

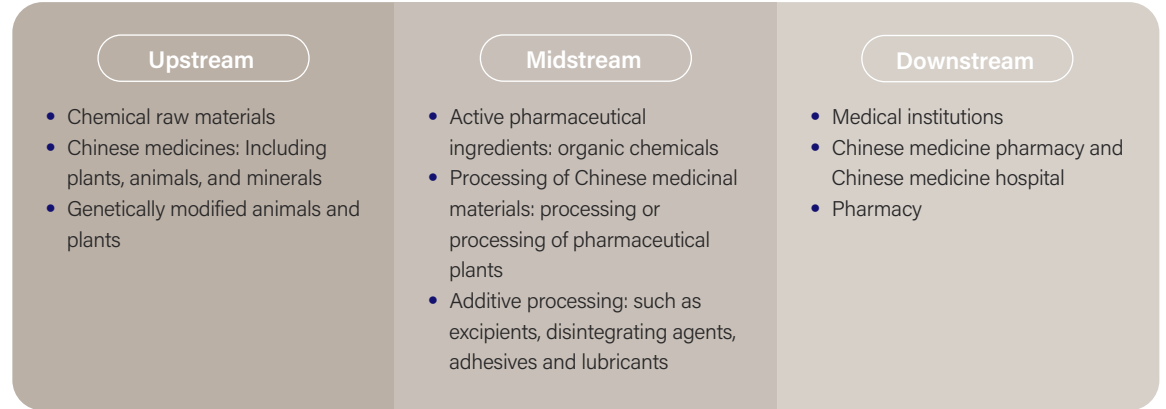
### 3.8 Supply Chain Management

Microbio adopted its “Supplier Management Procedure” in 2002. These Procedures are amended and optimized as required in accordance with relevant norms and regulations and internal requirements to ensure the selection of qualified subcontractors and the timely provision of goods of the right quality and quantity in accordance with the Company’s needs. Factory visits and audits have been adopted in the field of daily subcontractor management to identify potential high risk suppliers and manufacturers including raw material suppliers, direct material suppliers, and OEM manufacturers. On-site audits and visits are conducted to assist manufacturers in the detection of issues and implementation of improvements and offer relevant suggestions with the ultimate goal of joining hands in the creation of a sustainable environment and generation of win-win outcomes in the field of business growth. Statistics of the geographic location of our suppliers reveal that all our suppliers are located in Taiwan. Our subsidiaries Cotton Field Organic and Microbio (Shanghai) have also established supplier management mechanisms in line with their industry characteristics and local regulations at our operating sites. They further conduct annual supplier evaluations and reviews. The contents of this chapter focus on our ongoing efforts to gradually expand the scope of information disclosures.

