

Corporate Governance Report

CORPORATE GOVERNANCE

GNI Group Ltd.

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GNI Group Ltd.

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<https://www.gnipharma.com>

The corporate governance of GNI Group Ltd. (the “Company” or the “Group” for GNI Group Ltd.) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes, and Other Key Information

1. Basic Views

The Company believes that increasing management efficiency as well as management soundness and transparency will enhance corporate value over the long term, thereby realizing co-existence and co-prosperity with shareholders and many other stakeholders. We recognize that strengthening corporate governance to enhance management soundness and transparency is an important management issue.

Reasons for Non-compliance with the Principles of the Corporate Governance Code

The Company implements all principles of the Corporate Governance Code.

2. Capital Structure

Foreign Shareholding Ratio 20% or more but less than 30%

Status of Major Shareholders

| Name or Company Name | Number of Shares Owned | Percentage (%) |
|---|------------------------|----------------|
| BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) | 2,035,362 | 4.08 |
| PERSHING-DIV.OF DLJ SECS.CORP. | 1,176,897 | 2.36 |
| NATIONAL FINANCIAL SERVICES LLC | 1,065,532 | 2.14 |
| MORGAN STANLEY SMITH BARNEY LLC CLIENTS FULLY PAID SEG ACCOUNT | 1,000,000 | 2.01 |
| SBI SECURITIES Co., Ltd. | 923,289 | 1.85 |
| Rakuten Securities, Inc. | 801,200 | 1.61 |
| STATE STREET BANK WEST CLIENT TREATY 505234 | 638,794 | 1.28 |
| BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD | 619,234 | 1.24 |
| JP MORGAN CHASE BANK 380621 | 540,500 | 1.08 |
| Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. | 500,000 | 1.00 |
| Central Tanshi Co., Ltd. | 500,000 | 1.00 |

| | |
|---|---|
| Name of Controlling Shareholder, if applicable (excluding Parent Companies) | — |
| Name of Parent Company, if applicable | — |

Supplementary Explanation

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3. Corporate Attributes

| | |
|---|--|
| Listed Stock Exchange and Market Segment | Growth Market |
| Fiscal Year-End | December |
| Business Sector | Pharmaceuticals |
| Number of Employees (Consolidated) as of the End of the Previous Fiscal Year | 500 or more but fewer than 1,000 |
| Net Sales (Consolidated) for the Previous Fiscal Year | ¥10 billion or more but less than ¥100 billion |
| Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year | 10 or more but fewer than 50 |

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have a Material Impact on Corporate Governance

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II. Business Management Organization and Other Corporate Governance Mechanisms regarding Decision-making, Execution of Business, and Oversight

1. Organizational Composition and Operation

| | |
|--------------------------------|--|
| Corporate Governance Mechanism | Company with Three Committees (Nomination, Audit and Compensation) |
|--------------------------------|--|

Directors

| | |
|---|-----------|
| Number of Directors Stipulated in Articles of Incorporation | 8 |
| Directors' Term of Office Stipulated in Articles of Incorporation | 1 year |
| Chairperson of the Board | President |
| Number of Directors | 8 |

External Directors

| | |
|---------------------------------|---|
| Number of External Directors | 4 |
| Number of Independent Directors | 4 |

External Directors' Relationship with the Company (1)

| Name | Attributes | Relationship with the Company* | | | | | | | | | | |
|-----------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Hideaki Sashiwa | From another company | | | | | | | | | | | |
| Kanako Kikuchi | From another company | | | | | | | | | | | |
| Ryosuke Matsui | From another company | | | | | | | | | | | |
| Zhang Ping | From another company | | | | | | | | | | | |

*Categories for "Relationship with the Company".

(Use "○" when the director presently falls or has recently fallen under the category; "△" when the director fell under the category in the past; "●" when a close relative of the director presently falls or has recently fallen under the category; and "▲" when a close relative of the director fell under the category in the past.)

