

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Being one of the well-known enterprises in the Chinese pharmaceutical industry, the Group actively fulfills its environmental and social responsibilities. Through the establishment of the sustainable development strategy, the Group continues to create values for its stakeholders and is determined to continuously lower its impact on the environment. With the goal to carry out a sustainable development strategy from top to bottom, the Board of Directors will take full responsibility in ensuring the effectiveness of the Group's environmental, social and governance ("ESG") policies. The Group has assigned designated staff members in relevant departments and subsidiaries to coordinate ESG related matters and to monitor the implementation of the relevant policies. The Group regularly reviews and adjusts its sustainability policies to satisfy the ever-changing demands from its stakeholders. Details of the Group's management approach in environmental and social aspects can be found in different sections of this ESG Report. The Group firmly believes that sustainability is essential to the Group's overall long-term development.

Based on the goal set out at the time the Group published its first ESG report in 2016, the Group will integrate environmental protection and social responsibility into its daily work throughout the entire organization. The Group hopes to improve every year in terms of reducing energy consumption, emissions, and fulfilling social responsibilities. In the Group's 2017 ESG Report (this "Report"), the Group made a more comprehensive disclosure with regard to the environmental aspect.

This ESG Report covers the environmental and social performance within the operational boundaries of the Group that include the Group's office in Shenzhen and the subsidiary in Tianjin that engage in the pharmaceutical promotion and network management business, the subsidiaries that engage in the pharmaceutical production business in Hunan Province and Hebei Province, and the subsidiary that engages in agricultural and livestock business in Hunan Province. The Reporting Period for this ESG report is the 2017 financial year, dating from 1 January 2017 to 31 December 2017.

Stakeholder Engagement

In order to achieve the Group's goal of sustainable development and performance improvement, the Group highly values opinions from both its internal and external stakeholders. The Group actively collects feedback from its stakeholders, and builds trustful and supportive relationships with each stakeholder. The Group connects with its stakeholders through their preferred communication channels as listed in the table below.

Stakeholders	Expectations and Concerns	Communication Channels
Government and Regulatory Authorities	<ul style="list-style-type: none"> - Comply with laws and regulations - Support economic development 	<ul style="list-style-type: none"> - Compliance operation - Routing reports and taxes paid
Shareholders	<ul style="list-style-type: none"> - Return on investments - Corporate governance - Business compliance 	<ul style="list-style-type: none"> - Listed company periodic reports and announcements - General meetings - Official website, various meetings and conference, roadshows
Employees	<ul style="list-style-type: none"> - Employees' compensation and benefits - Career development - Healthy and safe working environment 	<ul style="list-style-type: none"> - Employee performance review, employee satisfaction survey - Meetings and trainings - Emails, hotline, trainings
Customers	<ul style="list-style-type: none"> - High quality products and services - Ensure customers' rights 	<ul style="list-style-type: none"> - Customer satisfaction survey - Face-to-face meetings and site visits - Customer service hotline and emails
Suppliers	<ul style="list-style-type: none"> - Fair and open procurement - Win-win cooperation 	<ul style="list-style-type: none"> - Open tendering - Suppliers' satisfactory assessment - Face-to-face meetings and onsite visits - Industry seminars
General public	<ul style="list-style-type: none"> - Involvement in communities - Environmental protection awareness 	<ul style="list-style-type: none"> - Public welfare activities - Face-to-face interview

The Group undertakes an annual review to identify and understand its stakeholders' main concerns and their material interests for the ESG Report. During the Reporting Period, the Group engaged its stakeholders to conduct a materiality assessment survey. Stakeholders with a high level of influence and dependence on the Group were selected internally and externally, and invited the representatives to express their views on a list of sustainability issues via an online survey. As a result, the Group prioritised the issues deemed of high importance for discussion.

With respect to this ESG Report, the Group has identified the protection of customer information and privacy, product quality assurance and recalls, product safety, and environmental protection measures as the issues of high importance to the Group's stakeholders. This review has helped the Group in prioritising the sustainability issues, highlighting the material and relevant aspects, so to fulfill stakeholders' expectations.

Environmental

During the Reporting Period, the Group continued to set environmental protection as its target and made efforts to integrate the concept of sustainable development into drugs operation, production, and agricultural and livestock business of the Group. The Group has stringently controlled its emissions and consumption of resources, and complied with all relevant environmental laws and regulations in the PRC in its daily operation. All offices, factories, and farms of the Group have implemented effective energy conservation measures to reduce emissions and resource consumption.

This section primarily discloses the Group's policies and practices on emissions, use of resources, and environment and natural resources during the Reporting Period.

1. Emissions

During the Reporting Period, the Group strictly complied with relevant laws and regulations such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》). It is the Group's environmental policy to reduce the impact of emissions on the environment through measures such as controlling the Group's energy consumption, performing special treatment to wastewater before discharge, and switching to the use of more environmentally friendly fuel source.

As summarised in Table 1 below, the Group's emissions during the Reporting Period included: exhaust gas, greenhouse gas ("GHG") emissions, hazardous wastes and non-hazardous wastes.

