

## 2.1 Corporate Governance

Kaori has always prided itself for 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.

### 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 Compensation 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 Chairman and general manager are not undertaken by the same person.

The Board has nine directors (including three independent directors) who are elected to serve a three-year term. The Board convenes meetings at least once a quarter; a total of five Board meetings were held in 2022, in which Board members had an average attendance rate of 100%. 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: Fan-Hsiung Chen (Emeritus Professor of Tatung University Department of Materials Engineering), Hsiang-Wen Hung (Consultant of Li Mei Jia Investment Co., Ltd.), and Chun-Ying Wu (Director of Commercial Development of YuanTsun Plastic Co., Ltd.). Independent directors currently represent one-third of the Board.

2022		Age Distribution of Members of the Governance Body			
		30 and below	31-50	51 and above	Subtotal
Gender	Female	0	0	0	0
	Male	0	2	7	9
	Subtotal	0	2	7	9

## 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 Chairman 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 ESG issues as well as 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 2022

Date	Resolution
2022.01.21	<ul style="list-style-type: none"> <li>• Proposal to apply for credit limit and engage financial institutions for credit-related matters out of operational requirements</li> <li>• Passed the company-wide year-end and performance bonuses for 2021</li> <li>• Passed the managers' year-end and performance bonuses for 2021</li> <li>• Passed the Company's 2022 budget</li> <li>• Passed the amendments to the "Corporate Social Responsibility Code of Conduct"</li> <li>• Passed the amendments to the "Corporate Governance Code of Conduct"</li> </ul>
2022.03.25	<ul style="list-style-type: none"> <li>• Proposal to apply for credit limit and engage financial institutions for credit-related matters out of operational requirements</li> <li>• Passed the 2021 business report and financial statements</li> <li>• Passed the 2021 earnings appropriation</li> <li>• Passed the employee and director remuneration for 2021</li> <li>• Passed the issuance of the 2021 "Declaration of the Internal Control System"</li> <li>• Passed the details concerning the 2022 annual general meeting</li> <li>• Passed the independence and appropriateness assessments for the Company's financial statement auditors</li> <li>• Passed the amendments to the Company's "Internal Control System"</li> <li>• Passed the amendments to the Company's "Articles of Incorporation"</li> <li>• Passed the amendments to the Company's "Shareholders' Meeting Rules"</li> <li>• Passed the Company's "Asset Acquisition and Disposal Procedures"</li> <li>• Passed the amendments to the Company's "Corporate Governance Code of Conduct"</li> </ul>
2022.05.06	<ul style="list-style-type: none"> <li>• Passed the 2022 Q1 financial statements</li> <li>• Passed the greenhouse gas inventory and validation timelines for the Company</li> </ul>
2022.08.05	<ul style="list-style-type: none"> <li>• Proposal to apply for credit limit and engage financial institutions for credit-related matters out of operational requirements</li> <li>• Passed the 2022 Q2 financial statements</li> <li>• Passed the employee and director remuneration for 2021</li> </ul>
2022.11.04	<ul style="list-style-type: none"> <li>• Proposal to apply for credit limit and engage financial institutions for credit-related matters out of operational requirements</li> <li>• Passed the 2022 Q3 financial statements</li> <li>• Passed the 2023 audit plan</li> <li>• Passed the amendments to the Company's "Board of Directors' Meeting Rules"</li> <li>• Passed the amendments to the Company's "Material Insider Information Handling Procedures"</li> </ul>

## 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 by way of internal self-assessment, in which directors are asked to perform assessments on several aspects such as 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 2022 Board of directors and functional committee performance evaluation has been completed, and the results indicate "Excellent performance from the Board of directors and functional committees".

## Education of Board Members

To support the Board of directors with its duties, Kaori arranges to have its directors undergo training from time to time on economic, environmental, and social issues that are relevant to Kaori's operations. Through the publications and courses issued/organized by relevant associations, directors are given the resources they need to obtain new knowledge and expand professional capacity. Feedback collected from independent directors during the annual self-assessment is used to improve the content of external reports. Kaori organizes directors' training courses based on the needs of independent directors and emphases of the annual development strategy. Directors were encouraged to participate in the courses organized by the Taiwan Corporate Governance Association in 2022. Under the leadership of a trustworthy and experienced Board of directors, Kaori is confident about the success of its path to sustainability.

