PharmaEssentia highly values regulatory compliance, continuously enhancing the functions of the Board of Directors from a governance perspective, implementing policies on integrity in business, risk management, and information security management. These initiatives are aimed at enhancing corporate resilience and operational capabilities, continually achieving new heights in operational performance.

2.1 Corporate Governance Framework

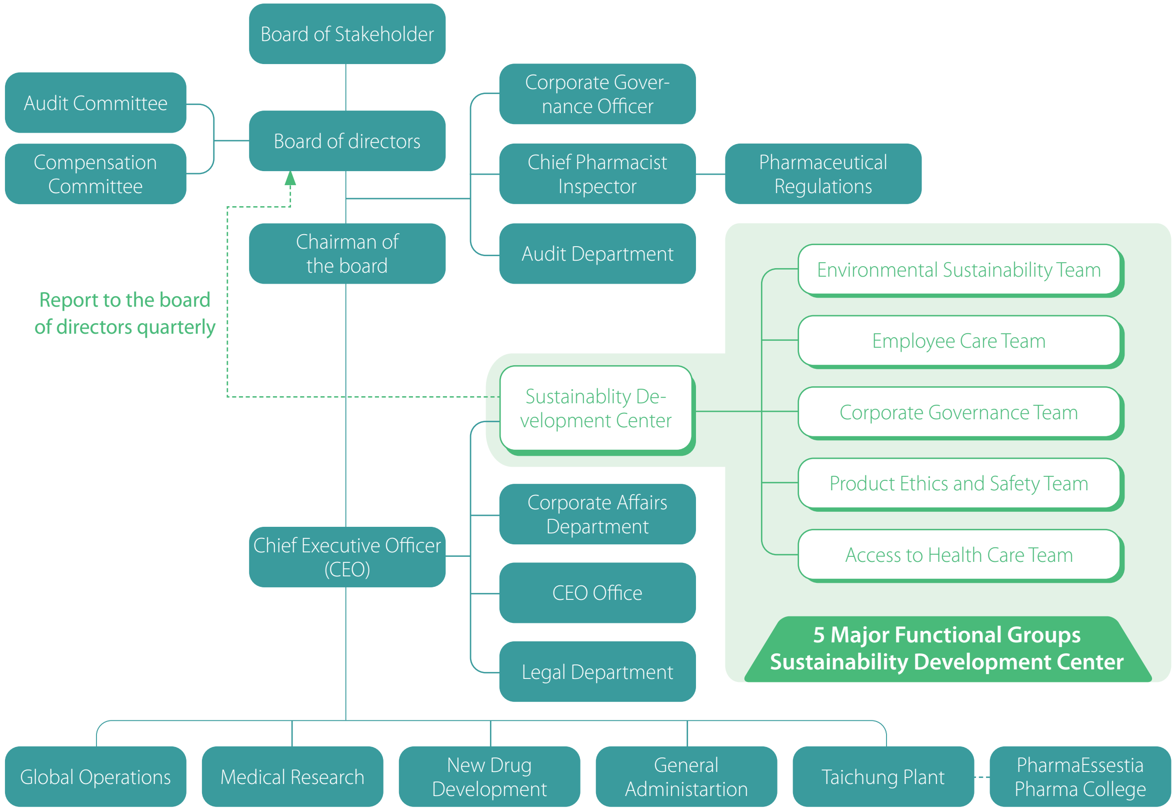
Board Selection and Responsibilities

GRI 2-9, 2-10, 2-11, 2-15

PharmaEssentia's Board of Directors is the highest governance body, operating under a unitary board system with a term of three years; the most recent term spans from August 5, 2021, to August 4, 2024. The Board's responsibilities include formulating the company's sustainability strategy, overseeing management, and holding significant accountability to the company and its shareholders. The Board oversees committees such as the Audit Committee and the Compensation Committee. The Sustainable Development Center is directly under the CEO, and its functions are shown in the figure on the right.

