

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 products and services 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 cover Microbio and Cotton Field Organic; we will gradually expand the disclosure scope in future reports.

» Industrial Supply Chain

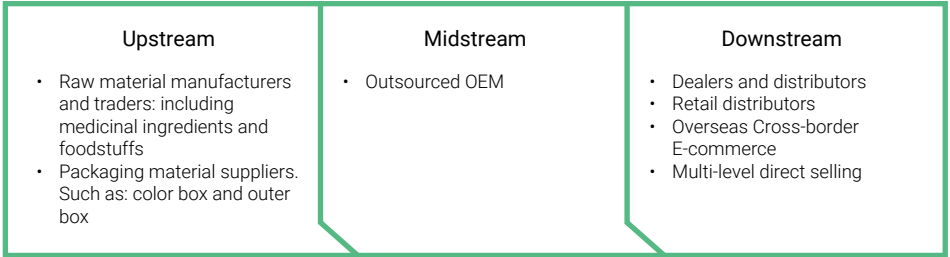
Microbio is mainly engaged in the R&D and production of new drugs, the development, production, and sales of health foods, and the sales of organic foods. The scope of the industrial supply chain covers the pharmaceutical industry, health food industry, and organic food retailing. The upstream of the 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.

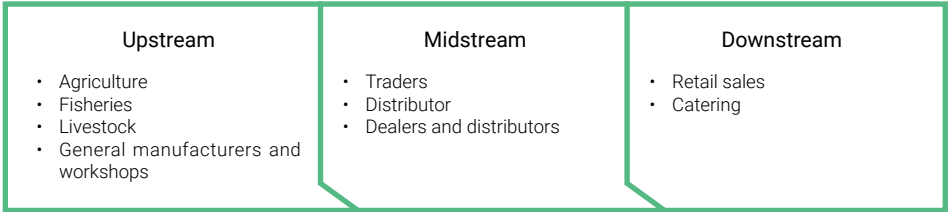
• Pharmaceutical Industry



• Health Product Industry



• Organic Food Retail Industry



» Supply Chain Sustainability Management

• Significant Supplier Screening

Microbio identifies significant suppliers and conducts sustainability risk management from all Tier 1 suppliers based on indicators such as procurement amount, the criticality of the products provided, and long-term business relationships with the company. 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 2024 there were 100 Tier 1 suppliers that directly transacted with Microbio, among which 33 were significant suppliers, accounting for 78.5% of the annual procurement amount. The number of suppliers by category is as follows:

Number of Suppliers by Category	Raw Material Manufacturers and Traders	Direct Material Suppliers	Indirect Material Suppliers	Total
Significant Suppliers	21	8	4	33
Tier 1 Suppliers	66	19	15	100