- Person who executes business for the Company or its subsidiary
- Person who executes business for or a non-executive director of the Company's parent company
- Person who executes business for a fellow subsidiary
- Person/entity for which the Company is a major client or a person who executes business for said person/entity
- Major client of the Company or a person who executes business for said client
- Consultant, accounting expert, or legal expert who receives large amounts of cash or other assets from the Company in addition to remuneration as a director/ Audit and Supervisory Board Member
- Major shareholder of the Company (in cases where the shareholder is a corporation, a person who executes business for the corporation)
- Person who executes business for a client of the Company (excluding persons categorized as any of d, e, or f above) (applies to director him/herself only)
- Person who executes business for another company that holds cross-directorships/cross-auditorships with the Company (applies to director him/herself only)
- Person who executes business for an entity receiving donations from the Company (applies to director him/herself only)
- Other

External Directors' Relationship with the Company (2)

| Name | Membership of Committee | | | Designation as Independent Director | Supplementary Explanation of the Relationship | Reasons for Appointment |
|-----------------|-------------------------|------------------------|-----------------|-------------------------------------|---|---|
| | Nomination Committee | Remuneration Committee | Audit Committee | | | |
| Hideaki Sashiwa | ○ | | ○ | ○ | — | Mr. Hideaki Sashiwa has extensive practical experience and expertise in corporate management, having held key positions at major securities companies and several other companies in Japan and abroad. We have elected him as an external director because these factors will contribute to the sound management of the Company and the future development of its business. In addition, he is designated as an independent director because he does not fall under any of the items a through k above and there is no risk of a conflict of interest between him and general shareholders. |
| Kanako Kikuchi | ○ | | | ○ | — | Ms. Kanako Kikuchi has experience and expertise as a manager of a pharmaceutical company with a global |

| | | | | | | |
|----------------|--|---|---|---|---|--|
| | | | | | | network. We have elected her as an external director because she will contribute to the management of the Company and the development of new businesses. In addition, she is designated as an independent director because she does not fall under any of the above items a through k and there is no risk of a conflict of interest between her and general shareholders. |
| Ryosuke Matsui | | ○ | ○ | ○ | — | Mr. Ryosuke Matsui has experience and expertise cultivated in the securities industry. He was appointed as an external director because his experience and expertise will contribute to the improvement and development of the Company's management and investor relations. In addition, he is designated as an independent director because he does not fall under any of the items a through k above and there is no risk of a conflict of interest with general shareholders. |
| Zhang Ping | | ○ | ○ | ○ | — | Mr. Zhang Ping was appointed as an external director because we believe that he will be able to utilize his experience and expertise cultivated at a trading company to provide advice on the Company's management and new businesses. In addition, he has been designated as an independent officer because he does not fall under any of the above conditions a through k, and there is no risk of a conflict of interest with general shareholders. |

Supervisory Committees

Composition of Supervisory Committee and Attributes of the Chairperson

| | All Committee Members | Full-time Members | Internal Directors | External Directors | Committee Chair |
|------------------------|-----------------------|-------------------|--------------------|--------------------|-------------------|
| Nomination Committee | 3 | 1 | 1 | 2 | Internal Director |
| Remuneration Committee | 3 | 1 | 1 | 2 | Internal Director |
| Audit Committee | 3 | 0 | 0 | 3 | External Director |

Executive Officers

Number of Executive Officers 5

Status of Concurrent Duties

| Name | Representative Authority | Concurrent Duties as Director | | | Concurrent Duties as Employee |
|-------------------|--------------------------|-------------------------------|-----------------------------|-------------------------------|-------------------------------|
| | | | Nomination Committee Member | Remuneration Committee Member | |
| Ying Luo | Yes | Yes | Yes | No | No |
| Kazuki Sekitani | No | Yes | No | Yes | No |
| Toshiya Kitagawa | No | Yes | No | No | No |
| Kazuhiro Kawauchi | No | No | No | No | Yes |
| Mu Congrong | No | No | No | No | Yes |

Auditing Structure

Appointment of Directors and/or staff to Support the Audit Committee Appointed

Matters Related to the Independence of Said Directors and/or Staff from Executive Officers/Reasons for Adopting Current Mechanism

If the Audit Committee requests the appointment of employees to assist with its duties, an organization will be established to assist the Audit Committee's duties, and a dedicated staff member will be appointed. Employees who receive orders necessary for audit work from the Audit Committee shall not receive instructions from directors, corporate planning departments, etc. regarding those orders.