100%

Attendance Rate by Board of Directors and Compensation Committee



Functional Committees GRI 2-20

PharmaEssentia's Board of Directors has established two functional committees: the Audit Committee and the Remuneration Committee. These committees are composed entirely of independent directors. The Remuneration Committee includes one external expert, Professor MingChuan Hsieh, further strengthening the Board's functionality and enhancing management mechanisms.

Committee	Audit Committee	Remuneration Committee
Responsibilities	Assists the Board of Directors in fulfilling their oversight role regarding the company's accounting, auditing, financial reporting processes, and the integrity and quality of the company's financial controls. Additionally, the committee oversees the management and control of existing or potential issues that could impact the company, thereby strengthening internal control mechanisms.	Assists the Board of Directors in establishing and reviewing policies, systems, standards, and structures for the performance evaluation and remuneration of directors, supervisors, and managers.
Composition	Independent Director: JinnDer Chang Independent Director: Patrick Y. Yang Independent Director: JienHeh Tien	Independent Director: JinnDer Chang Independent Director: Patrick Y. Yang Independent Director: JienHeh Tien Professor Ming-Chuan Hsieh
Number of Meetings	13	3
Attendance Rate	100%	100%

Avoiding Conflicts of Interest GRI 2-15

The company has established several policies including "Board Meeting Rules," "Code of Business Integrity," and "Operating Procedures and Guidelines for Business Integrity" to ensure that the nomination process for board members adheres to government regulations and avoids any improper benefits that could arise from the official capacities of the company's directors and staff. Currently, no board members have significant conflicts of interest, and there is no single shareholder with absolute control: The company's founder and their family members hold less than 5% of the shares; government shareholding mainly comes from the National Development Fund Management Committee of the Executive Yuan and the Committee of Yaohua Glass Corporation, together holding approximately 9.33% of the shares, with no special stock arrangements. For more details, please refer to the company's annual report.

Board member selection is conducted by the shareholder meeting based on the Director Election Policy, taking into account the company's size and the shareholding pattern of major shareholders as well as practical operational needs. The company has a "Diversity Policy for Board Members," ensuring that board members have diverse professional and industry backgrounds, providing expertise in operational judgment, accounting and analysis, business management, industry knowledge, response to climate change, and international market perspectives.

Board Composition and Diversity

GRI 2-9, 2-10, 2-11, 2-15, 405-1

PharmaEssentia's Board of Directors comprises 11 members, with an average tenure of 8.3 years. The board includes two female directors, representing 18% of the board composition. There are three independent directors, accounting for 27.2% of the total board members. Plans are in place to potentially increase the number of female directors and independent directors to more than one-third, depending on operational needs of the company. The composition of the Board of Directors is as follows:

Names	Nationality	Expertise and Skills	Gender	Professional Competencies								Age Group			Tenure of Independent Director			Dual Role as Senior Executive (Yes = O)
				Operational Judgment	Accounting / Financial Analysis	Business Management	Crisis Management	Industry Knowledge	Global Market Perspective	Leadership	Decision-making	60 Years & Below	60-69 Years	70 Years & Above	7-9 Years	4-6 Years	1-3 Years	
ChingLeou Teng	R.O.C.	Biotechnology	Female	✓		✓	✓	✓	✓	✓	✓			○				○
KoChung Lin	R.O.C.	Biotechnology	Male	✓		✓	✓	✓	✓	✓	✓			○				○
ShenYou Gong	R.O.C.	Financial Services	Male	✓	✓	✓	✓		✓	✓	✓		○					
BenYuan Chen	R.O.C.	Education	Male	✓		✓				✓	✓			○				
YenChign Hwang	R.O.C.	Financial Services	Female	✓	✓				✓		✓	○						
Chao Chung Kuo	R.O.C.	Water Resources	Male	✓		✓	✓	✓	✓	✓	✓	○						
ChanKou Hwang	R.O.C.	Biotechnology	Male	✓		✓	✓	✓	✓	✓	✓		○					○
ShenYi Li	R.O.C.	Law	Male	✓				✓	✓		✓			○				
JinnDer Chang	R.O.C.	Accounting Law	Male	✓	✓	✓	✓		✓	✓	✓			○	○			
Patrick Y. Yang	USA	Biotechnology	Male	✓		✓	✓	✓	✓	✓	✓			○	○			
JienHeh Tien	R.O.C.	Biotechnology	Male	✓		✓	✓	✓	✓	✓	✓			○		○		

