


2.6.4 Cybersecurity management measures and implementation effectiveness

Management items	Scope of operation	Implementation measures	Execution Progress
1. Network security protection	<ol style="list-style-type: none"> Prevent hacker intrusions and damage Ensure smooth network operation 	<ol style="list-style-type: none"> Network infrastructure has been established in the plants, separating IT and OT networks Introduced zero-trust network architecture Continue to refine the management strategy of network protection equipment and optimize the control operation process 	No incidents of hacking occurred in 2023
2. Email security control	<ol style="list-style-type: none"> Protect the Company's sensitive data from being leaked Reduce the risk of external cybersecurity threats entering employee mailboxes 	<ol style="list-style-type: none"> Established advanced email defense management system An email audit system has been established 	No abnormal event occurred in 2023
3. Device safety protection	<ol style="list-style-type: none"> Protect the Company's internal information equipment from virus attacks or malicious intrusion Protect the Company's sensitive data from being leaked 	<ol style="list-style-type: none"> Anti-virus software and endpoint protection software protection devices (PC/NB, machine computers) are in place Controlled the use of NB/PC external devices and cloud space The privileged account management system has been introduced to strengthen the security of system account management. Continue to improve system cybersecurity vulnerability control items 	No abnormal event occurred in 2023
4. System/measure education and promotion	<ol style="list-style-type: none"> Optimize cybersecurity policies and information security operating regulations Cybersecurity policy/regulation promotion and education training 	<ol style="list-style-type: none"> The ISO27001 cybersecurity management system has been introduced, and management measures, specifications, and operating guidelines have been continuously updated Provide training for new recruits Regularly promote cybersecurity-related topics through email 	100% achieved by 2023
5. Disaster recovery and response	<ol style="list-style-type: none"> Data backup integrity and compliance System backup and activation capability 	<ol style="list-style-type: none"> Build a cloud backup system to enhance the emergency response capability Regularly implement disaster recovery system drills. Optimize the efficiency of backup system switching operations and shorten the operation time for emergency activation. 	No abnormal event occurred in 2023

2.7 Risk management

2.7.1 Risk management policies and approach


Material topic	Management Approach
 <p>Risk management</p>	<p>Policy Comply with laws and regulations related to finance, environment, labor, and safety and health to ensure the normal operation of the Company and the interests of shareholders.</p>
	<p>Goal Effectively monitor and manage various risks to reduce the impact in the event they occur.</p>
	<p>Commitment Utilize due diligence and early warning communication methods to implement the Company's established codes, ensuring the protection of stakeholders' interests.</p>
	<p>Management Measures</p> <ul style="list-style-type: none"> We implemented the Risk Assessment Procedures in accordance with the ISO 9001 Quality Management System, ISO 14001 Environmental Management System, and ISO 27001 Cybersecurity Management System. In response to the possible impact of climate change on the business environment, we have formulated management measures to reduce corporate risks.

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

2.7.2 Risk management process and countermeasures



Risk analysis outcome and response/management measures for 2023

Risk Type	Risk Description	Management Measures
 Financial risk	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The Company actively manages interest rate risks by constantly monitoring market rate movements, gathering interest rate quotes, evaluating borrowing rates, and maintaining positive relationship with banks. We pay particular attention to maintaining good credit records with banks, which entitles us to more privileged borrowing rates. If a financing requirement arises, the Company will evaluate capital requirements and credit history with banks to borrow at a preferential rate. The Company will undertake short-term or long-term borrowing in such a way that minimizes the risks of interest rate fluctuations and funding costs on the Company's operations. With regards to financial investment, the Company mainly invests in fixed income bond funds or equity funds of high liquidity and strong rating for capital security and marketability. However, this hedging practice only mitigates part of the risks and cannot fully eliminate the financial impacts of interest rate fluctuations.
Exchange rate changes	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 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.