## Directors' Attendance in Board Meetings and Training Progress

Designation	Name	Gender	Current main role	Board meeting attendance rate	Courses taken in 2022
Chairman	Hsien-Shou Han	Male	Chairman of the Company	100%	Mindset and strategies in periods of inflation Implementation of corporate governance and controlled foreign corporation system
Vice Chairman	Hsien-Fu Han	Male	Vice Chairman of the Company	100%	Mindset and strategies in periods of inflation Implementation of corporate governance and controlled foreign corporation system
Director	Chih-Hsiung Wu	Male	General Manager of the Company	100%	Mindset and strategies in periods of inflation Implementation of corporate governance and controlled foreign corporation system
	Chun-Liang Chen	Male	LPI Precision Inc. Vice General Manager of the Corporate Affairs Division	100%	Mindset and strategies in periods of inflation Business Integrity Code of Conduct and Avoidance of Violation by Directors/ Supervisors
	Hung-Hsiung Huang	Male	International Bills Finance Corporation Investment Manager	100%	Mindset and strategies in periods of inflation Implementation of corporate governance and controlled foreign corporation system
	Hsin-Wu Wang	Male	Vice General Manager of the Company	100%	Mindset and strategies in periods of inflation Implementation of corporate governance and controlled foreign corporation system
Independent Director	Fan-Hsiung Chen	Male	Emeritus Professor of Department of Materials Engineering, Tatung University	100%	Mindset and strategies in periods of inflation Implementation of corporate governance and controlled foreign corporation system
	Hsiang-Wen Hung	Male	Consultant of Li Mei Jia Investment Co., Ltd.	100%	Mindset and strategies in periods of inflation Implementation of corporate governance and controlled foreign corporation system
	Chun-Ying Wu	Male	Director of Commercial Development, Yuan Tsun Plastic Co., Ltd.	100%	Mindset and strategies in periods of inflation Implementation of corporate governance and controlled foreign corporation system

Note: For details on directors, please see Chapter Three. 2. Corporate Governance Report - Background information of directors, supervisors, the general manager, vice general managers, assistant managers, and heads of various departments and branches of the 2022 annual report.

## 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. Kaori initiated a corporate governance evaluation improvement program in 2022 that increased the Company's ranking to the 4th tier (36-50%), representing an improvement over 2021.

## 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 Compensation 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 Audit Committee Charter. The committee has one member serving as the convener and at least one member who possesses accounting or financial expertise. The Audit Committee convenes meetings at least once a quarter; a total of five meetings were held in 2022.

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 a number of issues including the Company's financial position, financial and operating performance of overseas subsidiaries, and audit findings concerning internal control. The CPAs 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.

## Functionality of the Audit Committee

### 1. Attendance rate in 2022:

Name of committee member	Meetings held	No. of in-person attendances	Attendance %
Fan-Hsiung Chen	5	5	100%
Hsiang-Wen Hung	5	5	100%
Chun-Ying Wu	5	5	100%

### 2. Communication between independent directors and internal/external auditors

#### (1) Communication with CPAs:

Time	Venue	Matters communicated	Outcome
2022.11.04	3F, No. 43, Section 1, Zhongxiao West Road, Taipei City (Cosmos Hotel Taipei)	<ul style="list-style-type: none"> <li>Explanation of the 2022 corporate governance evaluation indicators (2.15 and 2.30)</li> <li>Report on the professional training of audit personnel in 2022</li> </ul>	Opinions exchanged
		<ul style="list-style-type: none"> <li>2023 audit plan</li> <li>Correction of internal control defects in 2022 up until August</li> </ul>	No objections
		<ul style="list-style-type: none"> <li>Explanation of the key audit focus of the consolidated financial statements and recent regulatory updates</li> <li>ESG timeline: Kaori discloses the carbon inventory according to the FSC's ESG guidelines; given the size of Kaori's share capital, the Company is currently ahead of schedule</li> <li>The FSC requires a cybersecurity officer and cybersecurity personnel to be assigned before the end of 2023</li> </ul>	Opinions exchanged

## (2) Meetings held in 2022:

Date	Motion details and resolution	Any objections or reservations expressed by members of the audit committee, whether on-record or in writing	Audit committee's suggestions that are rejected or amended by the Board of Directors
2022.01.21	<ul style="list-style-type: none"> <li>Passed the amendments to the "Corporate Social Responsibility Code of Conduct"</li> <li>Passed the amendments to the "Corporate Governance Code of Conduct"</li> </ul>	None	None
2022.03.25	<ul style="list-style-type: none"> <li>Passed the 2021 business report and financial statements</li> <li>Passed the 2021 earnings appropriation</li> <li>Passed the issuance of the 2021 "Declaration of the Internal Control System"</li> <li>Passed the independence and appropriateness assessments of the Company's CPAs</li> <li>Passed the amendments to the Company's "Internal Control System"</li> <li>Passed the Company's "Asset Acquisition and Disposal Procedures"</li> <li>Passed the amendments to the Company's "Corporate Governance Code of Conduct"</li> </ul>	None	None
2022.05.06	<ul style="list-style-type: none"> <li>Passed the 2022 Q1 financial statements</li> </ul>	None	None
2022.08.05	<ul style="list-style-type: none"> <li>Passed the 2022 Q2 financial statements</li> </ul>	None	None
2022.11.04	<ul style="list-style-type: none"> <li>Passed the 2022 Q3 financial statements</li> </ul>	None	None

### 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. The committee held a total of three meetings in 2022; all motions discussed were of general nature and did not concern major issues.

### Compensation Policy

Directors' individual compensations are disclosed in Section Three. Compensation paid to directors, supervisors, the general manager, and vice presidents in the last year.

With regards to independent directors' compensation, the Board of directors is authorized under Article 20-1 of the Articles of Incorporation to set an amount of up to 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 Article 28 of the Articles of Incorporation, no more than 5% of profit concluded in a year is appropriated for directors' remuneration.