Cooperation among Audit Committee, Accounting Auditors and Internal Audit Department

The Audit Committee meets with the accounting auditor and internal audit department as necessary to collect necessary information.

Matters Concerning Independent Directors

Number of Independent Directors 4

Other Matters Concerning Independent Directors

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Incentives

Implementation Status of Measures related to Incentives Granted to Directors and/or Executive Officers

Introduction of Stock Options Scheme

Supplementary Explanation for Applicable Items

- Stock compensation type stock options

As long-term performance-linked remuneration, we will make clear for directors and executive officers the link between remuneration and the company's performance as well as shareholder value. In order to enhance shareholder and corporate value, we may allocate warrants to directors and employees depending on their ranks and job responsibilities. The number of issued warrants will be within certain thresholds.

The conditions related to stock-based compensation are stipulated by the "conditions for exercising stock acquisition rights" that are determined each time the stock is issued.

- Restricted shares

The purpose of this is to provide incentives to the grantees to continuously improve the company's corporate value and to further share value with our shareholders.

Persons Eligible for Stock Options

Internal Directors / External Directors / Employees / Subsidiaries' Employees / Others

Supplementary Explanation for Applicable Items

The purpose of granting stock options is to increase the motivation and morale of grantees to improve their performance and, as a result, further enhance corporate value.

Remuneration for Directors and Executive Officers

Status of Disclosure of Individual Director's Remuneration

Not disclosed on an individual basis

Status of Disclosure of Individual Executive Officers' Remuneration

Not disclosed on an individual basis

Supplementary Explanation for Applicable Items

Regarding the method of disclosing executive remuneration, the total amount of director remuneration is disclosed in the securities report, which includes external director remuneration. In addition, the remuneration of those whose total remuneration exceeds 100 million yen is disclosed.

Policy on Determining Remuneration Amounts and Calculation Methods

Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

<Policy regarding determining the amount of remuneration for directors and executive officers>

(1) Method of determining policy

In accordance with the provisions of the Companies Act regarding companies with Nomination Committees, etc., the Company's remuneration committee establishes policies for determining the amount of personal remuneration, etc. for directors and executive officers.

(2) Overview of the policy

① Matters common to directors and executive officers

- We will set a level of remuneration that is commensurate with the duties and responsibilities required of directors and executive officers, taking into consideration the payment levels of other companies.

- The total amount of annual salary and retirement benefits for directors and remuneration for executive officers shall be within 200 million yen per fiscal year.

② Director

Directors' remuneration consists of annual salary, stock options, restricted stock, and retirement benefits.

- Annual salary will be determined by adding an addition that reflects the position, job content, etc. to the basic compensation for executive and non-executive directors.

- Retirement benefits may be paid to each director if deemed appropriate.

- In addition to annual salaries and retirement benefits, stock options may be granted to directors as an incentive to enhance the company's corporate value.

③ Executive Officer

- If an executive officer concurrently serves as a director, he or she will only be paid compensation as a director, and not as an executive officer.

- If an executive officer does not concurrently serve as a director and needs to be paid as an executive officer, an appropriate amount of compensation will be determined by taking into account the nature of the duties and other factors.

Support Mechanism for External Directors

The president and the officer in charge of the administrative department communicate with and provide information to External Directors regarding the Board of Directors and other meetings in a timely manner by telephone, e-mail, etc. In order to carry out this work smoothly, we have adopted a mechanism in which each section (Corporate Planning Department, Finance and Accounting Department) divides the work of preparing necessary documents according to the content and supports the relevant officers.

