

Lotus Pharmaceutical Co. Ltd.

Risk Management Policies and Procedures

Approved on 2025/11/12

Article 1 This risk management policies and procedures (PP) applies to Lotus Pharmaceutical Co. Ltd. and its subsidiary companies (the Company) where engaged in risk assessment and management.

Article 2 To establish the Company's sustainable development, the Company follows the management and internal control systems at all levels to manage risks during daily operations. The Company is also committed to assessing the potential impacts of each risk on the operations of the Company through the participation of the Board of Directors and systematic management. This PP is specifically formulated for compliance.

Article 3 The Company has formulated this PP under the relevant provisions of the 'Regulations Governing Establishment of Internal Control Systems by Public Companies' issued by Financial Supervisory Commission R.O.C. and 'Risk Management Best Practice Principles for TWSE/TPEX Listed Companies' issued by Taiwan Stock Exchange (TWSE) to establish an effective risk management mechanism.

Article 4 The Company's risk management objectives are to manage all types of risks that may affect the achievement of its objectives through a comprehensive risk management framework. And to achieve the following objectives by incorporating risk management into its operational activities and daily management processes.

1. Achieving operational objectives
2. Enhancing management effectiveness
3. Providing reliable information
4. Effective resource allocation

Article 5 Scope of Risk Management

The Company's risk management covers the four major areas, which are corporate governance, environmental protection (including climate and natural resources), social prosperity, and value innovation related to the Company's operations. It includes strategic risks, operational risks, financial risks, information risks, legal compliance risks, integrity risks, other emerging risks (e.g., climate change, water, or infectious disease-related risks), etc. The Company identifies, analyses, evaluates, responses and monitors, and reports and discloses significant risk impacts in accordance with relevant laws and regulations.

Article 6 Risk Management and Sustainable Operations Policies

Through establishing, implementing, and maintaining a proactive risk management

mechanism, the Company keeps abreast of internal and external issues and environmental changes, solidifies operational impact analysis. In addition, the Company will continue to optimize its employee training, risk evaluation, forewarning, and public disclosure mechanisms to effectively manage the risks associated with its operations and establish a risk management culture.

Article 7 Company Risk Management Structure

1. Board of Directors:
Approve the risk management policy and related regulations, oversee the overall implementation of risk management, and ensure effective risk control.
2. Audit and Risk Committee:
Assist the Board of Directors in supervising the implementation and effectiveness of risk management.
3. Risk Management Implementation Workforce:
The Head of Financial Officer will serve as the convener, guiding and devising the risk management policy, procedures, and risk appetite.
4. Each business unit, functional unit, and regional employees (hereinafter referred to as "operating units") implement and enforce risk control activities under the guidance of Risk Management Implementation Workforce.
5. Internal Auditor :
It is an independent unit under the Board of Directors. It prepares an annual audit plan following this PP and the various risk management systems, conducts independent audits and provides recommendations on the effectiveness of risk management activities, and reports audit results to the Board of Directors regularly to help ensure that critical operational risks are appropriately managed, and the internal control systems are operating effectively.

Article 8 Risk Management Procedures

The Company's risk management procedures include risk identification, risk analysis, risk evaluation, risk response and monitoring, and risk reporting and disclosure.

1. Risk Identification:
To identify risk factors which may prevent the accomplishment of the Company's short-, mid- and long-term objectives.
2. Risk Analysis:
The risk appetite and risk tolerance of the identified risks should be considered for a comprehensive assessment as a basis for management.

- a 、 Analyze the likelihood of the occurrence of risk events and the extent of their impact to assess the influences of the risk on the Company and use it as a reference for the subsequent prioritization of risk control and response measures.
- b 、 For quantifiable risks, statistical analysis methods and techniques should be used for data management.
- c 、 For other risks that are difficult to quantify, the probability of occurrence and the severity of the risk shall be analyzed qualitatively (e.g., textual description).
- d 、 Risk appetite:

The total amount and type of risk the Company is willing to assume to achieve its strategic objectives. The Company will prioritize allocating appropriate and sufficient resources to improve and control risks beyond those it is willing to bear. In addition, the Company will require compliance with relevant control rules and practices in its daily operations to monitor and manage risk factors actively.
- e 、 Risk tolerance:

The overall risk the organization can bear or the maximum capacity to handle the risk.

3. Risk Evaluation:

Based on the results of the risk evaluation and the effectiveness of existing internal controls, the relevant staff of operating units will work to rank the risk items according to the risk appetite and risk level approved by Audit and Risk Committee and determine the risk items that need to be prioritized and used as a reference basis for the selection of response measures to be formulated subsequently.

4. Risk Response and Monitoring:

Relevant staff of operating units shall select risk response measures or implement risk mitigation plans based on the Company's strategic objectives, internal and external stakeholder perspectives, risk appetite, and available resources. The response plan should possess the abilities to prevent, react, manage crises, and ensure operation sustainability. So that risk response can effectively control risks and strike a balance between achieving objectives and cost-effectiveness.

5. Risk Reporting and Disclosure:

To implement ethical management and corporate governance and to enhance information transparency in response to stakeholders' expectations, the risk management process and its results should be documented, reviewed, and reported through appropriate mechanisms, and adequately retained for reference. The mechanisms include risk

identification, risk analysis, risk evaluation, risk response and monitoring. The Risk Management Implementation Workforce shall consolidate the risk information provided by operating units and issue risk management related report to the Audit and Risk Committee on a regular basis. The Risk Management Implementation Workforce or its designated person shall report to the Board of Directors at least once a year. The Company's PP, risk management organization, and annual risk management related operations and implementations should be publicly and continuously updated in the annual report, official website, or ESG report.

Article 9 This PP was approved by the Board of Directors and is effective as amended.