

Chapter 2

Business Ethics, Integrity, and Compliance

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Chapter 2: Summary of 2021 Highlights



Established in 2019, PharmaEssentia’s Execution Center for Corporate Sustainability has planned a 5-year sustainable governance development plan that is committed to promoting management strategies and action guidelines for various sustainability topics as we continue to work toward realizing the sustainable value of PEC and enhancing our culture of sustainability governance. Upon entering the third year of our sustainable development roadmap – ESG Performance Results, we implement the material topics and related risk management mechanism in line with the COSO Enterprise Risk Management Framework. Additionally, our ESG performance also includes internal trainings designed to facilitate employees’ understanding of corporate ESG in the post-pandemic era and topics of concern to international institutions. To stay current, PharmaEssentia also needs to strengthen the correlation between the core strategies in our global operations with UN Sustainable Development Goals (SDGs). By building more diverse internal and external communication mechanisms, we can create even greater corporate sustainable values. At the same time, while planning short-, mid-, and long-term objectives and action plans, senior managers are also reminded that ESG risks may cause material losses to the Company; to achieve stable operations and fortify our corporate competitiveness among such uncertain changes, they shall properly re-allocate resources or even adjust their strategies and operating objectives.



Performance Highlights

Voluntary sustainability reporting

Publishing 2021 Sustainability Report in English and Chinese. Obtained third-party assurance

TCSA Gold Medal in ESG Report

Received Gold Medal for ESG Report in medical healthcare sector of the 14th TCSA

Information disclosure in line with Sustainability Accounting Standards Board (SASB)

Disclose the evaluation of ESG performances in line with international standards to ensure the quality and consistency of disclosed information

Invited to participate in S&P CSA for the first time

Total score reached 92nd percentiles among global pharmaceutical companies, successfully propelling PEC onto the global market

Reached the Top 6%-20%

On the OTC corporate governance valuation scale

94.7% Attendance rate (Excluding attendance by proxy)

Board of Directors fulfilled due diligence in supervision

94 Trademarks

Number of valid trademarks

83 Patents

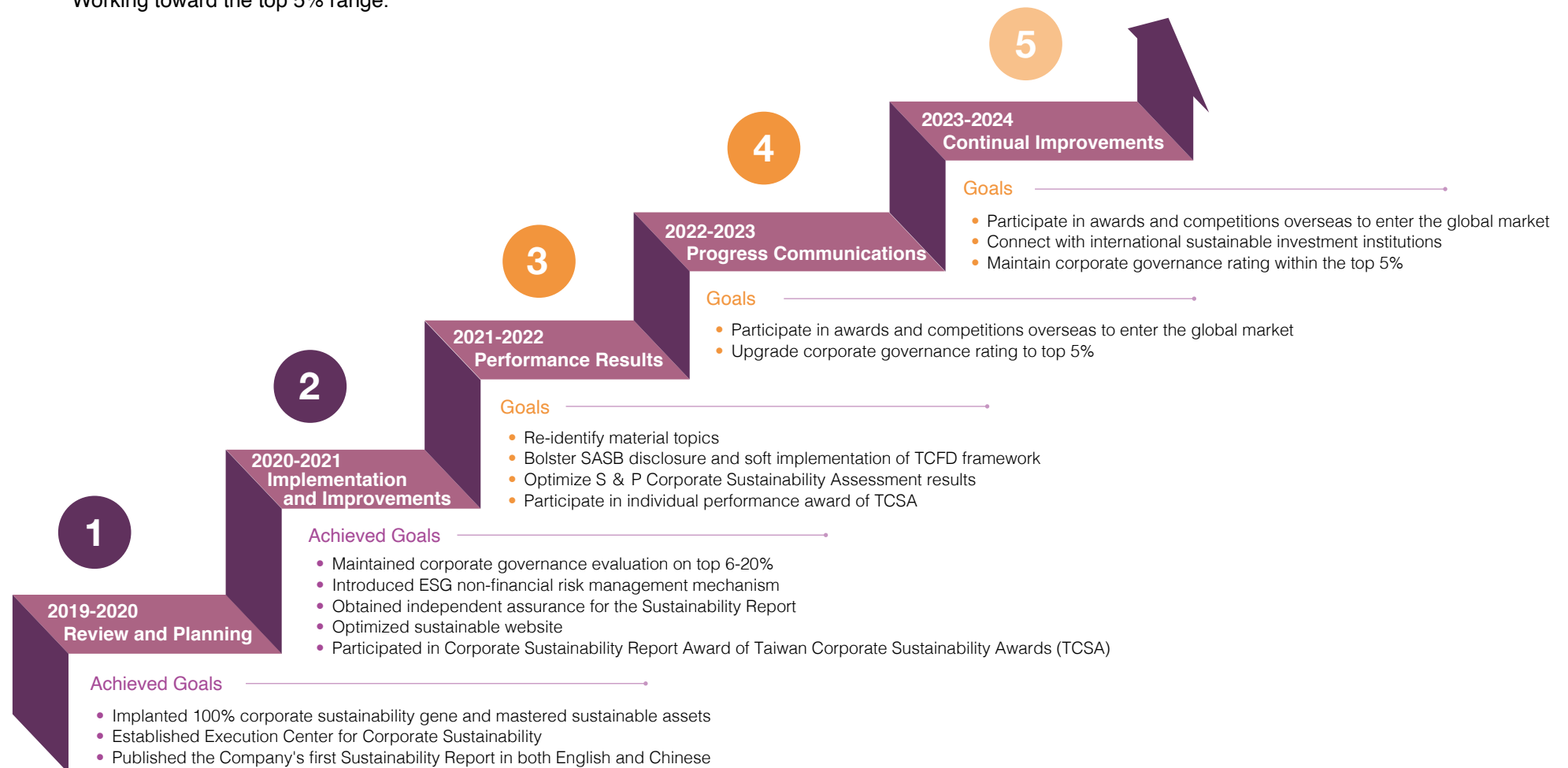
Number of valid patents

2-1 Corporate ESG Governance and Management Performance

Top 6%~20%

Reached corporate governance evaluation goal ahead of schedule in 2020. Working toward the top 5% range.