2. Matters Concerning Functions of Business Execution, Auditing and Supervision, Nomination, and Remuneration Decisions (Overview of Current Corporate Governance Mechanism)

To ensure management transparency, the Company has adopted a nomination-committees mechanism, whereby the Board of Directors efficiently supervises overall management and delegates decision-making and execution related to business operations to the Executive Officers, thereby separating business execution and supervision functions ensuring prompt business execution. The Company has established the Nomination Committee, Compensation Committee, and Audit Committee under the Board of Directors to clarify the roles of the Board of Directors, each committee, and Executive Officers and establish effective corporate governance. In addition to the above three committees, the Company has established the Executive Committee, which deliberates and makes decisions on important executive matters.

3. Reasons for Adoption of Current Corporate Governance Mechanism

The Company has adopted a nomination-committee mechanism to ensure the separation of supervisory and executive functions in management to build a highly transparent corporate governance mechanism and to establish prompt business decision-making and execution by substantially delegating authority to executive officers.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize General Meeting of Shareholders and Facilitate Exercise of Voting Rights

| | Supplementary Explanation |
|---|---|
| Early Posting of Notice of the General Meeting of Shareholders | We strive to ship the notice early so that as many shareholders as possible can attend. |
| Scheduling of the General Meeting of Shareholders on a Non-Peak Day | In order to allow many shareholders to attend, we strive to hold the general meeting of shareholders on a day that does not overlap with other companies' shareholder meetings. |
| Electronic Exercise of Voting Rights | We have adopted the infrastructure in which shareholders can vote via the Internet using computers or mobile phones. |
| Participation in a Platform for the Electronic Exercise of Voting Rights and Other Initiatives to Enhance Environment for Institutional Investors to Exercise Voting Rights | We adopted an online voting system. |

| | |
|--|--|
| Provision of Notice (or Summary of Notice) of the General Meeting of Shareholders in English | At this time, there are no plans to provide an English version of the convocation notice, but we recognize this as an issue that should be considered. |
| Other | — |

2. Status of IR-related Activities

| | Supplementary Explanation | Explanation by a representative director or a representative executive officer |
|---|---|--|
| Formulation and Publication of Disclosure Policies | We plan to publish it when we create one. | |
| Regular Investor Briefings held for Individual Investors | We refrained from hosting in-person events due to the COVID-19 pandemic, but we are considering resuming it from this term. | Not Held |
| Regular Investor Briefings held for Analysts and Institutional Investors | We host investor meetings a few times a year. | Held |
| Regular Investor Briefings held for Overseas Investors | We conduct individual interviews for overseas investors. | Held |
| Online Disclosure of IR Information | Legal and timely disclosure information is posted on the TSE timely disclosure information transmission system and our company's website. | |
| Establishment of Department and/or Placement of a Manager in Charge of IR | IR is managed by the Corporate Planning Department. | |
| Other | — | |

3. Status of Measures to Ensure Due Respect for Stakeholders

| | Supplementary Explanation |
|--|---|
| Establishment of Internal Rules Stipulating Respect for the Position of Stakeholders | In order to fulfill our corporate accountability, we see to it that we proactively communicate with stakeholders and disclose corporate information in a timely and appropriate manner. |

IV. Matters Concerning the Internal Control System

1. Basic Views on Internal Control System and Status of Development

The Company's Board of Directors has established an internal control system that includes the following mechanisms to ensure that the Company's executive officers and employees execute their duties in compliance with laws and regulations and the Company's Articles of Incorporation.