A "Performance Bonus Policy" has been established to provide incentives for senior managers to pursue growth and profit targets while paying attention to the Company's long-term competitiveness and continuity.

## Functionality of the Compensation Committee

### 1. Attendance rate in 2022:

Name of committee member	Meetings held	No. of in-person attendances	Attendance %
Fan-Hsiung Chen	3	3	100%
Hsiang-Wen Hung	3	3	100%
Chun-Ying Wu	3	3	100%

### 2. Meetings held in 2022:

Date	Motion details and resolution	Any objections or reservations expressed by members of the compensation committee, whether on-record or in writing	Compensation committee's suggestions that are rejected or amended by the Board of Directors
2022.01.21	<ul style="list-style-type: none"> <li>Passed the company-wide year-end and performance bonuses for 2021</li> <li>Passed the managers' year-end and performance bonuses for 2021</li> </ul>	None	None
2022.03.25	<ul style="list-style-type: none"> <li>Passed the employee and director remuneration for 2021</li> </ul>	None	None
2022.08.05	<ul style="list-style-type: none"> <li>Passed the employee and director remuneration for 2021</li> </ul>	None	None

## ESG Committee

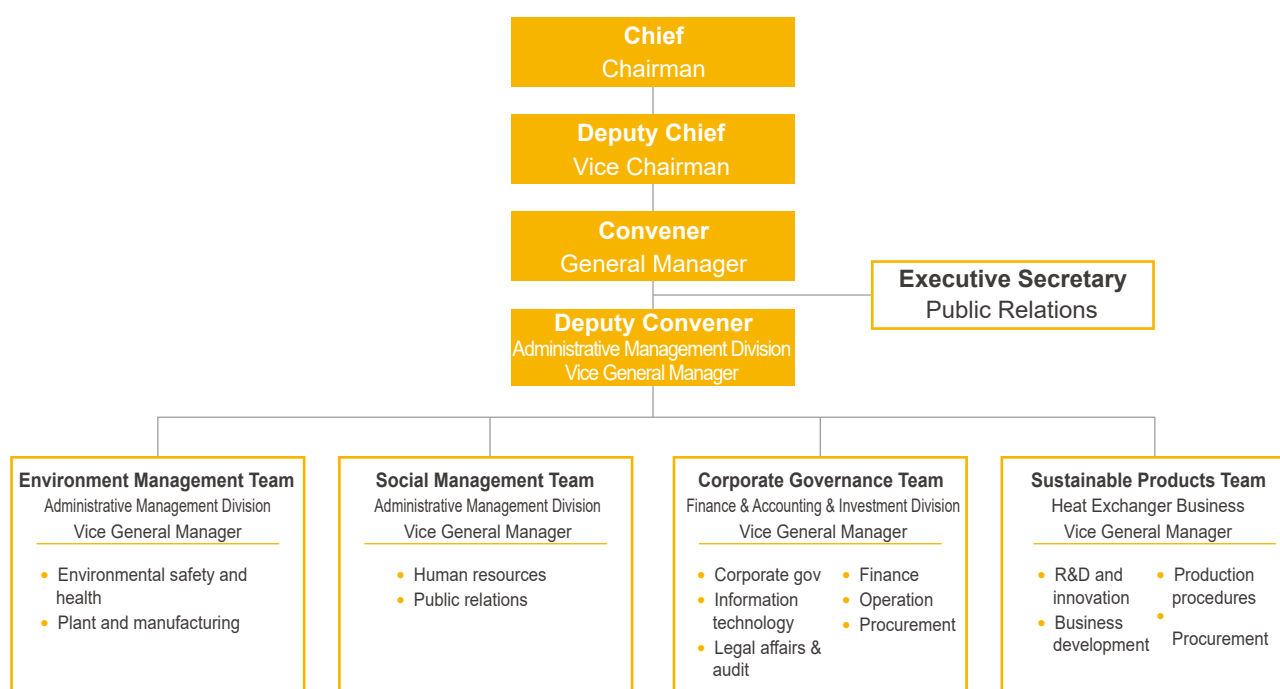
Headed by the Chairman, the committee not only outlines Kaori's ESG visions and long-term strategies, but also coordinates with senior managers from different fields to interact with customers, government agencies, and members of society on four aspects, namely environmental management, social management, corporate governance, and sustainable products. By increasing the level of transparency, the committee contributes to the fulfillment of sustainable responsibility throughout the organization. Kaori envisions itself as an ethical and responsible business and is committed to fulfilling its social and environmental responsibilities as a corporate citizen while maximizing profit performance. At Kaori, we embrace sustainability as a source of inspiration and competitiveness.

The ESG Committee held a total of 35 meetings in 2022 to discuss project execution progress, changes in domestic and foreign laws, and issues concerning CBAM. Furthermore, Kaori observed the "Sustainability Development Roadmap for TWSE/TPEX-Listed Companies" and managed to complete a greenhouse gas inventory and obtain third-party verification at the parent company level ahead of schedule in August 2022. Progress is reported to the Board of directors on a quarterly basis, and a total of three reports were made in 2022. Plans for greenhouse gas inventory and validation at the subsidiary level will be presented for resolution during the Board of directors' meeting scheduled for the first quarter of 2023.