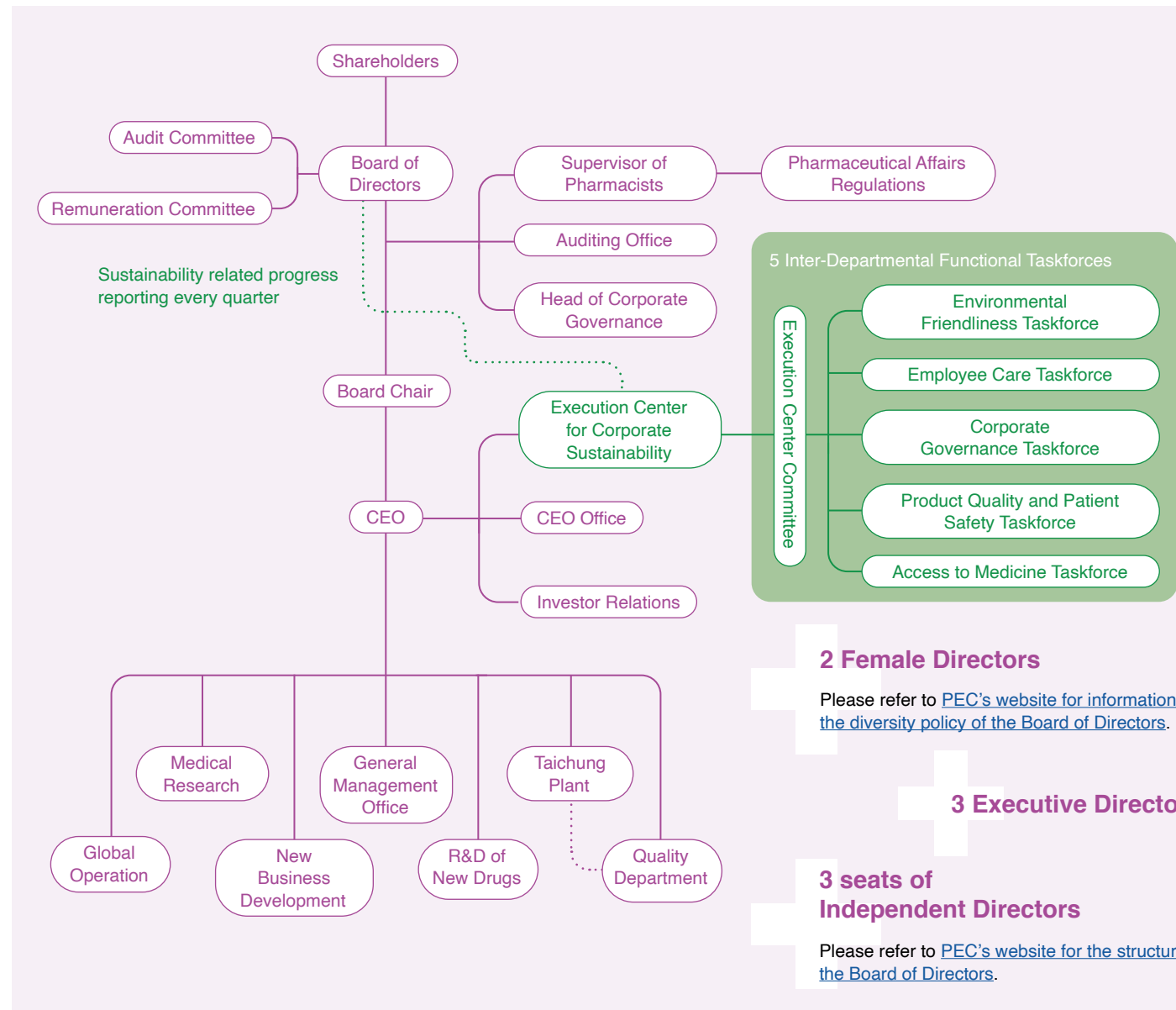
PharmaEssentia continues to strengthen and promote sustainable goals and is committed to co-creating long-term shared values with stakeholders. Besides reviewing our operations via the corporate governance evaluation, we have included sustainable development as a key development objective in corporate governance. And committed to realizing SDG 3 in the UN SDGs, Good Health and Well-Being, which is integrated with the ESG aspects in our sustainable development to formulate PharmaEssentia's blueprint for corporate governance development.



Professional and Diverse Board of Directors and Execution Center for Corporate Sustainability

GRI | 102-18-20 GRI | 102-31-33 GRI | 405-1

Board of Directors at PEC is the highest-ranking governance body. The Board currently has 11 Directors; the term of each Director is three years and currently lasts from August 5, 2021, to August 4, 2024. Please refer to [PharmaEssentia Corporation Company Bylaws](#) for detailed descriptions. PEC's Board of Directors meet at headquarters at least once a quarter, the managers and the accounting and finance managers are required to be present for consultation while the audit supervisor reports status on audits to the Board. A total of 12 Board meetings were held in 2021 with the attendance rate of 94.7%. Significant Board resolutions for 2021 can be found on [PEC's website](#). PEC Subsidiary Panco Healthcare has three seats of Directors and one Supervisor with a term of three years, respectively. There were five Board meetings held in 2021 with a 100% attendance rate. The U.S. Subsidiary has four seats of Directors without any Supervisor and convened four meetings in 2021 with a 100% attendance rate. PEC set up the PharmaEssentia Execution Center for Corporate Sustainability and five functional taskforces in 2020. The Execution Center oversees compiling and reporting the ESG performance to the Board of Directors on a regular basis (please refer to the later Section, "[PharmaEssentia's ESG Governance Goals and Organizational Operations.](#)" for details).



2 Female Directors

Please refer to [PEC's website for information on the diversity policy of the Board of Directors.](#)

3 Executive Directors

3 seats of Independent Directors

Please refer to [PEC's website for the structure of the Board of Directors.](#)

Board of Directors is a key player in setting the Company's sustainability strategy, overseeing management and being accountable to the Company and shareholders. PEC has a “Board Member Diversification” policy that aims to have members with different professional and industrial backgrounds to provide professional advice on operation judgment, accounting and analysis, operation management, industry knowledge, and international market outlook. Please refer to the [Annual Report](#) for professional experiences of each Director. The 11 seats of Directors include three seats of Independent Directors, accounting for 27.2% of the total number of Directors. It is expected to increase the number of Independent Directors to more than 1/3 of the Board in the future. All Directors and Independent Directors have fulfilled the required hours of continuing studies in 2021. Please refer to PEC’s website for details.

Board Member Diversity

Directors	Gender	Age				Specialized Knowledge and Skills			
		41~50	51~60	61~70	71~80	Biotech	Education	Accounting/ Law	Finance
ChingLeou Teng**	Female			✓		✓			
KoChung Lin**	Male				✓	✓			
ShenYou Gong	Male			✓					✓
BenYuan Chen	Male				✓		✓		
YenChign Hwang	Female		✓						✓
Chao Chung Kuo	Male	✓				✓			
ChanKou Hwang**	Male			✓		✓			
ShenYi Li	Male				✓			✓	
JinnDer Chang*	Male				✓			✓	
Patrick Y. Yang*	Male				✓	✓			
JienHeh Tien*	Male			✓		✓			

Note 1 : * denotes Independent Directors

Note 2 : Information is current as of December 31, 2021

Note 3 : **denotes Board Members of Panco Healthcare Co., Ltd at the same time

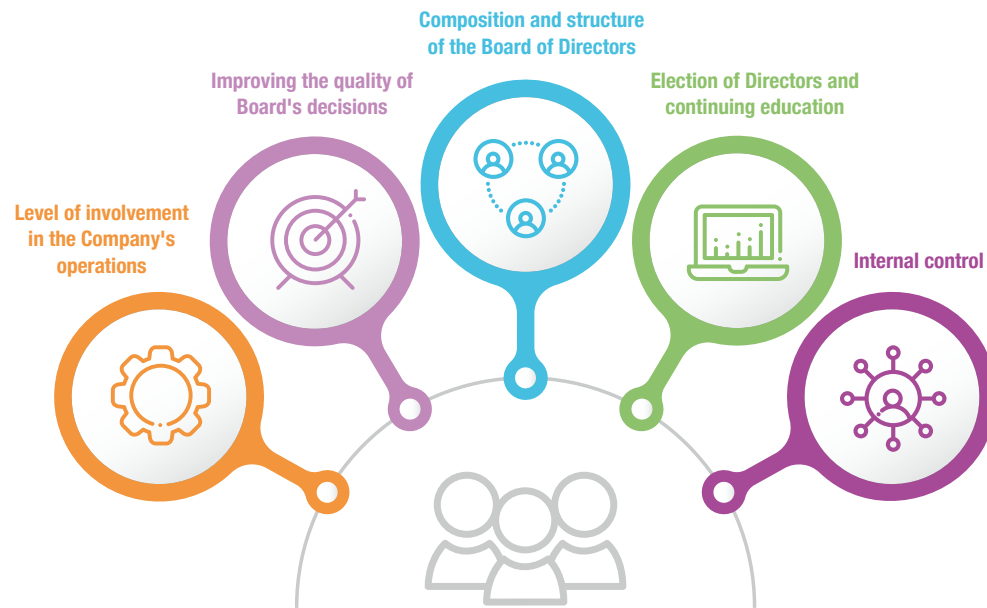
Functional Committees

Two functional committees have been set up under the Board of Directors, which are the [Audit Committee](#) and the [Remuneration Committee](#). These committees comprise of the Independent Directors, which effectively realize the supervisory and the check and balance functions of the Independent Directors. In particular, the Remuneration Committee also has an external expert (Professor Ming-Chuan Hsieh). Based on the operational needs, PharmaEssentia may also promote the establishment of a Nomination Committee in 2022 to jointly review the composition of Directors and managers, improving the functions of the Board of Directors and strengthen the management mechanism.