(1) Mechanism to ensure that executive officers and employees execute their duties in compliance with laws and regulations and the Articles of Incorporation

① In addition to establishing regulations related to the compliance mechanism, we will establish standards of conduct for executive officers and employees to act in compliance with laws, articles of incorporation, internal regulations, and corporate ethics. In addition, in order to ensure thorough compliance, the General Affairs Department will oversee compliance efforts across the board and will primarily conduct staff training and audit the status of compliance. These activities are regularly reported to the Board of Directors and Audit Committee. We have a mechanism in place to promptly report and consult with the appropriate personnel in charge when we discover any activity that may be in violation of laws and regulations by our business activities or by our directors or employees.

② In order to ensure that the duties are executed in compliance with laws and regulations and the Articles of Incorporation, executive officers shall, in accordance with the division of duties, establish internal controls for the departments they are responsible for, establish and thoroughly disseminate necessary rules, and comply with the Board of Directors Regulations.

③ The internal auditor selected by the Board of Directors conducts audits in accordance with the "Internal Audit Regulations" and makes recommendations for improvements to the President/CEO.

(2) Training for directors and executives

We provide opportunities to acquire the knowledge necessary to fulfill the required roles and responsibilities, such as information on the Company Law and related laws and regulations and corporate governance.

(3) Matters related to the storage and management of information related to executive officers' execution of duties

In accordance with the "Document Archiving and Management Regulations," information related to executive officers' execution of duties will be recorded and stored in documents or electromagnetic media (hereinafter referred to as "documents, etc."). The internal auditor selected by the Board of Directors shall be able to view these documents at any time in accordance with the Document Archiving and Management Regulations.

(4) Regulations and other mechanisms regarding management of risk of loss

The director in charge of the corporate planning department will be appointed as the person with overall responsibility for company-wide risks, and the corporate planning department will comprehensively and comprehensively manage risks for the entire Group. For new risks that arise, we will promptly designate a department in charge. The Corporate Planning Department audits the status of risk management in each division of the Group, and regularly reports the results to internal auditors, the director in charge of the Corporate Planning Division, and the Board of Directors, and the Board of Directors deliberates and decides on improvement measures.

(5) Mechanism to ensure that executive officers execute their duties efficiently

We use the following corporate planning mechanism to improve the efficiency of executive officers' execution of their duties.

- ① Establishment of "Organizational Regulations" to define administrative authority and division of duties
- ② Establishment of the executive committee consisting of executive officers and advisors
- ③ Formulation of medium-term management plans by the Management Committee and Board of Directors, setting of performance targets and budgets for each department based on those plans, and implementation of monthly and quarterly performance management.
- ④ Monthly performance review and execution of improvement measures by the Management Committee and Board of Directors

(6) Mechanism to ensure the appropriateness of operations in the corporate group consisting of the Company and its subsidiaries

- ① Aiming to establish internal controls at the Company and its subsidiaries, the internal auditors responsible for internal controls for the entire Group are appointed by the Board of Directors and are responsible for discussions, sharing of information, and issuing instructions and requests regarding internal controls between the Company and its subsidiaries. We have established a mechanism that includes an efficient communication system and have established "Affiliate Company Management Regulations."
- ② The Company's executive officers and subsidiaries' presidents have the authority and responsibility to establish and operate internal controls to ensure the appropriate execution of business in each department.
- ③ The internal auditor conducts an internal audit of the Company and its subsidiaries and reports the results to the president/CEO and the department in charge of (1) and the person in charge of (3), and the department in charge of (1) will as appropriate provide guidance on internal control improvement measures and support and advice on their executions .

(7) Matters regarding an employee when the Audit Committee requests the appointment of the employee to assist in its duties, and matters regarding such employee's independence from executive officers

If the Audit Committee requests the appointment of employees to assist with its duties, an organization will be established to assist the Audit Committee's duties, and dedicated staff members will be appointed. Such members who receive orders necessary for audit work from the Audit Committee shall not receive instructions from other directors, corporate planning department managers, etc. regarding those orders.

(8) Mechanisms for executive officers and employees to report to the Audit Committee, other mechanisms for reporting to the Audit Committee, and other mechanisms to ensure that audit committee members conduct their audits effectively.