Risk Type	Risk Description	Management Measures
 <p>Change of key policies and laws</p> <p>Legal risk</p>	<ul style="list-style-type: none"> • Kaori supports the government's sustainability policies, such as the FSC's 2020 "Corporate Governance 3.0 - Sustainability Blueprint," the 2022 "Sustainability Development Roadmap for TWSE/TPEX-Listed companies," the National Development Council's "Taiwan 2050 Net Zero Roadmap and Strategy," and the Environmental Protection Administration's "Greenhouse Gas Reduction and Management Act (Climate Change Response Act)," and continues adopting practices that enhance the transparency of sustainability information and promote sustainability in line with global trends. 	<ul style="list-style-type: none"> • A broad diversity of legal awareness campaigns is being organized to promote employees' compliance awareness. • Information such as compliance requirements, guidelines, tips, and FAQs has been made available on the Intranet, whereas educational documents are sent via e-mail to keep employees up-to-date on the latest laws. • Training courses of different attributes: The Company offers training courses on important regulations and policies; each course is tailored to the needs and duties of different employees to ensure proper understanding of applicable regulations and policies. • Kaori invites outside experts to host seminars or assigns employees to participate in external training courses from time to time to keep up-to-date on regulatory developments.
 <p>Plant expansion risks</p> <p>Business risk</p>	<p>Heat Exchanger Business</p> <ul style="list-style-type: none"> • Changes in heat pump policies in Europe have slowed down product demand. • Dilemma whether to replicate successful experiences for quick expansion or to adopt cost-effective production methods that take time to implement. <p>Fuel Cell Business</p> <ul style="list-style-type: none"> • The Company runs the risk of suffering losses if it cannot generate additional revenue from increased customer demand to support the additional depreciation and overhead incurred on plant expansion. <p>New Business Development - Hydrogen Power</p> <ul style="list-style-type: none"> • Increased operating costs <p>New Business Development - Thermal Energy</p> <ul style="list-style-type: none"> • Increased operating costs 	<p>Heat Exchanger Business</p> <ul style="list-style-type: none"> • Sign long-term contracts with customers, and confirm volume forecasts with customers on a regular basis. • For short-term expansion projects, the Company will take into consideration the potential of market saturation and adopt next-generation technologies. <p>Fuel Cell Business</p> <ul style="list-style-type: none"> • Kaori confirms with customers and obtains reliable estimates on the potential increases in demand for assurance. • Kaori avoids dependency on the demand of any single major customer and takes into consideration the demand of other external as well as internal customers to maximize utilization of equipment and personnel capacity. <p>New Business Development - Hydrogen Power</p> <ul style="list-style-type: none"> • Develop validation sites at the customer end. <p>New Business Development - Thermal Energy</p> <ul style="list-style-type: none"> • Adopt the use of multi-functional and multi-purpose production equipment in response to the fast-changing industry. • Progressively develop automated and semi-automated production lines.
 <p>Raw material procurement risk</p> <p>Supply chain and raw materials risk</p>	<ul style="list-style-type: none"> • The Company uses large volumes of raw materials in its production, such as stainless steel plates, special steel plates, copper foil, and stainless steel bars. • Some raw materials are overly concentrated in few suppliers, which poses the risk of being unable to source adequate supplies. The Company may encounter a decline in revenue and profit if it is unable to source the needed materials in a timely manner or if it cannot transfer the additional costs associated with rising raw material prices directly to customers. 	<ul style="list-style-type: none"> • Diversity supply sources and secure the supply of raw materials by making purchases from suppliers in different regions. • Sign long-term supply contracts with suppliers to control cost, given the volatility of raw material prices. • Make localized purchases of raw material where possible to shorten the supply chain and minimize risk of shipment delay caused by logistics shortage.



0

1

Corporate Governance and Risk Management

3

4

5

6

7

8

A

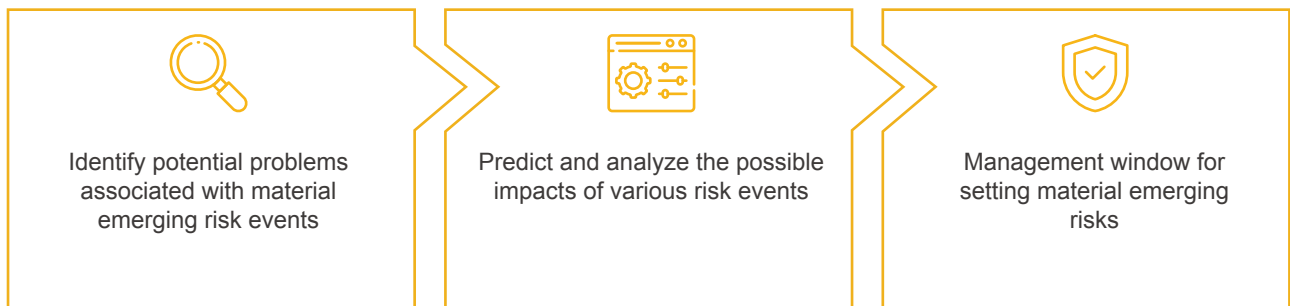
2.7.3 Identification, assessment, and management of emerging risks

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

Identification of material emerging risks for the year



Assessment of material emerging risks



Management of material emerging risks