	Audit Committee	Remuneration Committee
Responsibilities	Assist the Board to supervise the Company's performance quality and credibility in accounting, audit, financial reporting process, and financial control.	Assist the Board of Directors in formulating and reviewing the policies, systems, standards and structures of performance evaluation and remuneration for directors, supervisors, and managers.
Composition	Independent Director JinnDer Chang, Independent Director Patrick Y. Yang, and Independent Director JienHeh Tien	JinnDer Chang (Independent Director), Patrick Y. Yang (Independent Director), JienHeh Tien (Independent Director) and Ming-Chuan Hsieh (Professor)
Number of Meetings Held	11	5
Attendance Rate	90.91%	90%

Board Performance and Self-Evaluation

To implement corporate governance and enhance the functions of the Board, PharmaEssentia formulated the "[Regulations for the Self-Appraisal or Peer Appraisal of the Board of Directors](#)" to establish performance objectives and evaluation systems. The Board of Directors of PharmaEssentia shall perform internal Board performance evaluation at least once a year and appoint an external professional independent organization to conduct performance evaluation of the Board at the end of every three years. The performance evaluation measures include at least the following five major aspects:



Before the end of December 2021, PEC has appointed external entity "Taiwan Corporate Governance Association" to evaluate the performance of its Board of Directors from November 1, 2020, to October 31, 2021. [The evaluation report contained four recommended improvements](#); PEC will strengthen the election mechanism of the Board, draft talent development plans for key management functions, build a comprehensive whistleblower mechanism and communication channels, and set up a corporate governance section on its website based on actual operating needs in the future.

Directors' Remunerations and Its Correlations with Sustainability Performance

Directors' remuneration at PEC complies with internal regulations and rules, and after offsetting cumulative losses, no more than 5% of the current earnings may be appropriated as remunerations for the Directors. Reasonable compensations and rewards may be given based on the level of individual Director's participation in PEC's operations and his/her performance and contribution and result of the performance evaluation of the Board of Directors. To reflect the Directors' efforts toward supervising the executions of sustainable development goals and strategies, the HR department is actively drafting relevant operating procedures to correlate the Directors' remunerations with PEC's sustainable performance in line with PEC's sustainable development progress.

Taxation Strategies and Governance

To strengthen the Group's compliance with relevant tax laws and to fulfilling corporate social responsibility, we abide by the following tax management approach. In order to reduce tax risks, optimize after-tax operating results, and to protect the rights and interests of shareholders. The Group has recognized current income tax expenses of NT\$126,000 and NT\$0 in 2020 and 2021, respectively.

66

- All operations are executed in line with relevant tax laws and regulations
- Related business transactions are conducted based on the arm's length principle and adhere to the internationally acknowledged transfer pricing principles announced by the Organization for Economic Cooperation and Development (OECD)
- Transparent financial reporting and tax-related disclosures adhere to applicable regulations and standards
- PEC does not engage in tax avoidance transactions
- PEC has formulated a mutually respecting relationship with the tax authority based on mutual trust and information transparency
- All important decisions considers the effects of taxes
- PEC analyzes operating environment and engages in tax risk evaluation via management mechanisms
- Strengthen professional tax competencies through continuous talent development

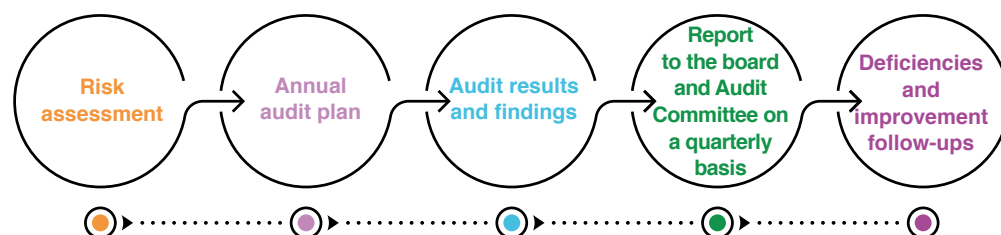
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	2020	2021
Accounting loss before tax from continuing operations	\$(1,948,016)	\$(2,810,988)
Income tax expense at the statutory income tax rate	\$(389,603)	\$(562,198)
Tax effect of deferred tax assets/liabilities	389,629	562,198
Others	100	-
Total income tax expense	\$126	\$0

Unit: thousands in NT\$

Internal Control and Internal Auditing

PEC's Taiwan headquarters has set up an Audit Office that directly reports to the Board of Directors. The Audit Office has two full-time auditors and deputy agents, and it prepares an audit report based on factual records of internal control deficiencies and abnormalities found in audit tasks. The audit supervisor reports to the Audit Committee and the Board of Directors on the execution of audit operations quarterly. They also report deficiencies found in the internal control as part of the annual Audit Plan, which are regularly followed up and reviewed to ensure that relevant departments have adopted proper improvement measures on a timely basis. To implement the corporate governance system, the auditors gain an understanding of the operating status and potential risks of internal control functions through routine and ad hoc inspections and assist the Board of Directors and the management to fulfill their responsibilities. Audit Office completed 50 audit reports and found one deficiency in 2021, and 100% of the deficiency has been improved. For the current period, auditors have also prepared two audit reports on PEC's global subsidiaries in line with PEC's "Operating Procedures for Subsidiary Supervision and Management," and no audit deficiency was found.



Annual Operation Performances

GRI | 201-1

Operation Performances in the Last 3 Years			
	2019	2020	2021
Operation Revenue	305,692	557,257	656,506
Operation Costs	61,703	373,323	378,856
Total Operation Expenses	1,093,212	1,899,786	3,100,058
Loss Before Tax	-842,144	-1,948,016	-2,810,988
Total Tax Expense	850	126	0
Loss	-842,994	-1,948,142	-2,810,988
Other Comprehensive Income, net	926	-13,089	-19,879
Total Comprehensive Income	-842,068	-1,961,231	-2,830,867

Unit: thousands in NT\$

Note 1: Above information is from the Company's consolidated financial statement.

Note 2: More information on the Board of Directors' performance and operation results, including CEO's remuneration structure, stocks hold by the government, stocks hold by the founding family, and disclosure on power to make decisions... etc. please refer to PharmaEssentia's year report.



PharmaEssentia's ESG Governance Goals and Organizational Operations GRI | 102-19-20

The Execution Center for Corporate Sustainability and five functional taskforces have been formulated under the CEO, and they are responsible for planning and promoting cross-departmental and business group's sustainable development policies, goals, strategies, and implementation plans executed by the functional taskforces. The Execution Center will also regularly report the progress of various executions to the Board of Directors quarterly, as well as monitor and manage various ESG performance on a timely basis.

Take the United Nations Sustainable Development Goals 3 as the core.



Address unmet disease needs through PharmaEssentia's science and innovation to deliver access to medicines for patients worldwide.

The ESG aspects and the SDGs to which the 5 taskforces corresponding to

E



Ensure the health of PharmaEssentia's employees and the residents around the plant through actions to reduce chemical, air, water, soil and other pollution.