Table 1: Total Emissions of the Group in 2017 Financial Year

Emissions		Unit	Amount	Intensity* (Tonnes/million RMB)
Exhaust Gas	Sulfur Dioxide (SO ₂)	Kg	1,981	-
	Nitrogen Oxide (NO _x)	Kg	5,391	-
	Particulate Matter (PM)	Kg	392	-
GHG Emissions	Direct Emissions (Scope 1)	Tonnes CO ₂ e	7,157	-
	Energy Indirect Emissions (Scope 2)	Tonnes CO ₂ e	3,761	-
	Total GHG Emissions (Scope 1 & 2)	Tonnes CO ₂ e	10,918	2.0412
Hazardous Wastes	Medical Waste	Tonnes	0.3	0.0001
Non-hazardous Wastes	Wastewater	Tonnes	83,690	15.6465
	Solid Waste	Tonnes	123	0.0230

* (The calculation for Intensity is the emissions amount divided by turnover in the Group's Reporting Period)

During the Reporting Period under review, the Group did not violate any relevant laws and regulations that have a significant impact on the Group, relating to exhaust gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Pharmaceutical Promotion and Network Management Business

Emissions for the pharmaceutical promotion and network management business include indirect GHG emissions from the use of electricity and non-hazardous wastes, namely domestic wastewater and solid waste, generated by staff in the office.

This business segment does not directly emit GHG, which are indirectly emitted through the use of purchased electricity in the office. Specific measures have been taken to reduce electricity consumption in the office, and thus GHG emissions. The measures are further described in the next section, Use of Resources under Electricity.

The Group is committed to protecting the environment in its daily office operations. To reduce the amount of municipal solid waste generated, the Group has implemented the following practices:

- When handling solid waste, the office cleaning staff would sort out the rubbish and recycle those recyclable waste;
- The Group encourages all employees to reduce the use of disposable items such as plastic tableware; and
- The Group advocates saving paper by minimising unnecessary printing and using both sides of the paper.

Since the amount of wastewater generated in the office is highly dependent on the amount of water used by employees during the daily work, the Group has adopted specific measures to reduce water consumption as further described in the next section Use of Resources under Water. Municipal wastewater generated in the office is managed by the property management and is directly discharged into the sewage pipe of the building.

Pharmaceutical Production Business

The Group is very prudent in controlling all discharges by the Group's pharmaceutical production business. Exhaust gas, hazardous waste, wastewater, solid waste and noise from the Group's pharmaceutical production process all meet the national safety emission standards. Owing to the strict monitoring system, processing equipment and measures, the Group did not receive any notification of non-compliance with regard to emissions during the Reporting Period. As a responsible pharmaceutical manufacturer, the Group constantly looks for better manufacturing methods to further reduce its impact on the environment.

Exhaust Gas

Exhaust gas directly generated from the Group's pharmaceutical manufacturing business includes flue gas from the boiler and soot from the canteen. All exhaust gases are strictly monitored, controlled and treated up to standard, before being discharged into the atmosphere. Concentrations of sulfur dioxide, nitrogen oxides and particulate matters in the pre-discharge exhaust gas must meet both the Integrated Emission Standard of Air Pollutants (《大氣污染物綜合排放標準》) and Emission Standard of Air Pollutants for Boiler (《鍋爐大氣污染物排放標準》).

During the Reporting Period, the Group continued to operate its boilers by burning natural gas in its Hunan factory and alcohol-based liquid fuel in its Hebei factory. Both natural gas and alcohol-based liquid fuel are clean energy sources, effectively reducing air pollutants generated from the operation of the boiler.

GHG Emissions

The Group has included its GHG emissions data during the Reporting Period in Table 1 of this Report. The Group's GHG emissions came mainly from the use of energy (including electricity). As the pharmaceutical production business segment contributes most to the Group's overall GHG emissions, the Group has planted trees around its pharmaceutical factory in Hunan to reduce GHG emissions and for air purification.

Hazardous Waste

The hazardous waste generated from this business segment is a small amount of medical waste produced during the production process. The Group uses special containers for storing the medical waste to ensure that it doesn't leak or evaporate. The Group has hired professional environmental protection companies for the collection and disposal of medical waste.

Wastewater

The wastewater generated in this business segment includes domestic wastewater and industrial wastewater. The Group's pharmaceutical manufacturing facilities have installed a wastewater treatment system. Industrial wastewater and domestic wastewater not directly discharged through the local sewerage system undergoing Anaerobic/Anoxic/Oxic ("A2O") biochemical treatment, is strictly tested before being discharged to the local municipal sewerage network. Pre-discharge wastewater must meet both the Integrated Wastewater Discharge Standard (《污水綜合排放標準》) and the Wastewater Quality Standards for Discharge to Municipal Sewers (《污水排入城鎮下水道水質標準》). In addition, the Group is committed to maximising the usage efficiency of water resources to reduce wastewater produced. The Group's pharmaceutical production factories have implemented rain sewage diversion, and have installed cooling water recycling system.

Solid Waste

The solid waste generated in this business segment includes non-hazardous industrial solid wastes and domestic solid wastes. The method for treating solid waste is to collect and categorise first, then sell the recyclable solid waste, including waste plastic packaging materials from the production, to the recycling station. For the remaining non-recyclable non-hazardous solid waste, the Group entrusted the Local Sanitation Department for disposal at landfill or at incinerator.

Noise Management

This business segment generates noise from the operation of machinery and equipment during the pharmaceutical manufacturing process. During the Reporting Period, according to the factory's monitoring result, the noise level was in compliance with the Industrial Enterprise Boundary Noise Emission Standards (《工業企業廠界環境噪聲排放標準》), and it did not cause any evident negative impact on the surroundings.