With regards to stakeholder communication, Kaori follows the AA1000 SES stakeholder engagement principles and identifies stakeholders that are of high relevance to Kaori using the five-aspect assessment approach. The Company has implemented open and effective communication channels on the Stakeholders section of its website (<https://www.kaori.com.tw/tw/modules/investors/stakeholder>)

Kaori encountered no major abnormalities relating to stakeholder communication in 2022.





## 2.2 Operating Performance

Sustainability is one aspect that businesses have to commit attention to given the highly competitive environment today. For this reason, Kaori constantly examines its strategies and plans and makes adjustments where appropriate to align with sustainable development goals. The Company remains dedicated to its core business activities and pays particular attention to product quality as well as workplace health and safety as a way to uphold the Company's brand reputation. Despite the fact that COVID-19 has wreaked havoc on the global economy for two years since 2020, Kaori still managed to deliver strong results in 2022 owing to its professional team and management, and reported NT\$2.844 billion in revenue and earnings per share of NT\$3.37 for the year. See the financial statements or the latest annual report for the financial data of the Company.

### Financial Information

Unit: NT\$ million

Item/year	2020	2021	2022
Operating revenue	2,076	2,231	2,844
Gross profit	528	594	786
Operating expenses	358	363	439
Operating profit	170	230	346
Non-operating income and expenses	16	35	44
Pre-tax profit (loss)	155	196	390
Net income (loss)	113	149	301

2022 Performance and Future Prospects



Strategy	Execution Progress
<ol style="list-style-type: none"> <li>1. Improve production procedures and enhance product design capacity</li> <li>2. Expand the portfolio of profitable products</li> <li>3. Expand the distribution and sales network and increase global market share</li> </ol>	<ol style="list-style-type: none"> <li>1. Kori continues to commit R&amp;D resources to the development of new products and technologies to support the production capacity of new products</li> <li>2. Products for special industry applications are being developed for entry into niche markets</li> <li>3. Kaori continues to increase brand visibility through overseas exhibitions and social networks and strives to collaborate with foreign equipment manufacturers and major distributors</li> </ol>
Future Prospects	
<ol style="list-style-type: none"> <li>1. Enforce sustainable supply chain governance, relationship management, and resilience enhancement measures to ensure the timeliness and stability of supply</li> <li>2. Expand the distribution and sales network for heat exchangers, and diversify business activities and the categories of steel materials sold to increase global market share</li> <li>3. Strengthen customer relations, improve the value chain, and strive for mutual growth</li> <li>4. Engage in strategic integrations and make medium/long-term plans to cooperate with world-class steel makers through joint ventures, thereby expanding overseas business</li> </ol>	



Strategy	Execution Progress
<ol style="list-style-type: none"> <li>1. Enhance supplier management</li> <li>2. Vertically integrate factories in China to increase production capacity</li> <li>3. Develop heat pump-exclusive products for a full-scale launch</li> </ol>	<ol style="list-style-type: none"> <li>1. Kaori continues to search for potential suppliers and enforce supply chain integration</li> <li>2. Streamlining of production management processes: improved production efficiency and production utilization; maintenance of high quality of products</li> <li>3. New industry exposure, overseas market expansion, optimized inventory structure, and coordinated production</li> </ol>
Future Prospects	
<ol style="list-style-type: none"> <li>1. Invest business resources in key industries such as heat pumps, new energy, and data equipment</li> <li>2. Ongoing development of products needed by new industries</li> <li>3. Invest in new production equipment; expand production capacity and lower production cost</li> </ol>	





## Fuel Cell Business

Strategy	Execution Progress
<ol style="list-style-type: none"> <li>1. Support international customers in the promotion of solid oxide fuel cells (SOFCs); provide production services featuring advanced tungsten inert gas (TIG) welding technology for key components</li> <li>2. Contribute R&amp;D capacity by taking part in customers' new product development and assisting in the energy transformation of major industries</li> </ol>	<ol style="list-style-type: none"> <li>1. Parts for 2,025 fuel cell reactors were shipped during the year</li> <li>2. Core reactor parts for applications including hydrogen power, biofuel (reuse of march gas), ships, and electrolysis were shipped during the year</li> </ol>

### Future Prospects

1. Implementation of six main operating strategies: cost reduction, timely delivery, quality excellence, leading innovation, persistent improvement, and production expansion
2. The three action plans:
  - (1) Production expansion: recruit talent, expand plant premises, acquire new vacuum furnace production equipment, and speed up certification of continuous furnace production procedures
  - (2) Optimization and streamlining of production management: plan semi-automated production processes, optimize component production procedures, and optimize production scheduling
  - (3) Business continuity management: develop responses for volatility of raw material prices, implement supplier management, refine production procedures, reduce inventory turnover days, and recycle packaging materials