We examine the management of waste and toxic chemicals from a life-cycle perspective to prevent environmental pollution from harming human health.



We are committed to reducing energy consumption intensity through a number of energy efficiency initiatives. We are progressively using the Task Force on Climate-related Financial Disclosures (TCFD) as a framework for disclosing climate change risks and opportunities to implement climate action.

Environmental Friendliness Taskforce

Identifying and managing the product life cycle that may have an impact on the environment, such as energy use, water resource use, greenhouse gas emissions, medical waste management, chemical substance management... etc.

Manage 11 Material Topics

- ★ Waste Management
- ★ Hazardous Substance Management
- ★ Climate Governance

S



Prepare for possible future public health emergencies, we continue to promote and collaborate on the development of vaccine candidates.



We regularly report on the proportion of women on boards and in management-level roles, and support the career development of women managers to promote a gender-balanced and inclusive workplace.



In order to ensure that our colleagues interact with healthcare professionals in a reasonable manner and in accordance with relevant drug and medical regulations, we comply with WHO and national ethical standards for pharmaceutical marketing. In 2020, we established three major supplier management priorities to ensure a stable procurement supply with our supply partners.

Employee Care Taskforce

Managing the topics of each stage in the human resource cycle, including recruitment, appointment, compensation assessment, rewards, training, performance assessment, employee assistance, workplace health and safety, resignation and retirement... etc.

- ★ Talent Attraction and Retention
- ★ Human Rights



To support the health and well-being of our employees, we provide them with quality compensation and benefits, and ensure that they have appropriate career development plans through comprehensive education and training, regular performance appraisals, and the promotion of employment and overall economic growth.



Our greatest impact on health is the successful development of innovative products. Through our science and innovation, we develop differentiated, high quality medicines to improve the health of patients worldwide.



We have built diverse partnerships among academia, strategic alliances, and intellectual property sharing companies to pursue breakthrough innovations in support of global goal SDG 3.

Product Quality and Patient Safety Taskforce

Managing topics related to the product life cycle. Including R&D, clinical, manufacturing, and sales, safety, effectiveness, ethics and morals of products.

- ★ Drug Quality & Safety Management
- ★ Supply Chain Management

Access to Medicine Taskforce

Ensuring patients' access to medicine. Including policy participation, innovative technologies, ability building, and other aspects. Considering ways to assist patients in obtaining the drugs they need and formulating relevant action plans to exert social influence in the pharmaceutical industry

- ★ Access to Medicine
- ★ Research and Development Innovation of New Drugs
- ★ Patient Relation and Community Engagement

G



Realize our business opportunities while providing patients with reasonable, affordable, correct and easy access to the medicine they need, through an approach to proximate drug governance that is closely aligned with our business development strategy from our core competency.



We are committed to upholding the spirit and fundamental principles of human rights protection as set forth in the "United Nations Global Compact," the "United Nations Universal Declaration of Human Rights" and the "ILO Declaration on Fundamental Principles and Rights at Work." We have a zero-tolerance approach to bribery and any form of corruption and have developed an anti-bribery and anti-corruption action plan.



We believe that a multi-faceted partnership between corporations, governments and NGOs that effectively harnesses each party's unique expertise will help develop and deliver the medicines in a timely manner to people around the world to meet the healthy lives.

Corporate Governance Taskforce

Facilitate effective management from the Board of Directors:

- Ensure compliance and business integrity.
- Monitor operational risks.
- Enhance the transparency and timeliness of public information.
- Maintain robust financial performance.
- Protect privacy and information security of the patients.
- Construct a system of application, acquisition, management, and operation of intellectual property

Manage 11 Material Topics

★ Business Ethics and Compliance

2021 PharmaEssentia ESG Performances

5 ESG functional training sessions

To promote the awareness and practice of senior managers and employees on the correlations between core functions and sustainable performance

Comprehensively identified and addressed stakeholders' expectations

Information disclosed on 11 ESG material topics from both domestic and foreign investors

Voluntarily published the third Sustainability Report in English and Chinese

Reporting boundaries have been extended to include the U.S. Subsidiary

Participated and completed the submission of S&P CSA for the first time

Ranked in 92 percentiles among global pharmaceutical companies

Completed ESG risk evaluation from international independent Sustainlytics for the first time

Ranked top 15% among all global pharmaceutical companies. ESG risk was reduced to moderate

Received TCSA Gold Medal in CSR Report

Honored with Gold medal in medical industry sector in 2021

Risk and crisis management framework and executions

Formulated management mechanisms and action plans for the ESG non-financial risk topics

Further engaged in training of existing material topics using SMART principle, enabling departments to formulate clearer and measurable short-, mid-, and long-term ESG goals to reinforce the evaluation mechanism and to achieve KPI performance. Subsequently, PEC also deployed COSO enterprise risk management framework to identify 19 non-financial ESG risk topics and re-identified material topics in 2021 to comprehensively examine our management objectives and performance goals in order to promote PEC toward sustainability on a rolling basis (please refer to [Appendix 4](#) for the status in achieving 2021 material topics).

2-2 Compliance and Business Ethics


★ Materiality Topic

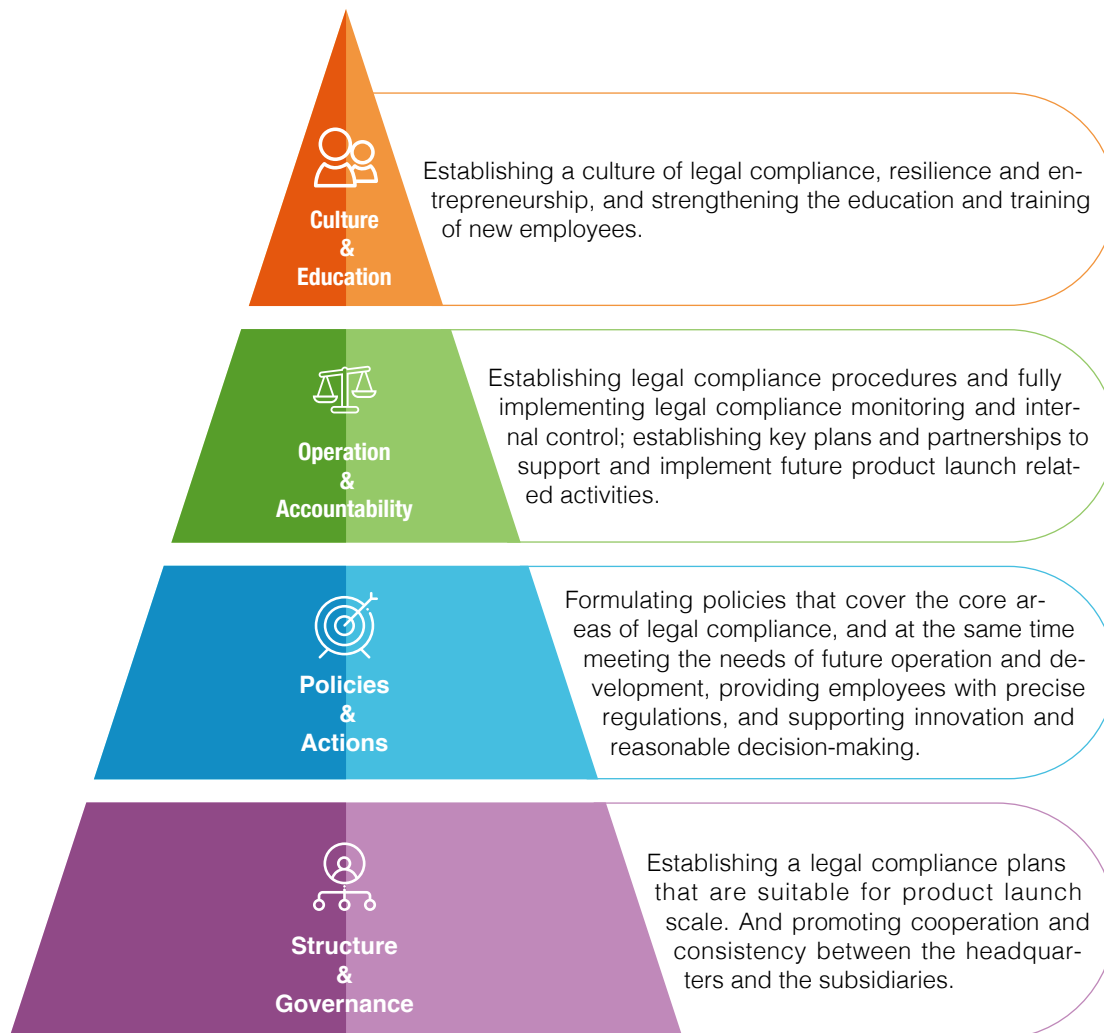
Management Approach of Compliance and Business Ethics