Agricultural and Livestock Business

The Group's agricultural and livestock business in Hunan Province primarily cultivates high-end fruits and breeds green-shell eggs. Emissions from the business segment include GHG emissions from electricity consumption, animal manure, and domestic wastewater and solid waste generated by the staff.

The Group continues its sustainable development policy of "green farming". The Group's automatic collection device is used to collect animal manure and delivers it to the organic fertilizer fermentation tank. Through biological fermentation, animal manure in the organic fertilizer fermentation tank is then made into organic fertilizer, to be used in the crops grown by the Group. Apart from the utilization of animal manure, the Group also collects green plants (such as field weeds), which are used as animal livestock feed. This ensures the reuse of organic waste, thereby maximising the recycling of the resource.

Domestic wastewater generated in this business segment is directly discharged into the local sewer, while municipal solid waste is included in the town's solid waste management plan, centrally collected and disposed. The Group inspects and monitors the environmental conditions of the operation areas regularly to ensure wastewater and solid waste generated by the business meet the local emission standards.

2. Use of Resources

Summarised in Table 2 below, the resources used by the Group during the Reporting Period were energy, water, paper and packaging materials.

Table 2: Total Resources Consumption of the Group in 2017 Financial Year

	Resources	Unit	Amount	Intensity* (Unit/million RMB)
Energy	Electricity	KWh	6,462,835	1,208.2776
	Gasoline	Litres	82,757	15.4721
	Diesel	Litres	3,896	0.7284
	Natural gas	M ³	651,197	121.7464
	Alcohol-based liquid fuel	Tonnes	2,494	0.4663
	R-22 refrigerant	Kg	68	0.0127
Water	Water	Tonnes	133,140	24.8916
Paper	Paper	Tonnes	8	0.0015
Packaging	By plastic	Tonnes	137	0.0256
Materials	By paper	Tonnes	315	0.0589

* (The calculation for Intensity is the resources consumption amount divided by turnover in the Group's Reporting Period)

Electricity

All subsidiaries of the Group strictly abide by the Group's energy saving policy. The Group also regularly educates its employees about energy conservation and emission reduction. As the Group reduces electricity consumption, within the same volume of business, the Group strives to reduce, or at least maintain the indirect GHG emissions from the use of electricity.

The Group's electricity consumption comes from regular operation of the factories and offices. To ensure effective use of electricity, the Group has conducted the following practices:

- Turn off all idle lighting and air conditioning systems;
- Place "Save electricity, turn off the lights when you leave" poster in prominent place to encourage staff to save energy;
- Replace high electricity consumption lamps with the installation of electricity saving lamps in factories and offices;
- Clean office equipment (such as refrigerators, air-conditioners, paper shredders) regularly to maintain operating efficiency;
- Encourage walking up stairs instead of taking the elevator;
- Use electric appliances with energy saving label;
- Install timers for electrical appliances in public areas to turn off at certain times;
- Replace old electric appliances with energy saving ones; and
- Set the temperature of air conditioners in the offices at room temperature.

During the Reporting Period, the Group replaced more than two hundred traditional lamps with energy-saving LED lamps at its office in Shenzhen. The Group also conducted a monthly electricity consumption analysis to monitor and compare the electricity consumption of the entire office. Within the same volume of business, the Group strives to keep annual electricity consumption at the lowest level. In its agricultural and livestock business, the Group effectively reduced its use of purchased electricity with the installation of solar panels.

Energy use

During the Reporting Period, the Group consumed gasoline, diesel, natural gas, alcohol-based liquid fuel and R-22 refrigerant for transportation and production purposes. The Group encourages energy saving through simple measures, such as making the best use of space to avoid unnecessary transportation, encouraging its employees to take public transportation for commuting and replacing highly polluting vehicles with more environmentally-friendly vehicles. In terms of selecting fuel source and refrigerants, the Group prioritises the use of eco-friendly fuels and refrigerants (natural gas, alcohol-based liquid fuel, and R-22 refrigerant are more environmentally-friendly than traditional fuels and refrigerant).

Water

The Group educates its employees to save water in their daily work. To improve the utilization efficiency of water resources, the Group has included the following measures into the Group's internal regulatory policies:

- Place posters "Saving water resource" in prominent places to encourage water conservation;
- Fix dripping taps immediately and avoid any leakage of the water supply system;
- Inspect and maintain water taps, gaskets and water supply system periodically;
- Require employees to strictly comply with company's water saving policy;
- Collect used water for cooling recycle purposes to be used to clean the floor and public area; and
- Install the water recycling systems in the manufacturing factories, which could effectively reduce water used per unit of production.

The offices of the Group conducted a similar analysis to monitor and compare monthly water consumption as it did for electricity. During the Reporting Period, the Group's pharmaceutical manufacturing factories adopted cooling water recycling to reduce the use of groundwater. As for the agriculture and livestock business, the Group has repaired pipe ditches in the farm to enable the collection of natural precipitation. The collected natural precipitation is used for plants watering. The Group has also installed droppers in the Group's greenhouse to make more efficient use of natural precipitation. Within the same volume of business, the Group strives to maintain or reduce annual water consumption.

