

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, supervisors, 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", "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".

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 convey 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 encountered no financial losses from lawsuits relating to bribery or corruption in 2022. It received one report on breach of integrity and ethics that resulted in no material impact. The incident has been handled according to internal policies with preventive measures taken.

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 violation against the law, safety rules/regulations, employment contracts, or commercial ethics will be subject to legal consequences and disciplinary measures. These violations are taken into consideration as part of employees' performance evaluation. No training was organized on this topic in 2022. Plans have been made to have the COO take an "Anti-Bribery Procedures and Communication" course in Q1 2023. In an attempt to build up integrity awareness among employees, Kaori has assigned the human resources department of its Administrative Management Division to plan courses on commercial ethics and key regulations, thereby creating a culture of integrity.

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
Kaori Heat Treatment Co., Ltd. - Special Assistant's Office
- E-mail
csr@kaori.com.tw
- 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 the 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.

Enhancement of Integrity Awareness Within the Value Chain

Kaori exerts ESG influence by requiring all suppliers to sign a “Supplementary Anti-Corruption Clause to Procurement Contract” 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.

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. Coordinating integrity policy awareness and training programs.

Ethical Behavior Guidelines

1. Offering and acceptance of bribes.
2. Offering of illegal political donations.
3. Inappropriate donation or sponsorship.
4. Offering or acceptance of inappropriate gifts, treatment or benefits.
5. Infringement on business secrets, trademarks, patents, copyrights, and other intellectual property rights.
6. Engagement in unfair competition.
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.