## New Business Development - Hydrogen Power

Strategy	Execution Progress
<ol style="list-style-type: none"> <li>1. Develop hydrogen power technologies in response to carbon tax and end users' demand for carbon neutrality</li> <li>2. Apply hydrogen production technology in diverse markets in response to the global movement toward net zero emission</li> <li>3. Patent viable technologies</li> </ol>	<ol style="list-style-type: none"> <li>1. Kaori has developed technologies for waste hydrogen recycling, ammonia cracking and hydro power, and CO<sub>2</sub> solidification</li> <li>2. Methanol hydrogen generators (30, 5, and 2.5 m<sup>3</sup>) were shipped during the year for applications such as weather stations, industrial hydrogen production, and hydrogen fuel stations</li> <li>3. Acquired an invention patent certificate in Taiwan for a "Device and method of disposing and reusing organic waste fluids" (2022/11)</li> </ol>

### Future Prospects

1. Goal: develop consistent, efficient, and low-cost hydrogen production, hydrogen purification/recycling, carbon capture, and hydrogen power technologies and products for industrial application
2. Strategy: develop the technologies and products needed by customers based on existing knowledge on the design and manufacturing of high-temperature reactors and system integration capabilities

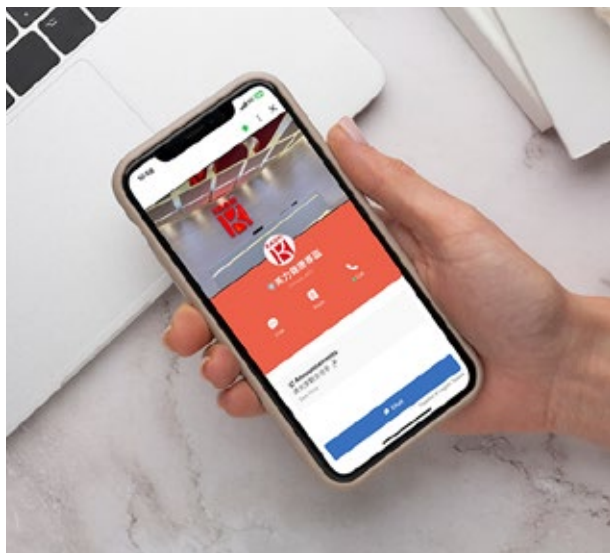


## New Business Development - Thermal Energy

Strategy	Execution Progress
<ol style="list-style-type: none"> <li>1. As a server parts supplier, obtain performance and endurance validation for fluorinated liquid</li> <li>2. Development of immersion liquid cooling products</li> </ol>	<ol style="list-style-type: none"> <li>1. Completed in 2022 Q4</li> <li>2. Completed planning of the development schedule for standard products</li> </ol>
Future Prospects	
<ol style="list-style-type: none"> <li>1. Obtain server validation and performance and endurance validation for insulating oil</li> <li>2. Obtain CE&amp;UL certification and commence mass production of standard immersion liquid cooling products</li> </ol>	

### Impact of COVID-19 and Response

COVID-19 has changed the landscape of the global economy in an unprecedented and profound way. Judging by the severity of the impact and how the world has adapted in the post-pandemic era, it is essential for Kaori to adopt a more robust business continuity model featuring semi-automated production and a higher level of digital transformation that conforms with future trends.



Operating locations
<ol style="list-style-type: none"> <li>(1) Adopted quarantine measures that were more stringent than government standards and provided employees with leaves that were more favorable than what the government required.</li> <li>(2) Supported the government's disease control policy with work segregation arrangements for minimal contact; any confirmed infection would trigger antigen rapid tests to be conducted on all local employees; employees were encouraged to be vaccinated to lower the infection rate.</li> <li>(3) Depending on the severity of the disease, the Company suspended customer and supplier visits and held meetings using telephone or video conference instead.</li> <li>(4) Workers were divided into teams and produced in a segregated manner; nevertheless, they produced according to schedule and delivered goods to customers on time.</li> <li>(5) A "Kaori Health Section" was created on the social network account to provide updates on disease control measures and to be used as a reporting platform for infected persons.</li> </ol>

Products and Services
<ol style="list-style-type: none"> <li>(1) Kaori diversifies its sources of suppliers and increases the percentage of local purchases to minimize risks of shortages in imported materials.</li> <li>(2) Kaori engages several transportation and logistics partners simultaneously to diversify risks of uncertainty and potential costs.</li> <li>(3) Responses for the volatility of raw material prices have been developed, and the Company actively monitors price movements.</li> <li>(4) More attention is being paid to customers' needs and the supply of raw materials, while actions are being taken to help customers plan production and delivery schedules over the long term.</li> </ol>

## 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.

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- 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.

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- 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.

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- 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.

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- 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.

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- 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.





## 2.4 Risk Management

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.

