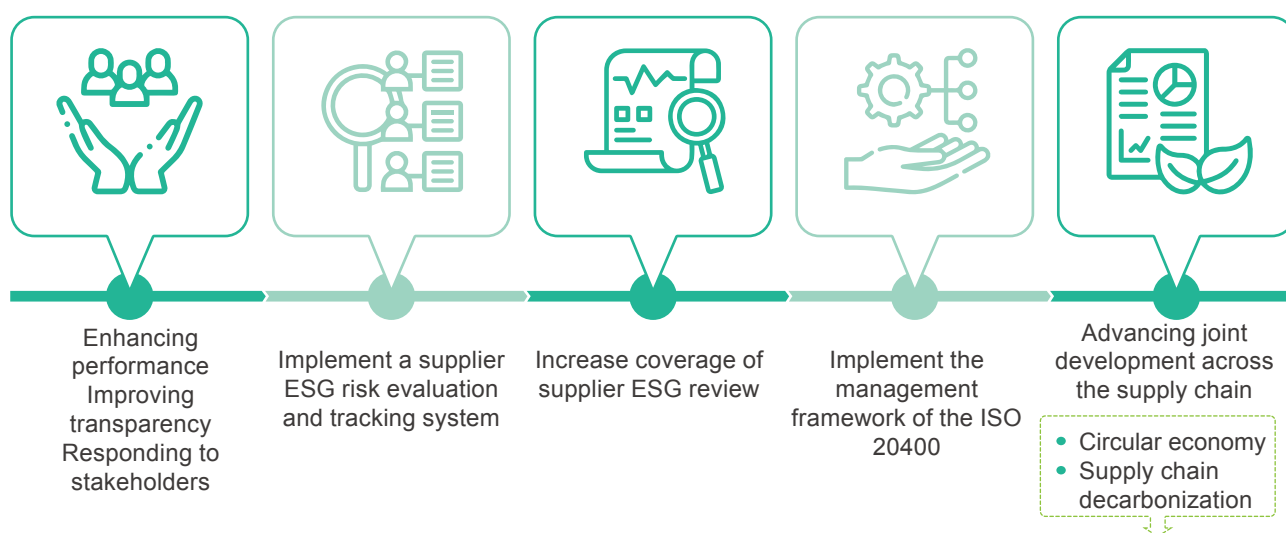
3. Future Improvement Plans

Low score group (40 and below)	• Kaori will help respondents understand the content of the questionnaire and guide them through the instructions while answering whatever queries they may have. • Respondents will be given more time to reply, as well as reminders and assistance to prepare supporting information. • Provide additional resources (e.g.: external courses and materials) will be provided to help suppliers develop relevant systems.
Medium score group (40 and above)	• Prioritize the quantity allocated to orders. • Suppliers will be offered suggestions to devise development plans over several stages and to improve documentation or practices in areas of weakness identified through the scoring exercise.

4. Future Sustainability Supply Chain Management Roadmap

- I. Enhance sustainability performance, make transparent disclosures, and respond to stakeholders
- II. Implement a supplier ESG risk evaluation and tracking system
- III. Increase coverage of supplier ESG review
- IV. Implement the management framework of the ISO 20400 Sustainable Procurement Guidelines

V. Coordinate with suppliers to achieve the circular economy and supply chain carbon reduction. Draw product life cycle charts and identify emission hot spots through carbon footprint surveys, and make preparations for the circular economy and low-carbon products.



Draw product life cycle charts and identify emission hot spots through carbon footprint surveys, and make preparations for the circular economy and low-carbon products

5.5 Suppliers' implementation of social responsibilities (including Ethical Procurement)

The Company has established the Supplier CSR Code of Conduct in accordance with the Responsible Business Alliance (RBA) as the basic value for managing the supply chain. This Code covers labor, health and safety, environmental standards, business ethics, and management systems to ensure that suppliers work in a safe environment, employees are treated with respect and dignity, and business operations are environmentally friendly and ethical. The Company requires suppliers to avoid risks related to the environment, human rights/labor, corporate ethics, and labor standards, as well as prevent production stoppages caused by strikes in advance, and establish a relationship of co-existence and co-prosperity with suppliers.

Kaori requires new suppliers to follow the RBA Code of Conduct and sign the "Supplier Code of Conduct Declaration," pledging that all activities comply with relevant laws and ethical standards. We communicate Kaori's sustainability management policies to our suppliers and ensure they continuously meet our expectations through formal agreements. No new key suppliers were added in 2024, and therefore no further additions were made.

Supplier Code of Conduct Declaration

Highlights

Ensure the safety of the supply chain work environment, ensure that employees are respected, and implement business activities in compliance with environmental protection and ethical requirements, in terms of labor, health and safety, environment, business ethics, and management system. Ensure that all business activities comply with this Code, protect labor rights, and treat them with dignity and respect. Establish a healthy and safe work environment free of child labor (the minimum legal age for employment in the country/region).

Supplier Environmental and Social Responsibility Mechanism and Delivery Management

Suppliers who need to enter the Company's factories for construction and maintenance must comply with the relevant supplier specifications and requirements in the purchase contract and order. Environmental safety personnel manage the procurement operations according to the "Supplier Management Procedures" and "Contractor Environmental Protection and Safety and Health Management Guidance" and conduct environmental protection professional audits. New suppliers guarantee that the management of their production facilities, product manufacturing processes, and the products or services provided do not violate any relevant laws and regulations. In the procurement contract, they guarantee that all aspects of product production, manufacturing, labeling, packaging, storage, handling, transportation, import/export, delivery, installation, commissioning, or service provision are all in compliance with all applicable laws and regulations of the relevant applicable countries. During the social responsibility audit, new supplier employees are given reminders, guidance, and audits on working hours/safety/labor disputes.

Comply with Hazardous Substances Management Regulations

In order to maintain health and environmental safety, Kaori has adopted the ISO 9001 quality management system as the basis for managing the RoHS regulations and hazardous substances required by customers. At the same time, we are also committed to complying with the requirements of various countries and customers on chemical substances, and we also require suppliers to comply with regulations on restricted or prohibited hazardous chemical substances.

Responsible Mineral Procurement

Kaori complies with the Responsible Business Alliance (RBA) and is committed to not purchasing or using materials from conflict-affected and high-risk areas. The Company communicates its conflict minerals policy to suppliers, requiring their commitment and compliance. Suppliers are also required to trace the sources of tantalum, tungsten, tin, gold, and cobalt used in their products. At the same time, suppliers are required to communicate this policy to their upstream suppliers to fulfill corporate social responsibility. Kaori publicly discloses its conflict-free minerals policy on its website and integrates it into supplier management. Suppliers are required to sign a Non-use Conflict Minerals Guarantee, ensuring that all materials, products, or components delivered to Kaori do not directly or indirectly contain conflict metals.