Paper Use

During the Reporting Period, the Group mainly consumed paper in its offices, and the Group has adopted the following practices to reduce paper consumption:

- Carefully review the content and format before printing to reduce the printing errors;
- Use double-sided printing for internal documents with the exception of official documents;
- Promote the use of paperless conferencing system, use multimedia smart conferencing system for presentation, reducing paper use during conferences;
- Use email to reduce fax paper consumption, scan the paper fax into electronic version for email delivery;
- Separate used single-sided and double-sided paper to allow easier reuse; and
- The back of single-sided paper can be used for printing or as draft paper.

Packaging Materials

The Group pays great attention to the consumption of packaging materials, as it tries to use green packaging materials as often as possible. The Group also encourages its customers to apply for the whole package of goods, reducing the amount of scattered packing materials. With the concept of being environmentally-friendly in mind, the Group's agricultural and livestock business has hired professional packaging designers to design its packaging, reasonably minimising the waste of packing materials.

3. The Environment and Natural Resources

Pharmaceutical Promotion and Network Management Business

The main environmental impact of the pharmaceutical promotion and network management business is the indirect GHG emissions from the use of purchased electricity. The Group has taken measures to reduce electricity consumption and thus the GHG emissions in its office.

Pharmaceutical Production Business

The main environmental impact of the pharmaceutical production business is the use of boiler and electricity in its manufacturing process. The operation of the boiler and the use of electricity generate both direct and indirect GHG emissions. To minimise the impact, the Group has planted trees around the pharmaceutical factory in Hunan to remove GHG.

Agricultural and Livestock business

The main environmental impact of the agricultural and livestock business is the animal manure from its livestock. The Group has implemented two levels of protection in the livestock area to maintain a clean and healthy environment. The Group has planted reed, mulberry and other plants around the animal pens and the entire project area to purify the outdoor residual animal waste or dirty water. The plants can also prevent the outdoor faeces and other residuals from being washed into the surrounding waters, and from polluting the environment. In addition, the Group also has planted various trees and plants on both sides of the road and on the barren slopes. The plants serve the dual purposes of reducing airborne carbon dioxide and soil erosion, which helps the Group in developing sustainable agricultural and livestock business. During the Reporting Period, the Group repaired about two kilometers of protective ditches for collecting natural precipitation, thereby reducing the use of valuable groundwater.

SOCIAL

Employment and Labour Practices

1. Employment

The Group cherishes its talents as the most valuable assets, and the key to driving the success and maintaining the sustainable development of the Group. The Group strives to provide a safe and suitable career development platform for its employees.

The Group's human resources policies strictly abide by the applicable employment laws and regulations in the PRC, the main law being the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) and the Labour Law of the PRC (《中華人民共和國勞動法》). The Group also abides by the labour law in the PRC by providing employees with the five statutory social insurance schemes (including basic endowment insurance, basic medical insurance, employment injury insurance, maternity and unemployment insurance). The Human Resources Department of the Group reviews and updates the relevant company policies regularly in accordance with the latest laws and regulations.

As talent hiring is crucial to the future business development, through its "Annual Recruitment Plan", the Group has taken measures such as utilising the internet, institutional recruitment seminars and intermediaries to attract high-quality talent with competitive and fair remuneration package. The Group determines its employee's benefits based on the candidate's past performance, personal attributes, work experiences and career aspirations. In order to retain talents, the Group also regularly reviews its remuneration system, making timely adjustments, providing its employees with a fair and reasonable remuneration. In early 2017, the Group reorganised the "CMS Employee Benefit Scheme" (康哲員工福利計劃) to recognise the contributions made by core staff to the Group and to reward employees for their continuous service and contribution towards the Group's yearly growth. Any appointment, promotion or termination of employment contract will be based on reasonable, lawful grounds and internal policies. The Group strictly prohibits any kinds of unfair or unreasonable dismissals.

The Group has formulated its internal policy such as the Implementing Rules for Attendance Management and others based on the local employment laws for determining working hours and leaves for its employees. If an employee works overtime during non-office hours, the employee could receive appropriate overtime pay or compensatory leave in accordance with the labour regulations.

As an equal opportunity employer, the Group is committed to creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions. For instance, in all business units of the Group, training and promotion opportunities, dismissals and retirement policies are based on factors irrespective of the employees' age, sex, marital status, pregnancy, family status, disability, race, skin color, ancestry, nationality, religion or any other non-job related factors. In accordance with local ordinances and regulations, the equal opportunity policy allows zero tolerance in relation to any workplace discrimination, harassment or vilification. Employees are encouraged to report any incidents involving discrimination to the Human Resources Department of the Group. The Human Resource Department of the Group ensures that the Group complies with the national and local laws and regulations, and takes responsibilities for assessing, handling, recording and taking any necessary disciplinary actions in relation to such incidents.

To cultivate a sense of belonging among employees, the Group provides its employees with various welfares such as annual physical examination, afternoon tea, overtime allowance, working uniforms, well-equipped dormitories, and rich self-produced agricultural products as holiday gifts. To enrich the leisure time of employees and enhance collective identity, during the Reporting Period, the Group organised a variety of activities for its staff, such as the International Women's Day party, spring tours, gatherings, basketball games, travels and an annual dinner. Furthermore, the Group conducted a "corporate culture" (組織氛圍) satisfaction survey for all its employees. The survey covered issues such as working environment, career development and collective identity, which helped the Group understand more about its employees. Based on the employee's feedback, the Group took immediate action on improving and adjusting, to create a better working atmosphere for its employees.