PharmaEssentia's product sales span across European, American, and Asian markets. We keep abreast of any domestic or foreign policies and laws that may have a significant impact on our operations. We have drafted a compliance strategy framework founded on four major principles of Structure and Governance, Policies and Actions, Operation and Accountability, and Culture and Education, for our global operations in order to reduce operational risks caused by legal violations. To ensure the conduct of PEC's subsidiaries and employees around the world all comply with regulatory and ethical standards and rules, we plan to establish an inter-subsidiary Compliance Committee within the Group in the future. In addition, to set our foundation toward sustainable management, each functional department engages external professional consultants to provide guidance on legal compliance policies in accordance with the Group's development needs. Currently, the Compliance Committee has been set up at our U.S. Subsidiary and stipulates ethical and integral business conduct through "Compliance Policy Book-A Guide." Please refer to ["Global Legal Compliance Strategies - Legal Compliance in the United States"](#) for more descriptions.

2021 PharmaEssentia ESG Performances

Plans Executed		Results
Organization establishment and education training	Sustainability project initiation meeting and education training.	<ul style="list-style-type: none"> Completed the first COSO ERM non-financial ESG risk issue training in January 2021 Completed the second COSO ERM non-financial ESG risk issue training in March 2021 Organized TCFD training in August 2021 Organized ESG investment score training in September 2021 The third "PharmaEssentia Sustainable Development Project Initiation Meeting and Education Training" was held in December 2021, in which 24 executives and nearly 40 employees participated in the offline conference
Review of the sustainable assets and issues	Identifying stakeholders and major concerns.	<ul style="list-style-type: none"> Identified 10 types of stakeholders through interviews with senior management and departmental supervisors. Identified 11 material topics of priority concern through 332 online questionnaires.
	Identifying non-financial risk topics.	<ul style="list-style-type: none"> Conducted one training session on workplace unlawful infringement and one session on identification of legal risk topics arising from unethical conduct, with more than 30 participants from senior management and department heads, and nearly 200 employees. Identified 19 ESG non-financial risk topics.
Disclosure of sustainable information	Prepare and publish sustainability reports.	<ul style="list-style-type: none"> The second Chinese version of PharmaEssentia Sustainability Report was published in July 2021. The second English version of PharmaEssentia Sustainability Report was published in September 2021. Obtained sustainability report assurance from BSI for the first time
	Deployed and participated in international standard assessment	<ul style="list-style-type: none"> Introduced COSO ESG risk management framework development and utilization for the first time ESG risk evaluation from international independent Sustainlytics was reduced to moderate for the first time, and ranked top 15% among all global biotech companies Participated and completed the submission of S&P Global Corporate Sustainability Assessment for the first time and ranked in 92 percentiles among all global pharmaceutical companies Awarded Gold medal in medical industry sector in 2021 TCSA

 **Vision** Providing employees with relevant knowledge and tools to enable all employees worldwide to follow the laws and codes of ethics.



Policies

Internal Policy

- Based on our mission to provide effective, safety and cost-effective medical products to treat human diseases, the Group continues to engage in and to actively strengthen legal compliance management, as well as to formulate a culture of regulatory compliance. Besides formulating various standardized operating procedures in line with laws from the competent authority, we have also formulated procedures including the [“Principles of Ethical Corporate Management”](#) and the [“Procedures for Ethical Management and Guidelines for Conduct.”](#) By actively engaging in employee advocacy and training, we can ensure that all business and operating activities are in line with relevant laws and PEC’s management policies.

External Compliance

- Biopharmaceutical is a highly regulated industry, and all business conduct and products of the Group, from R&D, clinical trials, drug manufacturing and production, regulatory marketing approval review, to post-marketing safety monitoring, shall comply with relevant regulations from various countries.



Commitments

The Group places immense importance on compliance and monitoring at all stages of the industry value chain and expects its employees around the world to implement the following four major principles as a commitment to sustainable development:

- Structure and Governance:** Establish a global pre- and post-market compliance program for products.
- Policies and Actions:** Develop core areas of compliance and sound policies.
- Operation and Accountability:** Establish legal compliance procedures and fully implement control and accountability management.
- Culture and Education:** Continuously conduct employee education and promotion to deepen the corporate spirit.



Responsibilities

Legal compliance is a core requirement to enterprise management, and all internal organizations, subsidiaries, and all employees need to make sure that relevant business conduct and actions comply with regulatory requirements and PEC's policies and regulations, including:

- Board of Directors of the headquarters, the pharmaceutical legal affairs unit, the legal affairs unit, the human resources unit and each functional department, as well as the management team and the legal compliance team of each subsidiary.
- Execution Center for Corporate Sustainability-Corporate Governance Taskforce



Resources

Personnel / operational invested

- Board of Directors of the headquarters, the pharmaceutical legal affairs unit, the legal affairs unit, the HR unit and each functional department, as well as the management team and the legal compliance team of each subsidiary.

Expense invested

- Each functional department of the Group's headquarters and subsidiary shall prepare the annual budget related to the compliance plan, which shall be reviewed by the finance department of the headquarters and submitted to the Board of Directors for approval.
- Each functional department engages external professional consultants to provide guidance on legal compliance policies in accordance with the Group's development needs.



Goals & Targets

2022 Short-term Goals

- PEC will formulate a Nomination Committee based on actual operational needs, in order to continuously strengthen the nomination system of Directors.
- Reinforce the channel on PEC's website designed to directly or synchronously communicate or file grievances with the Independent Directors (Audit Committee).
- Optimize information related to corporate governance on the existing PEC website to allow internal and external stakeholders to inquire needed information with greater efficiency and as needed, as well as to facilitate positive interactions and communications.
- Strengthen training on legal compliance management by building a clear and adequate systems for transmission of, and consultation, coordination, and communication with respect to, acts and regulations so that legal compliance could be achieved on all levels of the Group.
- Headquarters has formulated the Group's "Top Management Principles for Group Business Conduct and Ethics" and related, detailed operational policies.
- Include legal compliance standards and rules in the annual Audit Plan and regularly carry out internal audits.



Goals & Targets

2023~2025 Mid-term Goals

- Formulate a cross-subsidiary Compliance Committee within the Group to facilitate strategic decision-making processes that incorporate input from functional compliance representatives to achieve compliance with laws and company policies in every operational activity.
- Advise senior management team to promote the formulation of a global Compliance Committee to oversee the implementation effectiveness of the global compliance program under the compliance committee and establish a reporting and management mechanism to manage the headquarters and subsidiaries.
- Establish an integrity management supervisory unit under the headquarters Compliance Committee.