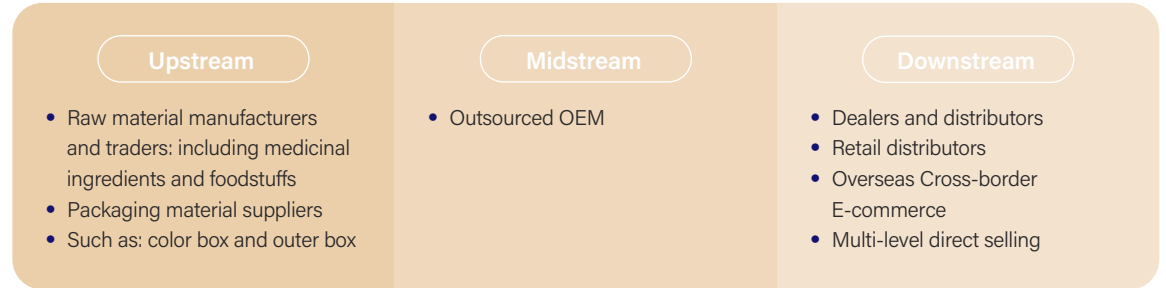
#### Industrial Supply Chain

Microbio is mainly engaged in the R&D and production of new drugs, the development, production, and sales of health foods, and the sales of organic foods. The scope of the industrial supply chain covers the pharmaceutical industry, health food industry, and organic food retailing. The upstream of the pharmaceutical industry is the raw material stage for preparing drugs. The raw materials are mostly general chemicals, while the upstream of traditional Chinese medicine is mainly plants. The midstream is mainly for the API industry and the processing stage of Chinese medicines. The API industry is basically the organic chemical industry, while the processing of Chinese medicinal materials includes the processing and processing of medicinal plants and the preparation of additives such as excipients and adhesives. The downstream companies are the marketing retailers of prescription drugs, over-the-counter medicines, traditional Chinese medicines, and scientific Chinese medicines. In the upstream of the health food industry, the Company purchases the raw materials and packaging materials required for the production of health food from raw material suppliers. The raw materials are medicinal materials and food, and the packaging materials include color boxes, outer boxes, and shrink films. Food products are manufactured by health food manufacturers, distributed to distributors, retailers, overseas cross-border e-commerce companies, and multi-level direct selling, and eventually sold to general consumers. The upstream manufacturers of organic foods include agriculture, fishery, animal husbandry, and general manufacturers. The products are sold to the Retailing & Distribution Industry through the traders, agents, and distributors in the midstream to the downstream retailers and the catering industry, and finally the products are sold to consumers.

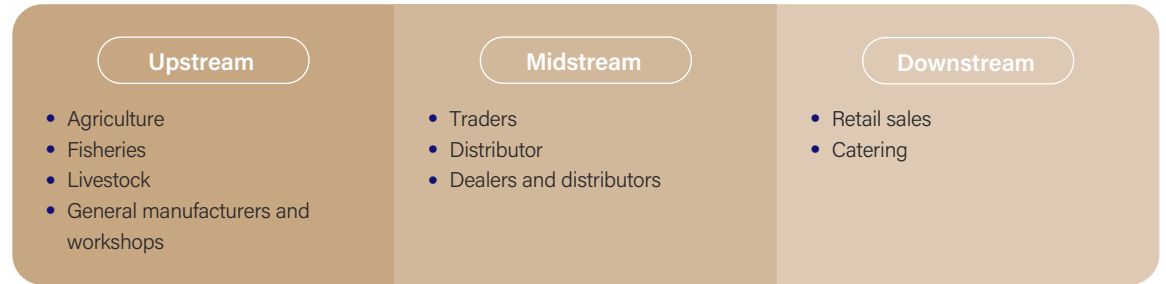
#### Pharmaceutical Industry



#### Health Food Industry



#### Organic Food Retail Industry



Preface

1 Sustainability Performance

2 ESG Overview

3 Health Care

- 3.1 Innovative Drugs Research and Development
- 3.2 Clinical Trials
- 3.3 Drug Safety
- 3.4 Health Product R&D and Safety
- 3.5 Food Quality and Safety
- 3.6 Customer Relationship Management
- 3.7 Ethical Marketing
- 3.8 Supply Chain Management

4 Corporate Governance

5 Safe Workplace

6 Social Inclusion

7 Environmental Protection

Appendix

Preface

1 Sustainability Performance

2 ESG Overview

3 Health Care

- 3.1 Innovative Drugs Research and Development
- 3.2 Clinical Trials
- 3.3 Drug Safety
- 3.4 Health Product R&D and Safety
- 3.5 Food Quality and Safety
- 3.6 Customer Relationship Management
- 3.7 Ethical Marketing
- 3.8 Supply Chain Management

4 Corporate Governance

5 Safe Workplace

6 Social Inclusion

7 Environmental Protection

Appendix

Supply Chain Sustainability Management

Significant Supplier Screening

Microbio identifies significant suppliers from all Tier 1 suppliers based on indicators such as procurement amount, the criticality of the products provided, and the long-term business relationship with the company. The indicators are business relevant and commodity-specific risk is considered. Sustainable risk management is then carried out focusing on significant suppliers. Suppliers that have been included in the top 95% of annual procurement amounts for more than three years within the past five years and continue to transact with Microbio during the reporting period are defined as significant suppliers. In 2023, there were 93 Tier 1 suppliers that directly transacted with Microbio, among which 38 were significant suppliers, accounting for 89.5% of the annual procurement amount. The proportion of different categories of suppliers is as follows:

Number of Suppliers by Category	Raw Material Manufacturers and Traders	Direct Material Suppliers	Indirect Material Suppliers	Total
Significant Suppliers	24	9	5	38
Tier 1 Suppliers	56	17	20	93

Supplier Risk Assessment and Management

Microbio's supplier management, based on the "Supplier Management Procedure" is divided into three phases: New Supplier Approval, Continuous Risk Management, and Supplier Performance Evaluation and Management:



Note 1: During the reporting period, sustainability risk assessment and audits of significant suppliers were conducted in accordance with the "Supplier Management Procedure" starting in 2024, these will be carried out according to the newly published "Supply Chain Sustainability Management Regulations" released on Microbio's official website.

Note 2: Guidance and improvement for the sustainability performance of significant suppliers will be implemented according to the "Supply Chain Sustainability Management Regulations" starting in 2024.



Preface

1 Sustainability Performance

2 ESG Overview

3 Health Care

- 3.1 Innovative Drugs Research and Development
- 3.2 Clinical Trials
- 3.3 Drug Safety
- 3.4 Health Product R&D and Safety
- 3.5 Food Quality and Safety
- 3.6 Customer Relationship Management
- 3.7 Ethical Marketing
- 3.8 Supply Chain Management

4 Corporate Governance

5 Safe Workplace

6 Social Inclusion

7 Environmental Protection

Appendix

▪ Supplier Code of Conduct

Microbio teams up with suppliers to create sustainable enterprises. The “Supplier CSR Commitment Letter” has been formulated with reference to the related international initiatives and requirements, including the UN Global Compact, the Universal Declaration of Human Rights, and the UN Guiding Principles on Business and Human Rights. The “Supplier CSR Commitment Letter” has been formulated based on the four dimensions of ethical corporate management and business ethics, labor rights, environmental protection, and ongoing improvements. All suppliers are required to sign the Letter, whose main contents include the following sustainability-related items:

- Ethical corporate management, compliance with business ethics, and avoidance of conflicts of interest.
- Prohibition of child labor and forced labor.
- Safeguarding basic labor rights, including the right to work, freedom of assembly, and a workplace free from discrimination and harassment.
- Guaranteeing working hours and work conditions.
- Complying with laws and regulations related to occupational health and safety, providing a safe work environment in compliance with applicable regulations, operating with integrity, and honoring business ethics.
- Environmental protection policies and climate change governance.
- Enhance energy resource efficiency.

As of Dec. 31, 2023, a total of 87 raw material and direct material suppliers have signed this Letter of Commitment (4 suppliers have signed the Supplier CSR Commitment Letter in the period from January to December 2023), and its contents are publicly disclosed on the Company's website. ([https://www.twmicrobio.com/en/esg/esg-database/#esg\\_system](https://www.twmicrobio.com/en/esg/esg-database/#esg_system))

**Survey and Evaluation of Supplier Sustainability Risks**

In order to have active control of supplier sustainability risks, Microbio examines the risk states of all suppliers during the initial registration stage. These examinations include a preliminary risk assessment based on a supplier's business license, tax payment certificate, company profile, quality certificates, and ESH certificates. Suppliers are requested to fill out self-assessment forms covering the four dimensions of place, people, process, and product to enable Microbio to maintain a firm grasp of operational risks.

