

3.4 Sustainable Supply Chain Management

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.

Overview of Supply Chain Partners

Kaori had a total of 667 supply chain partners in 2022 and made purchases amounting to NT\$2.225 billion. Of the purchases made, 77.84% were for raw materials, followed by outsourced manufacturing. The percentage of localized purchases (from local suppliers in Taiwan) was reported at 38.57%. Suppliers can be classified into six main categories: sundry services, outsourced manufacturing, raw materials, consumables and spare parts, equipment, and components. The upstream consists of steel mills or customer-designated material suppliers, whereas the downstream consists of small, direct processing plants. 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.

Major Procurement Incidents in 2022

The price of nickel surged by more than 300% in March alone, forcing raw material suppliers to suspend quotations, which negatively affected the production schedule. In response, Kaori has taken the initiative to sign long-term procurement contracts with local suppliers for enhanced resilience.

For the identification of key suppliers, Kaori first examined the amounts purchased according to the various categories of suppliers and then determined the cutoff point based on supplier count and amount purchased. Using this cutoff point, a total of 57 key suppliers were identified for 2022.

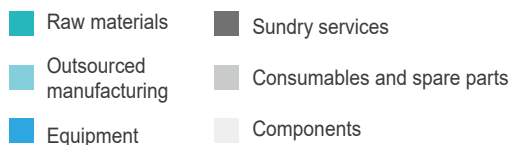
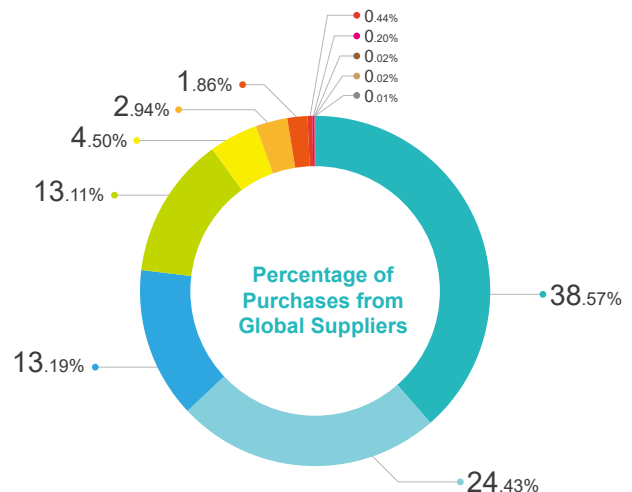
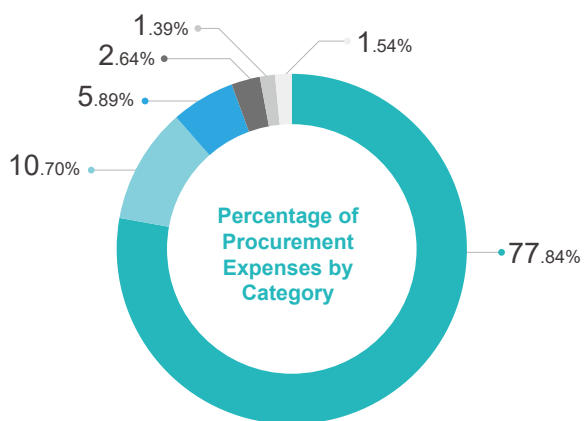
Supplier Regional Distribution and Procurement Percentage

- There was no material change compared to 2021

Unit: NT\$

Supplier region	Category	Purchase amount
Taiwan	Raw materials	411,809,857
	Outsourced manufacturing	238,023,181
	Equipment	121,895,818
	Sundry services	58,771,375
	Consumables and spare parts	18,449,298
	Components	9,223,453
USA	Raw materials	510,538,568
	Components	14,937,979
	Consumables and spare parts	12,112,041
	Equipment	6,089,837
Japan	Raw materials	306,355,406
	Equipment	3,092,555
	Consumables and spare parts	83,661

Supplier region	Category	Purchase amount
Germany	Raw materials	288,192,488
	Components	3,459,114
China	Raw materials	93,662,728
	Components	6,403,949
	Equipment	10,521
Italy	Raw materials	65,373,214
The Netherlands	Raw materials	41,362,079
Malaysia	Raw materials	9,837,254
India	Raw materials	4,404,045
Switzerland	Raw materials	521,288
Korea	Consumables and spare parts	366,090
Thailand	Components	218,341



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.