2026 Long-term Goals

- Establish a global compliance committee.
 - Provide a global view of the compliance risk profile for each subsidiary.
 - Facilitate cross-region identification operations and prevent duplication of effort.
 - Make decisions and develop the Group's global risk management strategy.
 - Facilitate in the management of global risk oversight of compliance between branches.



Evaluation of Management Approach

Mechanism of Evaluation

Internal audit mechanisms:

- Comply with the relevant procedures enacted by the competent authorities, for instance, the headquarters has formulated the internal control and internal audit management system and more than 40 operating management procedures.
- Annual internal audits and feedback, and regular quarterly reports to the Board of Directors on the results of implementation.
- Employee training.
- Performance evaluation of Directors and managers.

External audit mechanisms:

- Financial Supervisory Commission's corporate governance 3.0 evaluation system
- External professional agency is invited to conduct performance evaluation of the Board
- Reporting and complaint channels and mailbox



Evaluation of Management Approach

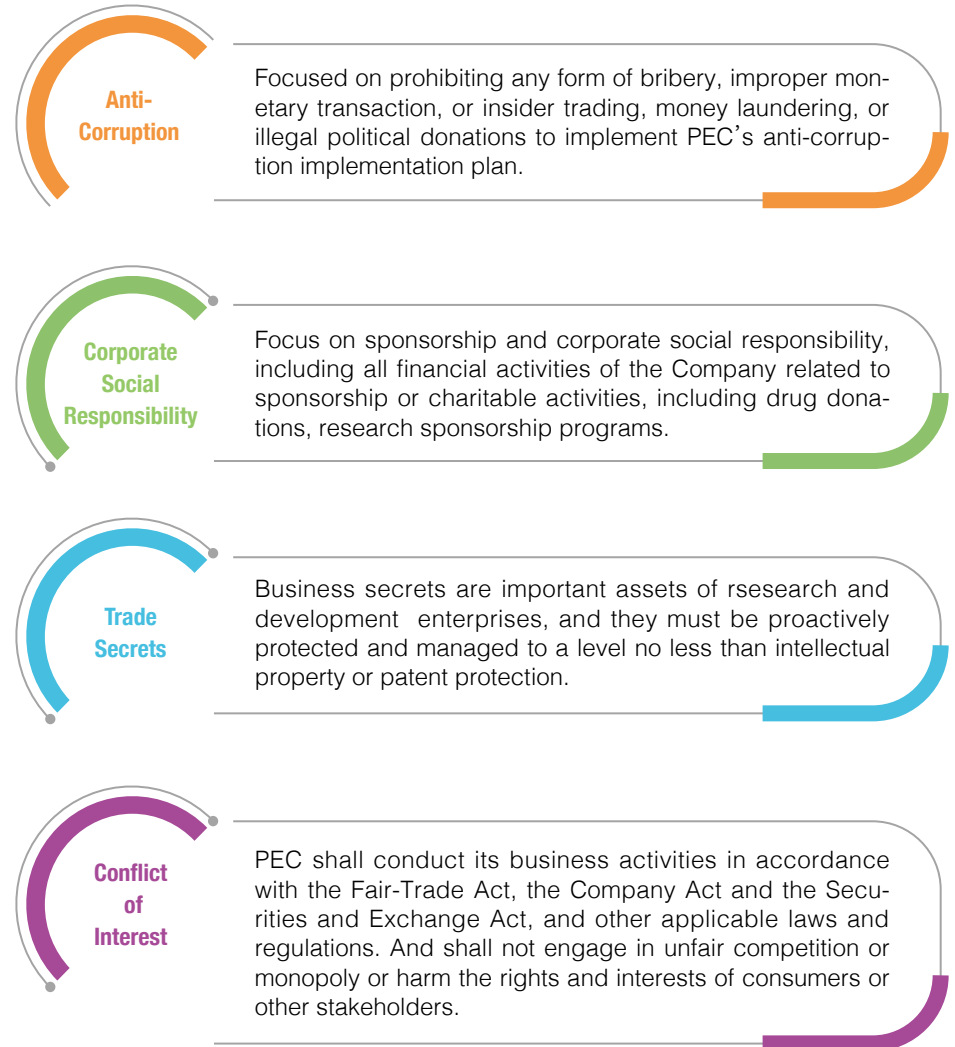
2021 Evaluation Results

- Include legal compliance standards and rules in the annual Audit Plan and regularly carry out internal audits. In terms of compliance with ethical business conduct and ethics, no significant deficiency was found in 2021.
- No incidents of corruption or harm to customer privacy was found in 2021.
- After external professional agency completes performance evaluation of the Board, a report will be issued and disclosed on [PEC's website](#).
- Auditing Office organized one session of internal legal compliance training and external practicing attorneys were invited to give one training on legal risk topics arising from unethical business conducts.
- Two incidents of violations against relevant operating procedures from the Taipei Exchange in 2021; conference with professional attorney and CPA was already held to jointly propose substantial improvement measures and system optimizations.

Continue to Promote and Deepen Integrity Management.

Due to the nature of PEC's industry, our products are vital to human safety and health; therefore, it is crucial for us to adhere to the [Principles of Ethical Corporate Management](#). PEC's Procedures for Ethical Management and Guidelines for Conduct focused on: specific rules concerning anti-corruption, corporate social responsibility, business secrets, and conflicts of interest. There will also be corresponding authorities and departments in each rule to improve departmental organization and development, thereby executing and supervising the Procedures for Ethical Management and Guidelines for Conduct. The "Rules of Procedure for Board of Directors" also clearly stipulates the recusal system for the Board of Directors and other relevant parties and matters. Going forward, we will also establish an integrity management supervisory unit under the Compliance Committee to strengthen legal compliance and ethical business management.

To comprehensively ensure the practice of ethical corporate management, PEC will also propose a whistleblower system to protect whistleblowers and to provide a confidential reporting hotline available to suppliers, customers, and other third parties via their local language. The number of reports received, types of improper conduct, and measures adopted will also be disclosed. This system will strengthen risk detection, fulfill our commitment, as well as protect our reputation.



Guidelines on Corporate and Employee Business Conduct and Ethics

GRI | 102-17

PharmaEssentia and all employees are required to abide by the six major business conduct and ethics regulations set by PEC. The HR department will promote the precautions related to professional ethics during the education and training of new employees. In addition, a specific reporting system on illegal (including corruption) conduct have also been formulated for internal and external personnel. In December 2021, PEC also invited external practicing attorneys to give one seminar on “legal risk topics arising from unethical business conduct” to strengthen the awareness of employees from the headquarters and subsidiary Panco Healthcare concerning ethical business management policies that shall be followed by companies listed on the Taipei Exchange. Total number of participants reached 198 persons, accounting for 85.71% of all employees in Taiwan.