### Risk Management Process



## Risk Analysis Outcome and Response/Management Strategies For 2022

Risk type	Risk description	Management measures
Interest rate changes	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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. If a financing requirement arises, the Company will undertake short-term or long-term borrowing depending on capital needs and 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.</li> </ul>
 Exchange rate changes  Financial risk	<ul style="list-style-type: none"> <li>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. However, since the Company prohibits the trading of financial derivatives, exchange rate risks can only be mitigated by adjusting the level of USD and EUR denominated assets and liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>The Company prohibits the use of derivatives (including currency forwards) and can therefore only mitigate exchange risks of recognized or highly probable transactions by adjusting the level of USD and EUR denominated assets and liabilities; this practice cannot fully eliminate exchange rate risks.</li> <li>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.</li> </ul>
Inflation, deflation, and market volatility	<ul style="list-style-type: none"> <li>Sudden changes in the market's expectation of inflation and deflation tend to have significant impact on the global economy. Hyperinflation and deflation both have the potential to undermine market efficiency and affect investment decisions. Market volatility caused by these economic changes may substantially affect the Company's operating costs, but the overall impact on operations is still considered manageable. For this reason, the Company does not foresee any significant changes to its products and services due to the expectation of inflation or deflation or market volatility.</li> </ul>	<ul style="list-style-type: none"> <li>Kaori pays constant attention to changes in raw material prices and takes responses immediately as soon as a trend is identified. Due to the Company's ability to transfer risks for the types of products and services offered, the Company does not foresee any significant changes due to the expectation of inflation or deflation or market volatility.</li> </ul>
Financing risk	<ul style="list-style-type: none"> <li>The Company has been incorporated for more than 50 years, and except for the small losses suffered one year after the 2008 global financial crisis, the Company reports profit each year and maintains strong relationships with banking partners. Kaori is currently a publicly-listed company and has minimal financing risks due to unrestricted access to direct finance.</li> </ul>	<ul style="list-style-type: none"> <li>The Company evaluates the amount of capital it needs to sustain daily operations, support capacity expansion, and maintain external investments based on annual plans and budgets.</li> </ul>
Trading of derivatives	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Prohibited</li> </ul>

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Risk type	Risk description	Management measures
 <p>Change of key policies and laws</p> <p>Legal risk</p>	<ul style="list-style-type: none"> <li>• Kaori supports the government's sustainability policies, such as the FSC's 2020 "Corporate Governance 3.0 - Sustainability Roadmap", 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.</li> </ul>	<ul style="list-style-type: none"> <li>• A broad diversity of legal awareness campaigns is being organized to promote employees' compliance awareness.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>
 <p>Risk of technological and industrial changes</p> <p>Industry and market changes caused by changes in technology</p>	<p><b>Heat Exchanger Business</b></p> <ul style="list-style-type: none"> <li>• Stainless steel and copper are the main raw materials used in heat exchangers; they account for a high percentage of costs. There are competing products that are made with new, lightweight materials and sold at low prices, and the Company has no similar offering to match the competition.</li> </ul> <p><b>Fuel Cell Business</b></p> <ul style="list-style-type: none"> <li>• In light of the severity of climate change, the global commitment to reducing carbon emissions, and customers' demand for SOFC products, Kaori has undertaken a pro-active transformation and directed resources into the research and development of hydrogen fuel cells and electrolysis equipment.</li> </ul> <p><b>New Business Development - Hydrogen Power</b></p> <p>The rising trend of net zero emissions combined with improvements in electrolysis conversion efficiency and advancements in renewable energy technologies in recent years has increased the demand for energy integration solutions. However, the hydrogen market still exhibits the following challenges:</p> <ul style="list-style-type: none"> <li>• Low economic yield and conversion efficiency</li> <li>• High cost of storing and transporting hydrogen, and wide variety of technologies used in the hydrogen supply chain.</li> </ul> <p><b>New Business Development - Thermal Energy</b></p> <ul style="list-style-type: none"> <li>• Changes in the global energy supply have driven up electricity prices, and the government's ESG policy causes major businesses to become more mindful of energy efficiency.</li> <li>• The conventional air cooling approach yields low energy efficiency, and a significant amount of energy is used to power air conditioning systems in data centers. For this reason, data center operators have begun exploring cooling solutions that consume less power.</li> </ul>	<p><b>Heat Exchanger Business</b></p> <ul style="list-style-type: none"> <li>• Keep track of competing products and evaluate whether they are comparable or superior to the Company's offerings.</li> <li>• Conduct market research and develop products accordingly.</li> </ul> <p><b>Fuel Cell Business</b></p> <ul style="list-style-type: none"> <li>• Increase R&amp;D capacity, support customers' transformations, and cooperate with customers on the development of hydrogen power fuel cells, electrolytic hydrogen generators, as well as mass production procedures to help customers gain an early advantage in the green energy industry.</li> </ul> <p><b>New Business Development - Hydrogen Power</b></p> <ul style="list-style-type: none"> <li>• Green hydrogen does not offer cost advantage in the absence of subsidies or carbon taxes and is not expected to replace gray hydrogen until 2050. For this reason, Kaori will continue working with customers to develop blue hydrogen technology.</li> <li>• Develop green ammonia as a fuel or carrier.</li> <li>• Develop green hydrogen/green power supply stations that are low-cost, small or medium size, and distributed.</li> </ul> <p><b>New Business Development - Thermal Energy</b></p> <ul style="list-style-type: none"> <li>• Develop less energy-intensive cooling solutions to accommodate industry changes.</li> <li>• Join major industry associations and form alliances with data center and server operators.</li> </ul>