Steps of Sustainable Supply Chain Management



Preamble

1 Sustainability and development

2 Honor and Integrity

3 Innovation and quality

4 Responsibility and care

5 Environmental protection and inclusion

Sustainable Supply Chain Management System

Kaori introduced a sustainable supply chain management system in the 4th quarter of 2022 and held a supplier conference in September 2022 to convey its philosophy on sustainable governance and to teach suppliers on the completion of self-assessment questionnaires, which had an attendance rate of 100%. In October, Kaori held two internal training sessions for procurement staff and conducted document review of sustainability self-assessments on 30 suppliers immediately afterwards, including one on-site inspection.

- Implementation of the sustainable supply chain management system

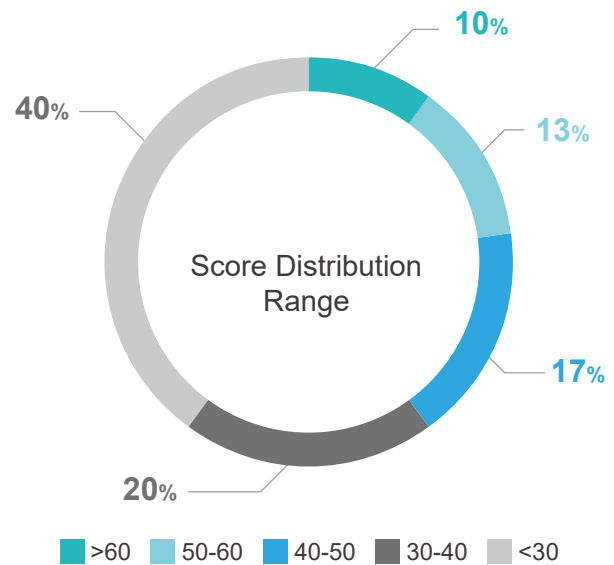
After taking a comprehensive inventory of documents used in the procurement system, Kaori added five new documents: “Supplier Sustainability Management Policy”, “Supplier Behavior Guidelines”, “Supplier Statement on Sustainability Development”, “Sustainability Evaluation Sheet for New Suppliers”, and “Supplier Sustainability Review and Improvement Suggestion Form”. One document was amended: “Supplier Control Procedures”. A set of key performance indicators has been developed based on the aforementioned procurement system while taking into consideration the industry standard and the Company's current practices to enforce sustainability management over suppliers.



Supplier Sustainability Review for 2022

Score Overview

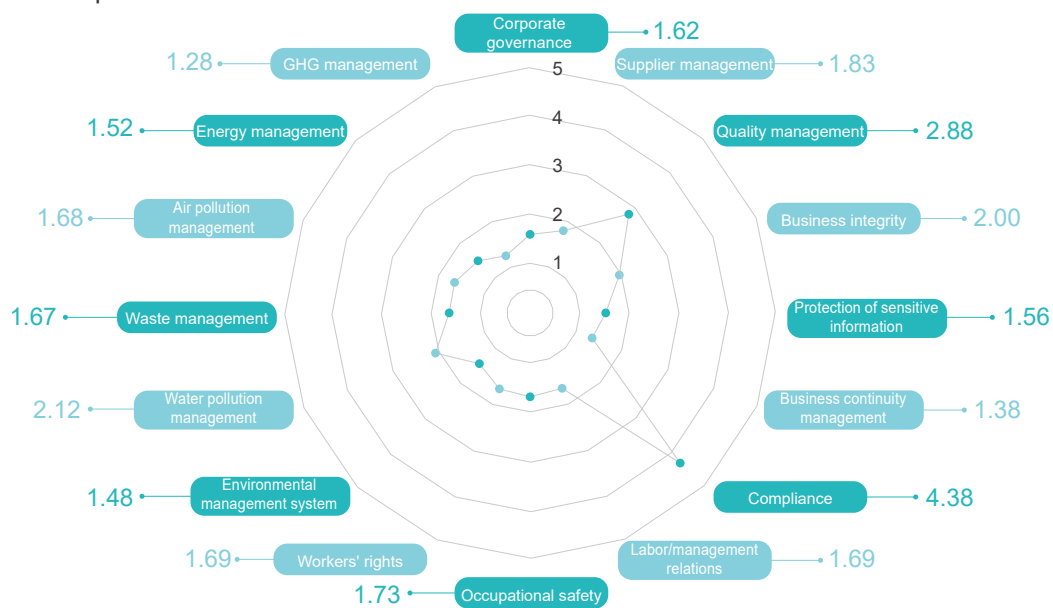
- 100% of supplier questionnaires were reviewed.
- Suppliers averaged a score of 40.0; a total of 3 suppliers (10%) scored above 60. 40% of suppliers were in the lowest score range, indicating that most suppliers willing to participate in the survey did not know how to complete the questionnaire properly. 23% of suppliers scored 50 or higher, all of which have implemented some form of ESG system.