Global Legal Compliance Strategies - Legal Compliance in the United States

Signed PharmaEssentia USA “Compliance Policy Book”

Policies that specify PEC’s ethical business conduct and legal compliance

Formulated standardized operating procedures related to legal compliance

Operational Guidance Document covering legal and compliance operating procedures are being finalized

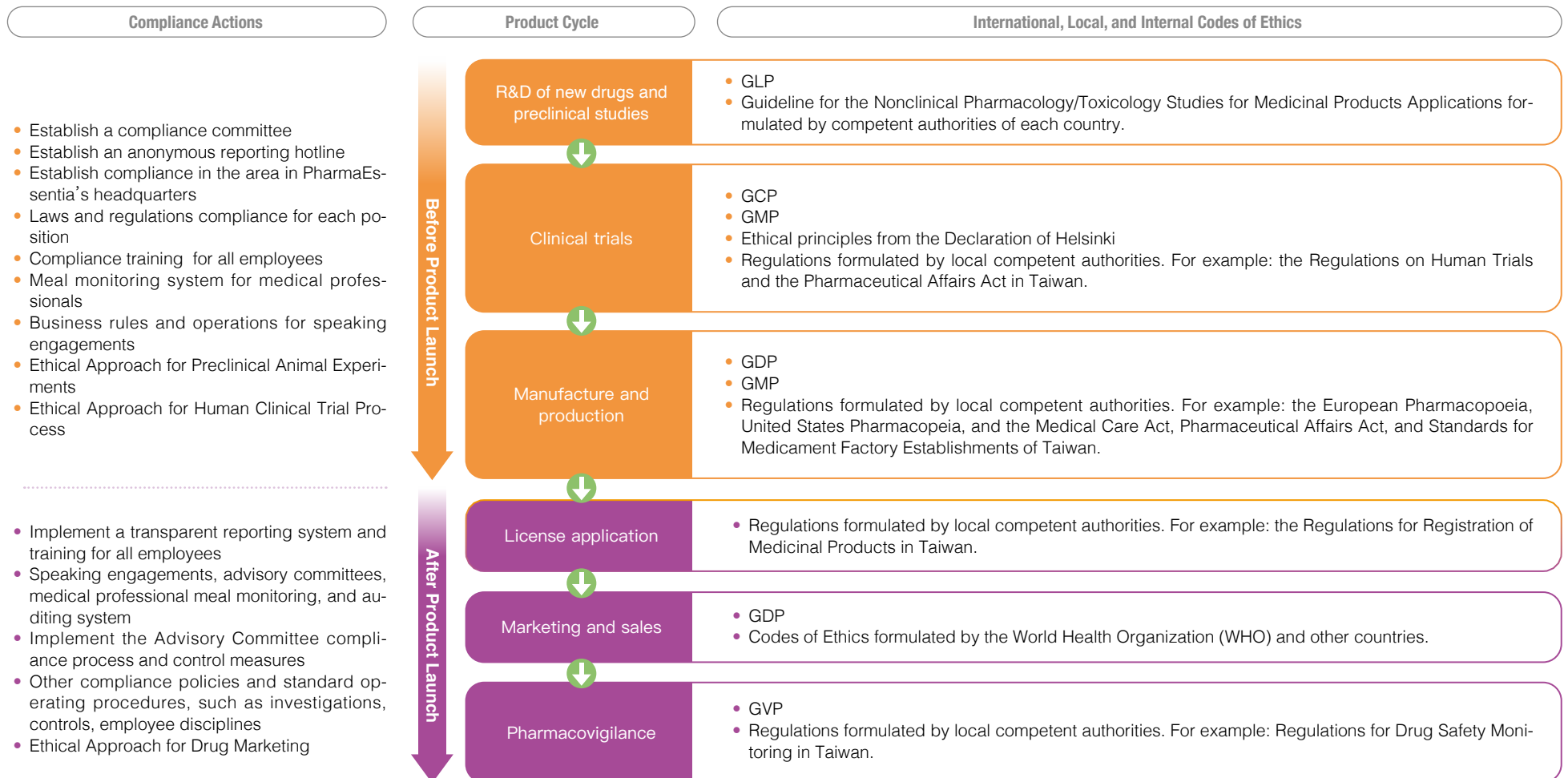
Organized multiple employee training sessions

Established Compliance Committee

PharmaEssentia’s U.S. Subsidiary is committed to complying with the highest ethical standards and all applicable laws, regulations, industry standards, and PEC’s policies and procedures. The US Compliance Committee assists the Head of US Compliance in implementing and enhancing our US compliance program. And the PharmaEssentia USA Compliance Policy Book has been enacted to provide the policies that guide and govern the conduct of the US subsidiary’s business and reflect its commitment to compliance. Corruption, interactions with patients and their representatives, Fee-for-service, privacy, and ethical and moral standards specific to the biopharmaceutical industry are specified in the Compliance Policy Book-A Guide.

Requirements and Specific Actions Taken at Each Stage of Product Life Cycle SASB | HC-BP-270a.2

Rigorous regulatory requirements are found throughout each stage of the biotech and new pharmaceutical industry chain, and arbitrary experiments, manufacturing, sales, and advertising are strictly prohibited. In terms of ethical and moral issues specific to the biopharmaceutical industry, we pay special attention to the implementation of ethical and moral regulations in the three stages of the product life cycle, including ethics on pre-clinical animal testing, clinical human trial, and drug marketing.



SASB | HC-BP-270a.2



Preclinical Studies Ethics

Code of Ethics

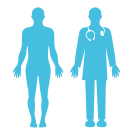
- Guideline for the Nonclinical Pharmacology/Toxicology Studies for Medicinal Products Applications formulated by competent authorities of each country. Non-Clinical Safety Studies for the Conduct of Human Clinical Trials and Marketing Authorization for Pharmaceuticals formulated by the ICH.
- GLP

Our Actions

- Establishing the Institutional Animal Care and Use Committee (IACUC) to review and supervise the situation of animal experiments and animal husbandry conducted by the institutions.
- All CROs for animal experiments must pass domestic and foreign GLP certification.
- Animals used in experiments must be healthy, free from sources of infection animals that meet the requirement level of Specific Pathogen Free (SPF), to prevent interference to trial results for certain diseases.
- Actively implementing the 3Rs of laboratory animals: "Replacement," "Reduction" and "Refinement."

Our Purpose

Ensuring that researchers follow relevant laws and regulations during animal experiments and minimize the use of laboratory animals.



Clinical Trials Ethics

- Clinical Study Policy formulated by the Company
- Declaration of Helsinki
- GCP
- Investigational new drug (IND) applications and local laws and regulations

- Establishing standard operating procedures for the formulation and approval of IND indications and subjects' informed consent.
- All IND indication and informed consents of subjects must be reviewed and approved by the health authority and the "Institutional Review Board" before the start of the trial.
- Subjects of clinical trials led by PharmaEssentia are insured with clinical trial insurance to protect their personal rights.
- Personal data and privacy will be protected during the clinical trials.
- Regular monitoring and auditing are also conducted during the clinical trials.

Ensuring that the safety, privacy, and other rights of clinical trial subjects are not violated, showing that the Company is a trustworthy biopharmaceutical company among patients.



Drug Marketing Ethics

- Code of Ethics formulated by the WHO, the National Council for Prescription Drug Programs (US), International Research-Based Pharmaceutical Manufacturers Association (Taiwan), National Council for Prescription Drug Programs (US), and the Foreign Corrupt Practices Act (US).
- The HCP& HCO Interaction Policy and the Promotional Material Policy formulated by the Company.

- All employees must follow the aforementioned ethical standards when interacting with people or organizations related to healthcare.
- Marketing activities must be transparent, ethical, correct, balanced, and must not be misleading.
- Marketing materials must include correct product risks and benefit assessments and appropriate usage methods.
- It is not allowed to sell and market products in the name of clinical trials

Ensuring that medical staff obtains the necessary information, protect the medical care and wellbeing of patients, and implement the Company's mission and responsibilities in an ethical manner.

Incident Relating to Corporate Governance and Method of Improvement

Incidents

In 2021, Taipei Exchange found that PEC failed to comply with the "Procedures for Verifying and Disclosing Material Information". Furthermore, in December 2021, PEC also failed to comply with the "Procedures for Verifying and Disclosing Material Information" and "Information Reporting Procedures" for companies listed on the Taipei Exchange. PEC was fined twice, for a cumulative sum of NT\$1.5 million.