Microbio Co., Ltd. amended its “Supplier Management Procedure” at the end of 2021 to prescribe evaluations of raw material manufacturers, direct material suppliers, raw material traders, PIC/S GDP pharmaceutical suppliers, and OEM manufacturers. In addition, we revised its Supplier Evaluation Checklist by adding ESG assessment items, including environmental protection, protection of labor conditions and human rights, equal treatment of employees, and corporate governance. These items are listed as supplier risk evaluation items of equal importance as the aforementioned four dimensions (“place,” “people,” “process,” and “product”) and conducts on-site sampling inspections for ESG risks of significant suppliers to ensure that all significant suppliers continuously meet the minimum standard of 70 points in the ESG risk assessment. The supplier ESG risk evaluation checklist is publicly posted on the Company's website. (Microbio Supplier ESG Risk Evaluation Checklist: [https://www.twmicrobio.com/en/esg/esg-database/#esg\\_system](https://www.twmicrobio.com/en/esg/esg-database/#esg_system))

ESG audits primarily focus on suppliers of raw materials, direct materials, and contract manufacturers. The allocation percentages for assessment criteria in each dimension are as follows:

Risk Dimension/ Allocation (%)	Raw Material Manufacturers	Direct Material Suppliers	Raw Material Traders	Contract Manufacturers
Place	14.5%	41.3%	25.5%	28.6%
People	9.7%	6.5%	14.9%	8.0%
Process	40.3%	23.9%	17.0%	30.5%
Product	16.1%	2.2%	17.0%	28.2%
ESG	19.4%	26.1%	25.5%	4.7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Classified management of suppliers are implemented based on the audit scores:

Supplier risk rating	Evaluation score brackets			
	Raw Material Manufacturers	Direct Material Suppliers	Raw Material Traders	Contract Manufacturers
Class A	62~58	46~43	47~43	262~238
Class B	57~53	42~39	42~38	237~213
Class C	52~48	38~35	37~33	212~188
Class D	47~43	34~31	32~28	187~163
Class E	<42	<30	<28	<162



**Daily Management Measures for Existing Suppliers (Qualified Suppliers):**

In 2023, Microbio had a total of 73 raw material and direct material suppliers. Procurement and QA units score the dimensions of delivery date achievement rates, degree of cooperation, incoming material conformity rate in accordance with supplier transaction conditions on a "semiannual" basis. Semiannual scoring of a total of 59 suppliers was completed in the second half of 2023.

Raw material, contract manufacturers and direct material supplier rating	Number of assessors in the second half of 2023	Supplier Management Measures
A	56	Acceptance and simplified assessment carried out by QA unit in accordance with "Incoming Quality Control Procedures".
B	3	Inspection and lab testing frequency shall be maintained.
C	0	The procurement unit shall reduce order amounts and the second source of goods shall be developed for future use by the authorized unit.
D	0	The procurement unit shall notify the supplier to adopt corrective action. The manufacturer shall be listed as a Class E supplier on the next evaluation if no corrective action is taken within the prescribed time limit.
E	0	Rated E twice in a row, and the supplier qualification was canceled after the report was approved.
<b>Total</b>	<b>59</b>	

In addition to the aforementioned semiannual assessments, the Quality Assurance Center formulates annual "Rotational Evaluation Plans" for suppliers. Annual on-site audits are conducted for OEM manufacturers who have been commissioned with the production of new products and PIC/S GMP pharmaceutical management businesses. Annual audits for the remaining suppliers carried out on-site or in form of document reviews.

Vendor Risk Level	Audit Frequency and Management Measures
Class A	Once every three years.
Class B	
Class C	Notify suppliers to make improvement within a deadline and track the improvement status. Notify the procurement to adjust the evaluation score for no improvement.
Class D	We visit once a year, the procurement cooperates to reduce the order quantity, and the supplier evaluation grade is temporarily downgraded to D, etc.
Class E	The Quality Assurance Unit notifies the Procurement Unit to stop order placement, and downgrades the manufacturer's evaluation rating to E until the improvement is improved.