During the Reporting Period, the Group complied with relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, leave, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that have a significant impact on the Group.

2. Health and Safety

To provide and maintain good working conditions and a safe and healthy working environment for its employees, the Group has established work safety and health policies that are in line with various laws and regulations as stipulated by the Chinese government. The main laws and regulations related to health and safety are the Law of the PRC on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Production Safety Law of the PRC (《中華人民共和國安全生產法》) and the Regulation on Work-Related Injury Insurance (《工傷保險條例》).

In its daily work, the management and staff must strictly follow the internal guidelines regarding occupational health and safety, which include a series of measures such as fire safety, labour protection, production site safety and safety warning signs management. Workers for a special type of work must be specially trained and have obtained the special work permit, along with wearing protective shoes and a safety helmet while working. The Group also posts safety notices, banners, slogans and warning signs in conspicuous workplaces to remind employees of preventing accidents. The Group conducts regular inspections and reviews to ensure that the work safety measures are effective.

The Group prohibits employees from smoking and drinking in the workplace, regularly cleans and disinfects its air-conditioning systems, and conducts safety inspections and emergency drills for its employees. All production-related new employees must undergo a series of trainings on safety production provided by the Group prior to working. The focus of the training is on safety laws and regulations, the safety production management system and related safety knowledge. The purpose of the training is to enhance employee's awareness on safety, committing to achieving zero accidents in the workplace. The Group organises an annual health examination for all its employees and the result of the health examination is kept for recording, paying close attention to employee's work health.

During the Reporting Period, the Group did not violate any of the relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that have a significant impact on the Group. And no accidents and major adverse health and safety related negative incidents happened.

3. Development and Training

The Group offers comprehensive trainings and development programmes to its staff in order to strengthen their work-related skills and knowledge. The Group's pharmaceutical plant located in Pingshan, Shenzhen is used as a training base for new employees and promotional staff. Taking advantage of the development of the internet, the Group has set up various mobile network training platforms such as "The Training Master" (培訓寶), and "The Training Public Account" (培訓公眾號) for employees to learn and revisit the related course materials anywhere, anytime. Through theoretical training, mentorship programmes, case sharing sessions, seminars and self-study, the Group aims to provide various in-house trainings to all departments and employees at all levels, including: induction training, advanced training, technical and business operation training, policies training and management training.

In order to realise focused training, each set of the Group's training courses is designed for a specific class of employees. Employee training covers product academic knowledge, promotion skills, corporate culture, industry compliance, company organisation and business scope, employee development and benefits, regional management policies, GSP, business etiquette, business ethics etc. For professional promotional staffs, the Group organises regular and irregular training in the area of medical knowledge, pharmaceutical academic knowledge and compliance. All promotional staff members are obliged to receive timely and complete professional training in accordance with the Group's arrangement in order to have sufficient medical expertise to provide accurate, responsible pharmaceutical academic information to medical professionals. The Group also actively organises its staff to attend related pharmaceutical operation training and assessment, in order to enhance employees' knowledge and skills in performing their job duties.

The Group also encourages outstanding employees to attend external training courses to enhance their own competitiveness and expand their capabilities through continuous learning. The Group can arrange external organisations and experts to provide job-related trainings to its employees.

4. Labour Standards

The Group strictly abides by the Labour Law of the PRC (《中華人民共和國勞動法》), the Provisions on the Prohibition of Child Labour of the PRC (《中華人民共和國禁止使用童工規定》), the Law of the PRC on the Protection of Minors (《中華人民共和國未成年人保護法》) and other related labour laws and regulations in the PRC. The Group will never hire any child laborers or engage in forced labor.

To combat the illegal employment of child labour, underage workers and forced labour, the Group's Human Resources Department requires job applicants to provide valid identity documents before the confirmation of employment, to ensure that the applicants are lawfully employable. Throughout the recruitment process, the Group requires that all personal information provided by the applicant be real and valid. At any time, if the applicant is found to have provided false information during the recruitment process, the Group has the rights to terminate its labour relationship with the applicant in accordance with relevant laws and regulations. The Group's Human Resources Department is responsible for monitoring and ensuring the Group complies with the latest relevant laws and regulations that prohibit child labour and forced labour.

During the Reporting Period, the Group did not violate any of the relevant laws and regulations that have a significant impact on the Group, in relation to the prevention of child and forced labour.

Operating Practices

5. Supply Chain Management

As a socially responsible enterprise, the Group believes its scope of management should not only be limited to its subsidiaries, but must also include suppliers that have a connection with the Group. Suppliers in the Group's supply chain should also be enterprises that would actively undertake environmental and social responsibilities. Each of the operating subsidiaries within the Group should monitor the quality and supply chain practices of its suppliers on a strict and continuous basis.