Continued Enhancement of Board Knowledge

GRI 2-17

To strengthen board functionality, the company offers a variety of continuing education courses for board members. In 2023, all 11 board members met regulatory requirements for training, participating in a total of 9 sessions and accumulating 81 person-hours of training. The courses covered the following topics:

- Information Security and Technology Management: 3 sessions, totaling 63 person-hours.
- Corporate Governance Practices: 3 sessions, totaling 9 person-hours.
- Climate Change and Carbon Management: 2 sessions, totaling 6 person-hours.
- Financial Reporting and Management Analysis: 1 session, totaling 3 person-hours.

For more detailed information, please refer to the directors' training link: https://mops.twse.com.tw/mops/web/t93sc03_1

Board Performance Evaluation GRI 2-18

PharmaEssentia has established the "Board Performance Evaluation Policy" and the practices for "Board Self-Assessment or Peer Evaluation" to set performance goals and assessment systems for the board. An internal evaluation of the board's performance is conducted at least once annually, with an external professional independent organization appointed every three years to perform the annual board performance evaluation. The results of the 2023 internal evaluation of the board and its members were reported to the board on February 26, 2024, in accordance with the law. The assessment was unanimously approved with no further recommendations.

For external evaluations, the most recent was conducted by the Taiwan Corporate Governance Association for the period from November 1, 2020, to October 31, 2021 (the evaluation report can be accessed on the website). The evaluation recommended four improvements, including strengthening the director nomination process, developing a comprehensive management talent cultivation plan, establishing a robust whistleblower mechanism and communication channels, and creating a dedicated corporate governance section on the company's official website. In response, PharmaEssentia has set up a corporate governance section on its official website; in 2023, the focus was on recruiting senior management talent for international expansion plans. The Taiwan headquarters will also initiate training programs for key personnel at all levels in 2024, with implementation following board approval according to the set program goals and internal approval authority.

Linking Director Remuneration Policy to Sustainable Performance GRI 2-19, 2-20

The remuneration for our company's directors is determined according to internal statutes, with an allocation not exceeding 5% of the profit remaining after offsetting accumulated losses for the year. Directors' compensation is based on their involvement in company operations, performance contributions, and results from board performance evaluations. Information regarding the remuneration of directors and senior management can be referred to in the annual report. We are in the process of revising the director remuneration policy for the next board election to align it with the company's sustainability goals and performance indicators.

The performance indicators for the Chairwoman, CEO, and General Manager are linked to sustainable development activities. Key performance indicators (KPIs) include ongoing investment in the innovation of new drugs, driving key global clinical trials, accelerating drug licensing applications, deepening global business operations, successfully scaling up commercial production and improving process efficiency, optimizing the global supply chain and transportation efficiency, enhancing the global digital systems operations, and fulfilling corporate social responsibility.

Participation in Professional Associations GRI 2-28

PharmaEssentia chooses to engage with biotech and pharmaceutical associations, maintaining membership through the payment of dues. We collaborate with these associations to extend our influence and promote industry development.