**Annual audits of a total of 40 suppliers were completed in 2023, and 7 significant suppliers have completed ESG on-site sampling inspections among them:**

Year	2021	2022	2023
Number of audited suppliers	41	42	40
Number of significant suppliers with ESG On-Site inspections	6	11	7
Number of suppliers who are required to take corrective action	0	0	0

The Company also conducts non-scheduled audits of subcontractors with potential risks. If on-site inspections are deemed necessary due to detected quality irregularities, the status of corrective actions must be confirmed based on the results of the previous inspection. Audits must be reinforced in case of potential impacts on product quality and safety.

Preface

1 Sustainability Performance

2 ESG Overview

3 Health Care

- 3.1 Innovative Drugs Research and Development
- 3.2 Clinical Trials
- 3.3 Drug Safety
- 3.4 Health Product R&D and Safety
- 3.5 Food Quality and Safety
- 3.6 Customer Relationship Management
- 3.7 Ethical Marketing
- 3.8 Supply Chain Management

4 Corporate Governance

5 Safe Workplace

6 Social Inclusion

7 Environmental Protection

Appendix

Preface

1 Sustainability Performance

2 ESG Overview

3 Health Care

- 3.1 Innovative Drugs Research and Development
- 3.2 Clinical Trials
- 3.3 Drug Safety
- 3.4 Health Product R&D and Safety
- 3.5 Food Quality and Safety
- 3.6 Customer Relationship Management
- 3.7 Ethical Marketing
- 3.8 Supply Chain Management

4 Corporate Governance

5 Safe Workplace

6 Social Inclusion

7 Environmental Protection

Appendix

Supplier Risk Levels Based on 2023 Audit Results

Level of Risk	A	B	C	D	E	Total
Number of suppliers in each level	34	6	0	0	0	40
Percentage of suppliers in each level	85%	15%	0%	0%	0%	100%

■ Quality Management of Cotton Field Organic Suppliers

To develop and evaluate qualified suppliers on a regular basis to provide the Company with products of the right quality and quantity in a timely manner, the "Supplier Management Regulations" have been formulated since 2013 for new suppliers, including raw material suppliers, product suppliers other than self-owned brand of Microbio or other self-owned brands which shall be classified and evaluated according to different attributes. The assessment categories include general factory areas, handicraft workshops, and farm areas. New suppliers must undergo on-site factory visits for assessment unless they are assessed to be low-risk, such as those that have passed ISO 9001/22000, HACCP, FSSC, and other quality certifications. Furthermore, at the beginning of each year, the Food Safety Office screens some suppliers for the annual evaluation based on the risk assessment results. The evaluation results will be used as an important reference for suppliers when changing their contracts every year. The 2023 new supplier and annual evaluation results are as follows:

Number of new suppliers in 2023	General plant area	Handicraft workshops	Farm
Excellent suppliers (over 80 points)	4	0	2
Qualified suppliers (60-79 points)	7	0	21
Disqualified suppliers (less than 59 points)	0	0	0

Number of suppliers subjected to annual evaluation	General plant area	Handicraft workshops	Farm
Excellent suppliers (over 80 points)	22	1	0
Qualified suppliers (60-79 points)	1	0	7
Disqualified suppliers (less than 59 points)	0	0	0

After the suppliers who were approved and maintained their qualifications completed the registration, Cotton Field Organic conducts random product inspections in accordance with the "Regulations for the Management of Commodity Inspection" to control product safety and quality.

Teaming up with suppliers in the promotion of ESG

Following the addition of ESG assessment items, including environmental protection, safeguarding of labor rights, and equal treatment of employees to the Supplier Evaluation Checklist in 2022, we are firmly committed to teaming up with suppliers in the gradual promotion of ESG on the foundation of clearly formulated short-, medium-, and long-term goals. In 2024, we will conduct a sustainability questionnaire survey to assess the current ESG practices of our Tier 1 suppliers, conduct ESG risk identification for suppliers, and understand the assistance they need in advancing ESG initiatives based on the newly published "Supply Chain Sustainability Management Regulations". We further organize supplier sustainability courses to provide education on ESG standards and share our experiences in the promotion of ESG.