The Group's main suppliers are professional manufacturers from Germany, Denmark, Ireland, France, Switzerland, Japan and Mainland China, providing products such as raw materials and finished goods. The practices, standards and bases adopted by the Group in selecting suppliers include: the qualifications of enterprise's operation and production, product quality, technical capability, market prospect, service quality, concept of environmental protection, business ethics and social responsibility, etc. The products purchased by the Group are mainly manufactured drugs. When selecting suppliers, the Group will primarily examine the supplier's size, history, production status, product types, quality reputation, quality management, and whether it is certified in terms of production, operation and sales according to its national standards. Before exporting drugs, overseas suppliers with export qualification must provide qualified delivery inspection reports to ensure product quality. For domestic suppliers, the Group obtains and verifies the following certificates which include but not limited to, Drug Production License (藥品生產許可證) or Drug Operation License (藥品經營許可證), Business License (營業執照), and GMP or GSP quality control system certificate. During the course of transportation, the Group strictly follows the product requirement on temperature and humidity, and buys the necessary transportation insurance.

To promote better cooperation and communication between the Group and its suppliers, suppliers are required to promptly update their product information, stock information and price status via email, telephone and other communication tools. The Group's Purchasing Department, Marketing and Sales Department, and Management of the Company are in close contact with its suppliers, regularly updating its medium and long-term procurement plan. Meanwhile, Suppliers need to actively position themselves ahead based on the Group's estimated demand, including the expansion of production lines, seeking more upstream raw material suppliers, and replacement of equipment with a large capacity to ensure they meet the Group's production needs. According to the relevant laws and regulations, the Supply Chain Management Department shall contact the relevant departments to conduct product sampling and only those which have obtained the qualification report can be sold. If the products provided by suppliers do not meet the requirements upon formal delivery, the Group reserves the right to return the products and ask for corresponding compensation from the supplier. In order to cope with the possible delay, the Group has set up reasonable stock storage based on the information of different products. Given the Group's solid and steady relationships with its suppliers, the Group did not experience any material delays in receiving supplies from its suppliers last year.

The Group has set up a procurement management team responsible for monitoring, reviewing and confirming supply records. The procurement management team conducts on-site vendor assessments on a regular basis to ensure that suppliers comply with local laws and regulations in the country of operation and adhere to their corporate ethics such as the prohibition of child labor and forced labor. The Group has a list of qualified suppliers and re-evaluates them annually.

Pharmaceutical Production Business

The suppliers in the Group's pharmaceutical production business mainly provide raw materials for production and packaging materials for the manufactured pharmaceuticals. When selecting suppliers, the supplier must be a legitimate production/operating enterprise approved by the relevant government sectors, while also have solid technical capabilities and a sound quality management system. In order to reduce the environmental impact of procurement activities, the Group prefers suppliers with convenient transportation as this could reduce both costs of logistics and the emissions from transportation. At the same time, the Group sets forth product quality specifications and clarifies its environmental requirements to its suppliers, which will be audited by the Group every year.

The Group also strictly controls the selected suppliers in terms of their post-management. Specifically, the Group traces and monitors the quality of material in the stage of acceptance, inspection and production. Once any quality problem is found, the Quality Management Department will file a Material Quality Complaint Form (物料品質投訴通知單) and provide corresponding evidence to the supplier. After the supplier receives the quality complaint, the Quality Management Department will ask the supplier to respond before the deadline as set out in the quality agreement and track the rectification status. The supplier can only continue to supply the goods after figuring out the cause of the problem and making corrections accordingly.

Agricultural and Livestock Business

The major suppliers for the Group's agricultural and livestock business are in Hunan Province, mainly providing animal feed such as corn, soybean meal and wheat bran to the Group. The Group expects its suppliers to meet the following requirements, including but not limited to:

- Be legally qualified, and independently fulfil its obligations and shoulder its responsibilities;
- Have no major adverse records or other serious dishonesty;
- Supply high-quality products that meet the Group's requirement in time;
- Provide products with inspection report from authoritative organisations; and
- Meet the raw materials requirements for green food production

When purchased goods arrive, the Quality Management Department of the Group's agricultural and livestock business is responsible for carrying out an internal inspection, sampling inspection and record keeping. The Group requires the purchased goods to meet the Group's expectation in satisfying daily production. As for losses caused by force majeure, the Group will negotiate with the supplier in terms of the compensation agreed upon in the contract.

6. Product Responsibility

In the pharmaceutical promotion and other various businesses, the Group strictly abides by the relevant laws and regulations of the PRC, including but not limited to the PRC Drug Administration Law (《中華人民共和國藥品管理法》), the PRC Drug Administration Law Implementation Regulations (《中華人民共和國藥品管理法實施條例》), the Provisions for Adverse Drug Reaction Reporting and Monitoring (《藥品不良反應報告和監測管理辦法》), the Provisions for Drug Registration (《藥品註冊管理辦法》), the Administrative Regulations for Insert and Packaging Labels of Drug (《藥品說明書和標籤管理規定》), the Measures for the Supervision and Administration of Drug Production (《藥品生產監督管理辦法》), the Drug Licensing Management Methods (《藥品經營許可管理辦法》), the Good Supply Practice for Pharmaceutical Products (《藥品經營質量管制規範》), the Administrative Measures for the Import of Drugs (《藥品進口管理辦法》), the Measures for the Administration of Drug Information Services Via Internet (《互聯網藥品信息服務管理辦法》), and the Interim Measures for the Administration of Internet Advertising (《互聯網廣告管理暫行辦法》).