2023 Participation in External Associations	Annual Membership Fees (NTD)
Taiwan Research-based Biopharmaceutical Manufacturers Association	300,000
Taiwan Pharmaceutical Manufacturer's Association	120,000
Development Center for Biotechnology (Non-profit Organization)	76,190
Taipei Pharmaceutical Business Association	34,400
The Allied Association For Science Park Industries, Taiwan	72,000
Taiwan Pharmaceutical Manufacture and Development Association	50,000
Taiwan Bio Industry Organization	20,000
Hematology Society of Taiwan	50,000
Taiwan Parenteral Drug Association	7,000
Chinese Association for Pharmaceutical Agents	32,000
Institute for Biotechnology and Medicine Industry	20,000
Taiwan Myeloproliferative Neoplasms Association	50,000
Total	**831,590**

Tax Strategy and Governance

GRI 207-1, 207-2, 207-3, 207-4

PharmaEssentia has established a tax policy and commitment; the company rigorously operates in accordance with the tax laws of Taiwan and each market where it operates, and ensures transparency in reporting to strengthen compliance with tax laws and commitments across the group. The responsibility for tax management within the company rests with the Head Office's Accounting Department, which coordinates with the accounting departments of the subsidiaries to plan and legally manage tax filings.

PharmaEssentia is committed to following tax management guidelines to reduce tax risks, optimize post-tax operational results, and protect shareholder interests:

PharmaEssentia Tax Policy and Commitments

1. Compliance with Tax Laws and Regulations: All operations are conducted in accordance with relevant tax laws and regulations.
2. Arm's Length Principle: Transactions between related entities are conducted based on the arm's length principle, adhering to the internationally recognized transfer pricing guidelines published by the Organisation for Economic Co-operation and Development (OECD).
3. Transparency in Financial Reporting: Financial reports are transparent, and tax disclosures comply with relevant regulations and standards.
4. Prohibition of Tax Avoidance Transactions: Engages in no transactions that are solely for the purpose of tax avoidance.
5. Mutual Respect and Transparency with Tax Authorities: Establishes a relationship of mutual respect and transparency with tax authorities.
6. Tax Impact Consideration in Decision Making: Major company decisions consider the impact of taxes.
7. Tax Risk Assessment: Analyzes the operating environment and utilizes management mechanisms to assess tax risks.
8. Enhancing Tax Expertise: Strengthens tax expertise through ongoing training and development of personnel.

For the year 2023, the company recognized an income tax expense in the profit or loss statement. Please refer to the table below for the reconciliation of income tax expense to the accounting profit multiplied by the applicable tax rate.

Reconciliation of Income Tax Expense to Accounting Profit Multiplied by the Applicable Tax Rate

(Unit: NTD '000)	2021	2022	2023
Profit Before Tax from Continuing Operations	$(2,810,988)	$(1,841,871)	$(986,934)
Income Tax Calculated at the Parent Company's Statutory Rate	$(562,198)	$(368,374)	$(197,388)
Tax Impact of Deferred Tax Assets/Liabilities	562,198	(68,107)	(168,670)
Other	-	(30,580)	2,959
Total Income Tax Expense Recognized in Profit or Loss	$0	$(467,061)	$(363,099)

Source: For detailed information, refer to the company's annually audited consolidated financial statements.

Internal Control and Internal Audit

To assist the Board of Directors and management in implementing corporate governance and strengthening internal control and audit functions, our company's Internal Audit Department reports directly to the Board of Directors. The department is headed by a Chief Auditor, with one to two auditors under Chief Auditor supervision. The appointment and dismissal of the Chief Auditor must be approved by the Audit Committee and passed by the Board of Directors.

The Chief Auditor reports to the Audit Committee and the Board of Directors quarterly on the execution of audit tasks, enhancing the Board's oversight of the implementation of the company's audit system. Regular meetings are scheduled for independent communication between internal auditors and independent directors. Furthermore, any deficiencies identified during the annual audit plan's internal control checks are continuously monitored and re-evaluated to ensure that the relevant units have taken timely and appropriate corrective actions.

Routine and project-specific audits, along with subsidiary oversight tasks, are conducted to assess the functionality of internal controls and identify potential risks. These efforts assist the Board of Directors and management in fulfilling their responsibilities. In the year 2023, the audit unit completed 55 audit reports without identifying any significant deficiencies.