Method of Improvements

To address these incidents, PEC met with professional attorney and CPA to jointly propose substantial improvement measures and system optimizations. Besides clearly specifying existing internal standardized control processes and adding relevant operating procedures, an improvement plan to the internal control system has also been drafted. After review, the attorneys and CPA have expressed the opinion that the aforesaid improvement plan and procedures are both appropriate and feasible. As of the publication of this Report, there have been no further incidents of negligence or penalties.

2-3 Data Security and Privacy Protection

PEC is cautious in the management of information security and has established an information system cycle in the internal control system. And entrusts a professional information company that complies with the ISO 27001: Information security management for the planning, implementation, maintenance, management, and support of the Company's information system.

Data Security	Privacy Protection
 <ul style="list-style-type: none"> Information Security Committee was formulated in 2022 Adopt ISO 27001 Information Security Management System in 2025 	 <ul style="list-style-type: none"> Follow the EU General Data Protection Regulation (GDPR) to protect the personal privacy information of patients in clinical trials Regarding the privacy and personal information of patients and employees, PEC abides by relevant policies and laws to ensure their rights and interests

Future Action Plans to Ensure Information Security

PEC has planned to build an IT team and will recruit relevant professionals. Initially, internal information security, anti-hack policy and specific management measures will be formulated. We expect to establish an Information Security Committee in 2022 to strengthen information security risk control, complete ISO 27001 certification in 2025, formulate an effective information security management mechanism, and establish an effective information security management mechanism to enhance the information security awareness of all employees.

And strengthen the overall information security of PEC through the items listed in the table below.

PharmaEssentia's Measures on Information Security and Hacking Prevention

<div style="background-color: #f4a460; color: white; padding: 5px; text-align: center; font-weight: bold;">Stage 1 (Completed)</div> <ul style="list-style-type: none"> ✓ Bolstered core information system backups (Ex, ERI) <i>2021/12</i> ✓ Drafted information security policy (complied with TPEX's Guidelines on Information Security Management) <i>2021/12</i> ✓ Planned and executed information security annual checkups (execute annually) <i>2022/1</i> ✓ Planned and executed employee training on social engineering (execute annually) <i>2022/2</i> ✓ Conducted vulnerability assessment on information system and network (execute annually and internally) <i>2022/2</i> ✓ Conducted penetration testing on information system and network (execute annually and externally) <i>2022/2</i> 	<div style="background-color: #8e44ad; color: white; padding: 5px; text-align: center; font-weight: bold;">Stage 2 (In process)</div> <ul style="list-style-type: none"> • Bolster information system and network vulnerability <i>2022/4</i> • Plan and execute files encryption system <i>2022/6</i> • Protect information on terminal equipment with data loss prevention (DLP) <i>2022/8</i> • Bolster information security with O365 Multi-factor authentication (MFA) <i>2022/10</i>
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Besides enhancing both software and hardware, PEC also regularly promotes its information security policy, organizes training, audit, and review every year in order to formulate employees' awareness of information security and to practice such awareness in our day-to-day operations. Employee feedback is used to ensure employees' recognition and responsibility to information security management.

Implementation of Personal Privacy Protection

PharmaEssentia's privacy policy focuses on protecting private information and the collection and further processing of private information from patients, health care professionals, and other individuals with whom PEC does business, and all employees must adhere to this policy. Privacy protection is mainly divided into the clinical trial stage and the post-product-launch stage, both of which must comply with relevant internal and national regulations to improve our responsibility for the protection of personal information.

Clinical Trial Stage

- Entrusts qualified CROs to conduct human clinical trials and ensures that the CROs adopt strict confidentiality measures for the collection, processing, and utilization of subject data.
- Complies with the GDPR, Good Clinical Practice (GCP), “Declaration of Helsinki,” and relevant laws and regulations of various countries, such as Taiwan “Human Research Ethics Policy Guidelines” and “Medical Care Act.”
- The principal investigator of the trial plan must keep the results of the examinee’s examination and the physician’s diagnosis confidential and replace the subjects’ names with numbers. Other forms of privacy protections are required by individual clinical trial hospitals for relevant researchers participating in clinical trials. PEC has no way to identify the personal information of the subjects and has no access to other personal information.

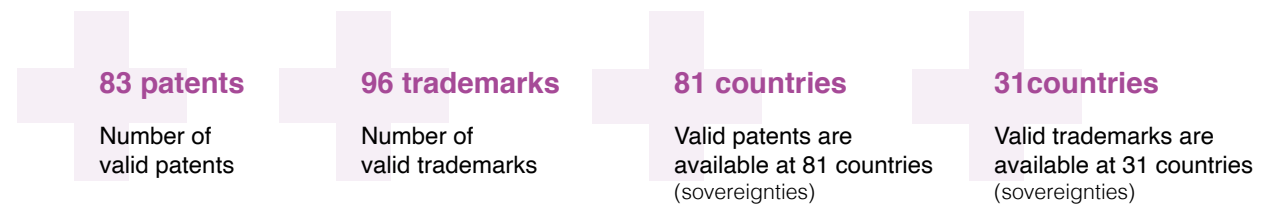
Post Product Launch

- Conducts Post-Market Surveillance (PMS) before obtaining patient information, we will provide a patient consent form to ensure that we have the patient’s consent and explain to the patient how we handle the information and protect the privacy of the patient.
- Ensure that pharmacists in medical institutions, community pharmacies, and other primary care practices incorporate the concept of privacy protection in their daily practice when providing pharmacy services to the public and medical personnel, and actively protect and ensure that patients’ privacy rights are not violated.

2-4 Comprehensive Management of Intellectual Property Rights

PharmaEssentia has formulated the “Intellectual Property Rights Management and Utilization Regulations,” which includes intangible rights and property including patents, trademarks, copyrights, and trade secrets. To make our intellectual property (IP) management system more comprehensive, we are committed to patent application during the product life cycle management, risk control of IP, and new drug IP utilization strategies. Besides closely following the regulations for R&D cycle and complementing the Operational Procedures for Acquisition and Disposal of Assets to protect PEC’s R&D personnel’s intellectual property from infringement, we can also ensure that an innovation becomes PEC’s intellectual property and that our intellectual property can be widely applied for and registered internationally. So that more people in need can know about and have access to the new drugs, and that the IP rights of others will not be infringed upon.

Management and Statistics of Patents and Trademarks



Known for our innovative R&D competencies, PharmaEssentia applies for types of development patents in line with the R&D progress of each project to plan our global technical strategies. We realized our global intellectual property strategies early on, in as early as our startup period since our product Ropiginterferon alfa-2b (P1101) has realized the goal of applying for multinational regulatory marketing approvals. PEC has obtained patent certifications from around the world; as of 2021, we hold 83 valid patents (9 new patents were added in 2021) from 81 countries (sovereignties); in terms of countries (sovereignties), we have obtained as many as 164 patents. As for trademarks, we have received an additional 19 in 2021, and cumulatively, we hold 96 valid trademarks in 31 countries/regions. In line with the indices from Corporate Governance 3.0 evaluation, PEC’s Intellectual Property department regularly reports annual executions of the Intellectual Property Management Plan, which is correlated with our business objectives, to the Board of Directors on an annual basis. Furthermore, to demonstrate our determination to practice intellectual property management as well as our commitment to intellectual property as a leading new pharmaceutical company, the newly added rules related to intellectual property rights management in the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies have also been incorporated into PEC’s internal control procedures. Executions of the Intellectual Property Management Plan in 2021 has been reported to the first Board of Directors meeting convened on March 1, 2022 and have been acknowledged and approved by all Directors.