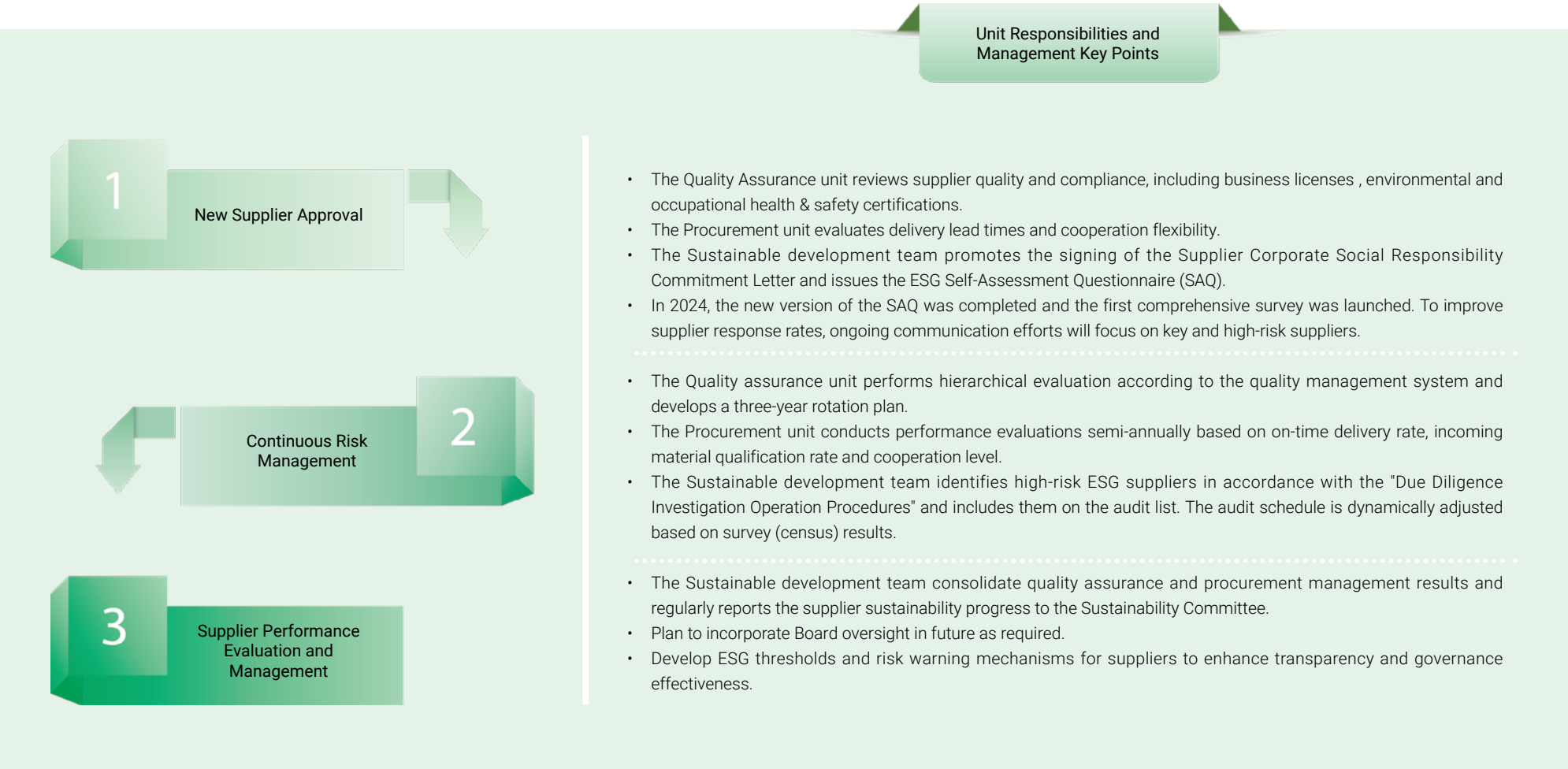
To strengthen risk control and improve resource-allocation efficiency, the Company uses the above “key-ness” as the basis for further ESG risk inquiries, sampling audits, and prioritization of cooperation, and as the criterion for identifying key suppliers (“Significant Suppliers”). In addition, the Company is gradually introducing a Country / Sector / Commodity risk-identification workflow. For example, suppliers located in high-pollution or high human-rights-risk regions, in labor-intensive sectors, or in controversial raw-material supply chains (e.g., medicinal plants, certain seafood) are placed on a high-risk watchlist for enhanced due diligence and review of cooperation conditions. Although our suppliers are currently concentrated in Taiwan—so overall country risk is manageable—we still reference international indices such as the ITUC Global Rights Index and WRI Aqueduct water-risk assessment when screening future sourcing.

The subsidiary, Cotton Field Organic, has also established a quality identification and labeling management system, and has implemented classification and certification for products released to the market in these seven categories: organic, transition period, vitality, food traceability, zero additives, premium selection, and sustainable seafood. Although “sustainable seafood” is not currently designated as a priority purchasing category, products in this category still undergo preliminary risk screening. Presently, Cotton Field Organic has not yet established a key supplier system; however, in the future, the system will be tiered based on product supply stability, brand relationships, and risk attributes, which will also be linked with the existing quality certification systems (such as TAP and FSSC). System planning is expected to begin in 2025.