All the promoted and sold drugs from the Group are nationally registered products, while the subsidiaries involved in pharmaceutical operations have all passed the latest GSP certification. Imported products promoted and sold by the Group are checked and accepted based on the imported drug inspection report issued by the imported drug ports, while domestic pharmaceuticals are checked and accepted based on the factory inspection report. After the drugs have been imported and placed in the storage room, the Warehouse Department and the Quality Control Department are responsible for the acceptance of the drugs and will check if there is any unqualified packaging. The Group strictly controls the environment and temperature of the storage room, and properly stores each drug based on its requirement, and ensures that the quality of the drugs will not be affected during storage. Before the delivery of drug, the Group conducts an outgoing check according to the laws and regulations to ensure the completeness of the package and to prevent any problematic drugs from entering the market.

The adverse drug reaction reports received by the Group are domestic adverse reaction reports and overseas adverse reaction reports. Domestic adverse reaction reports are mainly from the Group's marketing personnel, patient/consumer telephone reports and domestic articles of adverse reaction, while overseas adverse reaction reports are from the cooperative pharmaceutical manufacturers in other countries/ regions. The Group has set up a Drug Alert Group for regulating the management and monitoring of the adverse drug reactions reports while taking the initiative in collecting the information of adverse drug reactions. The Drug Alert Group strictly follows the national regulations and the Group's working procedure. After discovering the case of adverse drug reactions, the Drug Alert Group will record, analyse, investigate and deal with the adverse drug reactions. Details of the adverse drug reactions will be reported to CFDA's Drug Adverse Reaction Monitoring Center/ Provincial Drug Adverse Reaction Detection Center in accordance with the regulations. The Drug Alert Group will also immediately inform the pharmaceutical manufacturers of the situation, to effectively control the risks associated with the adverse drug reactions, thereby ensuring public safety. The Group has stipulated the Rules for the Recall of Drugs (藥品召回操作規程) in accordance with the Measures for the Administration of Drug Recall (《藥品召回管理辦法》), the Code for Quality Management of Pharmaceutical (《藥品經營質量管理規範》), the Provisions for Adverse Drug Reaction Reporting and Monitoring (《藥品不良反應報告和監測管理辦法》) issued by the CFDA. According to the results of the investigation on potential safety hazards, the Group's quality manager will set up a recall team and make the decision on the level of recall and whether to recall the products. To protect the health and safety of the public, most of the drugs can be tracked through the drug regulatory code.

The Group strictly abides by the Advertising Law of the PRC (《中華人民共和國廣告法》) and relevant laws and regulations. The advertising content must be designed according to the needs of academic promotion. Only with the approval from relevant departments of the government, can the Group publish corresponding advertising contents on medical academic journals designated by both the Ministry of Health and the CFDA. Meanwhile, the Group strictly abides by the Administrative Regulations for Insert and Packaging Labels of Drug (《藥品說明書和標籤管理辦法》), and the Legal Department in the Group provides real-time communication and assistance on such matters.

Pharmaceutical Production Business

The Group requests employees who have engaged in the product manufacturing to deliver products with zero-defect to clients in a timely manner. To ensure product quality, the Group strengthens its quality audit of the materials providers. Starting from the raw materials, the Group strictly follows the national quality standards in inspecting the material, and ensuring it meets relevant standards before putting on production. The Group's production workshop has passed the latest GMP certification of drugs, which provides strict guidance in terms of GMP standards and approved manufacturing technologies to the Group in organising production and monitoring each aspect of the production process.

The Group has established a sound quality and safety mechanism. The Group's subsidiaries involving in production have quality management departments to monitor and carry out quality inspections of the samples of materials and products. After the inspection, all finished products and their associated packages are issued with inspection report to ensure that relevant national drug quality standards have been met. In respect to product storage, the Group strictly abides by the relevant national regulations and requirements, to ensure drugs are stored under the storage conditions as indicated in the drug labels. The Group's storage rooms are equipped with automatic temperature and humidity detection system, along with other functions such as light traps, light prevention, ventilation, moisture-proof, pest control, rat prevention and safety monitoring, to ensure drugs are stored in a good condition.

Agricultural and Livestock Business

The crop products (such as green shell eggs, earthy eggs, strawberries, muskmelons, etc.) produced by the Group have complied with the Regulations of the PRC on Food Safety (《中華人民共和國食品安全條例》) and have passed the professional quality institutions' inspection. The soil, water and nutrient matrices used in the Group's agricultural and livestock business have all passed the SGS test to ensure crops are grown under an excellent agricultural environment. The Group also engages professional testing organisations to conduct strict tests on the chemical substances within crop products to ensure that all crop products are safe and healthy. The Group implements a traceable system for monitoring its products, and takes record of the entire production process for future reference.

The Customer Service Department in the Group's agricultural and livestock business has set up a hotline to collect customer feedback and provide immediate response to customers. During the Reporting Period, the Group's agricultural and livestock business received no products/ services related complaints. If any complaint upon the product is filed, the Group will immediately conduct an investigation on the problem, strengthens the subsequent quality testing, and shortens the delivery time to its customers, to ensure the freshness of products. If any complaint about the service quality is filed, the Group will investigate and supervise the immediate change in the personnel's act.