Risk type	Risk description	Management measures
 <p>Plant expansion risks</p> <p>Business risk</p>	<p><b>Heat Exchanger Business</b></p> <ul style="list-style-type: none"> <li>Changes in heat pump policies in Europe have slowed down product demand.</li> <li>Dilemma whether to replicate successful experiences for quick expansion or to adopt cost-effective production methods that take time to implement.</li> </ul> <p><b>Fuel Cell Business</b></p> <ul style="list-style-type: none"> <li>The Company runs the risk of suffering losses if it cannot generate additional revenue from increased customer demand to cover additional depreciation and overhead incurred on plant expansion.</li> </ul> <p><b>New Business Development - Hydrogen Power</b></p> <ul style="list-style-type: none"> <li>Increased operating costs</li> </ul> <p><b>New Business Development - Thermal Energy</b></p> <ul style="list-style-type: none"> <li>Increased operating costs</li> </ul>	<p><b>Heat Exchanger Business</b></p> <ul style="list-style-type: none"> <li>Sign long-term contracts with customers, and confirm volume forecasts with customers on a regular basis.</li> <li>For short-term expansion projects, the Company will take into consideration the potential of market saturation and adopt next-generation technologies.</li> </ul> <p><b>Fuel Cell Business</b></p> <ul style="list-style-type: none"> <li>Kaori confirms with customers and obtains reliable estimates on the potential increases in demand for assurance.</li> <li>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.</li> </ul> <p><b>New Business Development - Hydrogen Power</b></p> <ul style="list-style-type: none"> <li>Develop validation sites at the customer end.</li> </ul> <p><b>New Business Development - Thermal Energy</b></p> <ul style="list-style-type: none"> <li>Adopt the use of multi-functional and multi-purpose production equipment in response to the fast-changing industry.</li> <li>Progressively develop automated and semi-automated production lines.</li> </ul>
 <p>Raw material procurement risk</p> <p>Supply chain and raw material risk</p>	<ul style="list-style-type: none"> <li>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. The surge in nickel prices in March 2022 forced suppliers to suspend quotations.</li> <li>The COVID-19 pandemic caused port congestions around the world, which led to temporary delays in shipment and delivery.</li> <li>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. For this reason, the Company diversifies its purchases to secure access to raw materials and to minimize risks of concentrated purchase.</li> </ul>	<ul style="list-style-type: none"> <li>Diversity supply sources and secure the supply of raw materials by making purchases from suppliers in different regions.</li> <li>Sign long-term supply contracts with suppliers to control cost, given the volatility of raw material prices.</li> <li>Make localized purchases of raw material where possible to shorten the supply chain and minimize risk of shipment delay caused by logistics shortage.</li> </ul>
<p>Equipment supply risk</p>	<ul style="list-style-type: none"> <li>The Company has to expand production capacity persistently in order to support the growth of its operations. However, COVID-19 has created such a global chip shortage that equipment suppliers have been forced to postpone production timelines and now have difficulties delivering equipment and related services in a consistent manner.</li> </ul>	<ul style="list-style-type: none"> <li>Delivery timelines for relevant production equipment have been extended to 12 months, and the Company is currently exploring opportunities to work with local equipment suppliers.</li> <li>Equipment maintenance is just as important as acquiring new equipment, which is why the Company has assembled a dedicated repair team to ensure that its equipment functions properly to generate revenue.</li> </ul>
 <p>Losses due to disasters</p> <p>Hazard risk</p>	<ul style="list-style-type: none"> <li>The Company's production activities are susceptible to risks such as occupational hazards, fires, leakage of pressurized gas, natural disasters, and leakage of chemicals, all of which are potentially harmful to employees' safety and health as well as the integrity of equipment and plant facilities. For this reason, Kaori has created an exhaustive list of possible hazards and developed emergency response guidelines for each hazard.</li> <li>Due to the threat of COVID-19, Kaori has devised disease control plans to protect employees and ensure the continuity of business operations; control measures such as environment sanitation, contact tracing, contractor management, plant worker management, and employee health surveys were carried out depending on the severity of the pandemic.</li> </ul>	<ul style="list-style-type: none"> <li>Hazard identification and risk assessment/management procedures</li> <li>Emergency Response Protocol</li> <li>Pressurized Gas Leakage Response Guidelines</li> <li>Earthquake Response Guidelines</li> <li>Typhoon Response Guidelines</li> <li>Fire and Explosion Response Guidelines</li> <li>Chemicals Leakage Prevention and Response Guidelines</li> <li>Biological Hazard Prevention Plan</li> </ul>