When the Board of Directors and employees discover any fact that may cause a considerable damage to the Company, they shall immediately report the fact to the Audit Committee. Any disadvantageous treatment due to making such a report is prohibited.

Audit committee members can attend important meetings such as the Board of Directors and the Management Committee. The Audit Committee receives regular reports from the Accounting Auditor and the Finance and Accounting Department and has a mechanism in place that allows it to confirm the appropriateness of financial reports.

The Audit Committee and the President and Representative Executive Officer regularly exchange opinions.

(9) Matters related to expenses incurred by the Audit Committee's execution of duties
Directors may not refuse the expenses requested by the Audit Committee for conducting an audit, unless the requested expenses are deemed not necessary for the Audit Committee's execution of duties.

2. Basic Views on Measures for Eliminating Anti-Social Forces and Status of Development

Our company has no relationship whatsoever with anti-social forces that threaten the order and safety of civil society. Our company firmly rejects any relationship with such anti-social forces.

- (a) We have designated the Corporate Planning Department as the department responsible for handling such matters and have appointed a person in charge of preventing unreasonable demands.
- (b) We strive to accumulate experience within our company and in the industry and collect information from related organizations such as the police, which we use to prevent damages.

V. Other

1. Adoption of Anti-Takeover Measures

| Adoption of Anti-Takeover Measures | Not Adopted |
|--|-------------|
| Supplementary Explanation for Applicable Items | |
| — | |

2. Other Matters Concerning the Corporate Governance Mechanism

1. Regarding our basic policy on timely disclosure of internal information

1) Information disclosure policy

In order to provide useful information to shareholders and investors, the Company shall comply with the rules regarding the timely disclosure of listed security issuers' corporate information (hereinafter referred to as the "Timely Disclosure Regulations"), to disclose information in a timely and fair manner. In addition, we disclose other information in a timely and fair manner on our website and through the TSE Timely Disclosure Information Viewing Service, etc., regarding facts that we deem to be important management matters.

2) Dissemination and enlightenment of information disclosure policy

The Company accurately discloses management information such as our financial details and business activity status to shareholders and investors, etc., clearly communicates our company's management philosophy and management policies, and sincerely listen to the opinions and criticisms regarding them.

2. Regarding the company's internal mechanism regarding timely disclosure of internal information

1) Department responsible for timely disclosure

At the Company, disclosure operations are supervised by the Material Information Manager. The personnel in charge of disclosures collects information from each department head and carries out timely disclosure operations under the supervision of the Material Information Manager.

2) Internal training mechanism regarding timely disclosure

Based on the "Anti-Insider Trading Regulations," our company provides training on internal information management to executives and employees and ensures its importance and purpose are well-understood within the company.

3) Information collection/disclosure mechanism

At the Company, internal information management is managed by the Material Information Manager based on the "Anti-Insider Trading Regulations."

Important matters that fall into the decision matter category are resolved by the Board of Directors' Meetings after passing through the Management Committee. We have established a mechanism for the Material Information Manager to obtain all the important

decisions and approvals that are made at those meetings.

Regarding matters that fall under financial information category, we maintain smooth communication with the auditing firm and discuss timely disclosure of final, interim, and quarterly financial results based on appropriate accounting treatment. Financial information is approved by the Board of Directors after passing through the Management Committee.

If we become aware that an important fact has occurred or is likely to occur, we will promptly notify the Material Information Manager of the details and take necessary steps to prevent the leakage of such information. Then, after passing through the Management Committee, the President and Representative Executive Officer report to the Board of Directors and at the same time, decisions regarding timely disclosure are made.

4) Audit mechanism for timely disclosure

The department in charge of internal audits will conduct internal audits of the legality, validity, and efficiency of business execution. Timely disclosure is subject to audit, and we propose improvement measures and guidance as necessary based on the audit results to the staff members involved with disclosures.