• Supplier Risk Assessment and Management

Microbio has implemented the Supplier Management Procedure since 2002 to ensure that partner suppliers consistently provide products and services with stable quality, on-time delivery, and compliance with the Company’s requirements. In response to international evaluation standards and to strengthen overall governance mechanisms, in 2024 the Company integrated the existing Supplier Management Procedure and Sustainable Supply Chain Risk Due Diligence Procedure, establishing a dual-track framework that combines “Quality Responsibility Governance” and “ESG Due Diligence.” This framework is implemented through a three-phase management process.



Preface

- 1. Sustainability Performance
- 2. ESG Overview
- 3. Health Care
- 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 continuous 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.
- Environmental protection policies and climate change governance.
- Enhance energy and resource efficiency.

As of Dec. 31, 2024 a total of 89 raw-material and direct-material suppliers have signed this Letter of Commitment (2 suppliers have signed the Supplier CSR Commitment Letter in the period from January to December 2024, and its contents are publicly disclosed on the Company's website (<https://www.twmicrobio.com/wp-content/uploads/2024/09/02.Supplier-CSR-Commitment-Letter.pdf>))

• 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 EHS 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 our 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/micro_tw/governance/ESG_Supplier-ESG-Risk-Evaluation-Checklist.pdf)

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%
Total	100%	100%	100%	100%

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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 2024, Microbio had a total of 84 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 84 suppliers was completed in 2024.

Raw material, contract manufacturers and direct material supplier rating	Number of assessors in the second half of 2023	Supplier Management Measures
A	68	Acceptance and simplified assessment carried out by QA unit in accordance with "Incoming Quality Control Procedures".
B	5	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.
Total	73	

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 41 suppliers were completed in 2024, and 6 significant suppliers have completed ESG on-site sampling inspections among them:

Year	2021	2022	2023	2024
Number of audited suppliers	41	42	40	41
Number of significant suppliers with ESG On-Site inspections	6	11	7	6
Number of suppliers who are required to take corrective action	0	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. 2024 audit results: 36 suppliers (88%) were rated as Class A suppliers. The remaining 5 (12%) were rated as Class B suppliers. In 2024, no supplies were required for non-scheduled audits. .

Supplier Risk Levels Based on 2024 Audit Results

Level of Risk	A	B	C	D	E	Total
Number of suppliers in each level	36	5	0	0	0	41
Percentage of suppliers in each level	88%	12%	0%	0%	0%	100%

• Quality Management of Cotton Field Organic Suppliers

To develop and evaluate qualified suppliers on a regular basis to provide Cotton Field Organic with products of the right quality and quantity in a timely manner, the "Supplier Management Regulations" were established in 2013. For new suppliers, including raw-material suppliers and third-party (non-private-label) product suppliers, classification and evaluation are conducted according to supplier attributes. The assessment categories include general factory areas, handicraft workshops, and farm areas. All new suppliers are required to undergo on-site audits and evaluations, unless they are assessed as low risk, such as those certified with quality standards like ISO 9001/22000, HACCP, or FSSC. 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 renewing their contracts every year. The 2024 new supplier and annual evaluation results are as follows:

Number of new suppliers in 2024	General plant area	Handicraft workshops	Farm
Excellent suppliers (over 80 points)	2	0	1
Qualified suppliers (60-79 points)	12	0	4
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)	6	0	2
Qualified suppliers (60-79 points)	1	1	0
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.

» ESG Management Stage Goals and Capacity-Building Actions

To progressively strengthen supply chain sustainable governance capabilities, Microbio has set short-, medium-, and long-term goals based on practical promotion progress and international regulatory trends, and also simultaneously introduces education, training, and communication mechanisms, in order to gradually construct a supplier ESG management system with risk identification, action execution, and performance disclosure capabilities.