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Risk type	Risk description	Management measures
 <p>Cybersecurity risk</p> <p>Network attacks and protection of business secrets</p>	<ul style="list-style-type: none"> <li>The Company's website, Internet portal, and employees' access to the Internet or the mail system all present vulnerabilities for computer viruses and Trojan horses, which may cause disruptions to the Company's operations.</li> <li>Employees may be unaware of their obligations to protect internal business secrets acquired through work, which results in business secrets being handed to other employees that do not have authorized access. This occurrence is especially likely among the staff of the Company's managers and insiders, and any leaks of information currently under development may result in losses of competitiveness, missed opportunities to surpass competitors, or even manipulation of share prices, posing compliance risks.</li> </ul>	<ul style="list-style-type: none"> <li>Kaori introduced a new cybersecurity officer position in 2022, whose responsibilities are to evaluate cybersecurity requirements and allocate resources with an administrative and governance mindset.</li> <li>Kaori has made plans to obtain certification for ISO 27000 Information Security Management System, expecting to execute the project in 2023 and pass certification in the 4th quarter.</li> <li>To avoid network attacks, the Information Technology Department not only outsources management of the Company's website to an external service provider in coordination with the Public Relations Department, but has also adopted the use of a new-generation firewall to replace the conventional firewall and antivirus combination. The Information Technology Department even introduced the latest XDR hack prevention technology, implemented triple backups for critical data (local/cloud/off-site), developed an HA infrastructure for important systems, and added a hyper-converged infrastructure (HCI) on top of the conventional VM environment to create a dual infrastructure that ensures the ability to recover from disasters.</li> <li>Kaori implements cybersecurity control from three different perspectives: system, policy, and management. Despite the fact that the Information Technology Department has implemented robust systems and policies and is actively promoting awareness, it is up to the management to take effective disciplinary actions to ensure compliance from employees and thereby deter any potential losses of business secrets.</li> </ul>
 <p>Change of corporate image and crisis management</p> <p>Corporate reputation</p>	<ul style="list-style-type: none"> <li>Risk of damage to business reputation due to certain decisions or commercial practices</li> </ul>	<ul style="list-style-type: none"> <li>Risk of damage to business reputation due to certain decisions or commercial practices</li> </ul>

### 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. The Audit Office executed audit tasks according to Kaori's audit plan and issued a total of 61 audit reports in 2022 (subsidiaries in China were audited by way of document review due to COVID-19). These reports were distributed to the respective auditees. 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.

## 2.5 Compliance

Compliance is the most fundamental requirement in business management. For the protection of stakeholders' interests and for the continuity of business operations, Kaori has established internal policies in accordance with the laws of relevant authorities and enforced them to serve as guidance for business decisions. Kaori did not commit any anti-competitive, anti-trust, or monopolistic practices in 2022, nor did it suffer financial losses due to violations or lawsuits concerning anti-competitive behavior.

## Management System

### 1. Corporate governance aspect

- Functional committees have been assembled to supervise financial performance and internal control within the Company. Furthermore, corporate governance guidelines and Board performance assessments have been implemented to enhance the Board's supervisory role over important decisions, their ability to offer professional opinions, and increase the level of information transparency.
- Kaori observes TWSE's corporate governance evaluation and corporate governance best practices as guidelines for improving corporate culture and compliance.

### 2. Personnel aspect

- Development of integrity rules and regular audit  
Ethics and compliance are the foundation of business integrity; at Kaori, we enforce these values through policy implementation, self-evaluation, whistleblowing, and whistleblower protection. The management leads by example and requests every employee to observe laws and internal policies that are relevant to their duties. Compliance is examined through yearly internal control self-assessment; the outcomes are reviewed by the Audit Office. The Audit Office executed audit tasks according to Kaori's audit plan and issued a total of 61 audit reports in 2022 (subsidiaries in China were audited by way of document review due to COVID-19). Kaori has established a set of guidelines that employees must obey when conducting business activities. All employees are required to duly comply with the "Business Integrity Code of Conduct" regardless of their role, rank, or location and to compete for business in an honest, fair, and compliant manner that supports Kaori's corporate culture.
- Regular education and training  
Kaori provides employees with a variety of training options based on the types of duties assumed to keep them informed about business ethics and compliance requirements. Orientation, classroom courses, internal seminars, and external training are some examples of the training offered.

### 3. Environmental safety and health aspect

Policies and measurements have been implemented to ensure that all business activities, products, and services comply with occupational safety, health, and environmental regulations. Meanwhile, performance of the environmental management system is monitored so that effective corrective and preventive measures can be taken in a timely manner.

## Assessment System

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. Kaori did not commit any violations of safety, health, environmental protection, or fire safety rules in 2022. There were, however, two incidents where the Company had violated or failed to comply with applicable laws, for which it was fined a sum of NT\$236,333. Both incidents have been improved upon according to the instructions of the competent authority. Aside from the above, no major compensations or losses were reported in annual internal audits.

Item No.	Description	Amount of loss (NT\$)
1	Land-related dispute: Removal of superficies located on the odd lot land in the rear part of Zhongli 1st Plant at No. 204-2, Zhonggong Section, Zhongli District	131,996
2	Violation of building regulations: With regards to the expansion of the Kaohsiung Plant, Kaori was found to have demolished or constructed factory facilities without prior approval, without timely reporting/inspection, and without change of design schematics, and was fined as a result	104,337