- Governance, social, and environmental issues
Suppliers scored highest in the governance aspect and lowest in the environmental aspect

Score distribution by category

“Compliance”, “Quality management”, and “Water pollution management” were the categories that suppliers scored the highest in, indicating that suppliers have undertaken robust management practices with regards to compliance, quality, and industrial effluents. “Greenhouse gas management”, “Business continuity”, 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 manufacturing suppliers must pay attention to, and it will be at the top of Kaori’s requirements.



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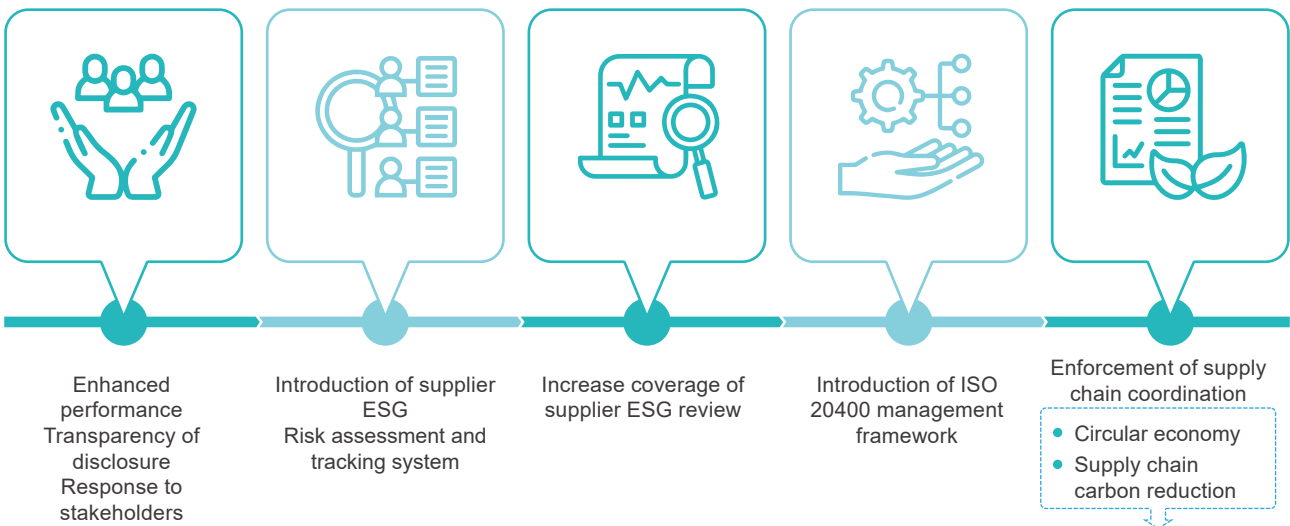
Future Improvement Plans

- For non-responding suppliers
 1. Kaori will engage them in greater depth so that they will be able to understand and appreciate the importance of issues concerned and become more willing to take part in the survey
 2. Introduce rewards/incentives/penalties
- For the low score group (below 40)
 1. Kaori will help respondents understand the content of the questionnaire and guide them through the instructions while answering whatever queries they may have.
 2. Respondents will be given more time to reply, as well as reminders and assistance to prepare supporting information.
 3. Additional resources (such as external courses and materials) will be provided to help suppliers develop relevant systems.
- For the medium score group (40 or higher)
 1. Sustainability performance awards will be introduced to serve as encouragement for suppliers.
 2. 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.



Future Sustainability Supply Chain Management Roadmap

1. Enhance sustainability performance, make transparent disclosures, and respond to stakeholders
2. Introduce a supplier ESG risk evaluation and tracking system
3. Increase coverage of supplier ESG review
4. Introduce the ISO 20400 management framework
5. 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.



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