Protection of Intellectual Property and Data Confidentiality

The Group is dedicated to protecting and enforcing its intellectual property rights. Intellectual property rights are crucial to the Group's sustainable business growth and its ability to differentiate itself from its competitors. The Group's intellectual property rights (such as trademarks and patents) have been registered in accordance with the laws and regulations of the PRC (including Hong Kong SAR, Macau SAR, and Taiwan) and the European Union. The Group makes sure that the protection of its intellectual property rights through registration, maintenance and enforcement measures is effective. The Group has established the following internal measures for data confidentiality in its daily operation:

- Classify and define the scope of commercial secret, and keep the related documents in designated security area;
- Strictly implement the Group's internal confidential rules and regulations by signing confidentiality agreements with internal and external parties; and
- Educate employees and enhance their awareness in relation to the confidential maintenance of trade secrets and other proprietary intellectual properties.

The Group is committed to abiding by the laws in relation to customer privacy, such as the Law of the PRC on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) and other relevant laws and regulations to ensure customers' rights are strictly protected. All collected personal data of customers during the course of business are treated as confidential. The Group has an internal privacy policy to ensure clients' transactions and information are protected. Through internal trainings and confidentiality agreements with its employees, the Group stresses the importance of fulfilling the duties in confidentiality and the legal consequences of violating the agreements to its employees. The IT Department of the Group strictly controls the installation of relevant software, and adopts a stringent network behavior management mechanism in the office network to prevent data loss and data leakage. Within the business system, employees at all levels can inquire and maintain customer information according to authorisations. Unauthorised people cannot use, export or copy customer information.

During the Reporting Period, the Group did not violate any relevant laws and regulations regarding health and safety, advertising, labeling and privacy matters of its products that may have a significant impact on the Group.

7. Anti-corruption

The Group strictly adheres to the Law of the PRC on Anti-money Laundering (《中華人民共和國反洗錢法》) and relevant laws and regulations regarding health and pharmaceutical products, including but not limited to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), the Regulations of the PRC on Drug Administration Law (《中華人民共和國藥品管理法實施條例》) and the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》). The Group highly values honesty, responsibility, morality in employees, and the employee's ability to abide by the code of conduct.

The Group does not tolerate corruption of any kind. The Group strictly enforce its internal regulations, CMS Employee Code of Professional Ethics (CMS 員工職業道德守則). All employees must abide by the principles of honesty and self-discipline when performing their duties and shall not engage in bribery or take advantage of his or her position to carry out any activity that undermines the interests of the Group. At the same time, the Group has established the CMS Anti-Fraud Management Policy (CMS 反舞弊管理制度), where employees can report any suspected wrongdoing, misconduct or irregularities. The Group has established the internal Compliance Department to monitor and investigate any acts of violations of professional ethics. The Group has also stipulated the Code of Conduct for Promotional Personnel (從業人員推廣行為準則) to ensure the legality of sales promotion provided to medical professionals by the Group's employees.

The Group has formulated the functional division of labour and departmental operation standards for different departments to prevent internal and external corruption, money laundering, bribery, fraud and blackmail etc., to ensure the normal operation of the Group's business. The Group allows employees to communicate with their supervisors or relevant departments when they encounter or suspect a violation of the Code. Employees can also use fax, mail or internal ERP platform to report directly or anonymously to the Chief Executive. The Group treats all reported information as confidential in order to protect the whistleblowers from unfair dismissal or injury.

During the Reporting Period, the Group did not violate any of the relevant laws and regulations in relation to bribery, extortion, fraud and money laundering that have a significant impact on the Group.

Community

8. Community Investment

The Group understands well the importance of making a positive contribution to the communities where the Group operates, and sees the interests of the communities as one of its social responsibilities. The Group actively participates in social welfare activities and community care projects to understand the needs of the communities where the Group operates. Participation in such projects helps the Group formulate its policies and objectives to be in line with the needs and interests of the communities. The Group is keen to support social welfare activities and community care projects, and encourages its employees to participate in these activities and projects.

Below is a list of social benefit activities the Group participated in during the Reporting Period:

Shenzhen Kangzhe again funded and supported the "Rusticating" (三下鄉) activity held by "Warm Wind China" (暖風中國) volunteer service teams from Guangdong Medical University. Since 2015, CMS has been involved in this "Relay of Love" (愛心接力) for three years. To uphold the voluntary activities in remote mountain areas of Sichuan and Yunnan Provinces held by "Warm Wind China" (暖風中國), CMS actively made donations and provided medicines.

Shenzhen Kangzhe was one of the “Top 100 Enterprises of Shenzhen in 2017” (2017 年深圳企業 100 強), and awarded the “Green Channel Enterprise in Nanshan District” (南山區綠色通道企業). Achieving those two honours reflected the recognition and compliment on the Group’s operation and the contribution to local prosperity from the community.

The pharmaceutical factory of the Group located in Hunan Province has made many donations to local Hope Primary Schools over the last several years. The donations have helped with the development of local education. During the Reporting Period, the Group once again donated an educational fund to the department of education in the county of Lixian in Hunan Province.

The agriculture and livestock business of the Group made contributions to the employment of local peasant households, economic development of local agriculture, and the income level of local farmers. To solve the problem of local unemployment, the Group always keeps a positive attitude. Specifically, the Group firstly considered to using the agricultural machines from local farmers. Besides, the Group offered free agricultural products to the villagers and school canteens in the neighbourhood on a regular basis. In addition, every year the Group sponsored two middle schools in the countryside where the Group operated.

To support the local education, Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd. donated an educational fund to the Education Bureau of Xinglong County in Hebei Province.