

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. About the Report

The Report is the third environmental, social and governance (“ESG”) report of CMS, dating from 1 January 2018 to 31 December 2018. The Report is disclosed annually.

### 1.1 Basis of Preparation

The Report is prepared as per *Appendix 27 Environmental, Social and Governance Reporting Guide of Main Board Listing Rules* issued by the Stock Exchange.

The content of the Report was formulated through systematic procedures, including: project kickoff, review and summary of the 2017 ESG Report working paper, on-site investigations and interviews, stakeholders identification, stakeholder surveys, identification and ranking of the ESG material issues, determining the disclosure scope of the Report, collecting relevant information and data, reviewing relevant information and data, preparing the Reports based on collected information and data, Board of Directors’ review and final approval.

### 1.2 Scope of the Report

The Report discloses the ESG risks and performances of the Group conforming to the principle of “Materiality” mentioned in the *Environmental, Social and Governance Reporting Guide*. Unless otherwise indicated, the Report’s scope includes the Company, its wholly owned subsidiaries and majority owned subsidiaries (including pharmaceutical promotion and network management business, pharmaceutical production business, and agriculture and livestock business. During the Reporting Period, the products from agriculture and livestock business were only for internal consumption and did not contribute to the Group’s revenue).

### 1.3 Data Sources and Reliability Statement

The materials and cases disclosed in the Report were extracted from the Group’s relevant reports and archives. The Group undertakes that the Report does not contain any material false information or misleading statements, and responsible for the content of the Report as to its authenticity, accuracy and completeness.

### 1.4 Confirmation and Approval

The Board of Directors and senior management team of the Group have approved the Report to ensure that there is no material false information, misleading statements or major omissions in its content.

### 1.5 Obtaining the Report

The Report, as a part of the Group’s 2018 Annual Report, can be accessed and downloaded from the Stock Exchange’s website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Group’s website ([www.cms.net.cn](http://www.cms.net.cn)). For further consultation, any opinion or suggestion of the Report, please contact the Group via [ir@cms.net.cn](mailto:ir@cms.net.cn).

## 2. Responsibility Management

### 2.1 Company Responsibilities

As a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China, CMS is committed to “offering competitive products and services to meet China’s unmet medical needs”, adhering to its core value of “value creation for customers, global reach for innovation, dedication and perseverance, ethics and integrity, professionalism and entrepreneurship”. The Group will take “carrying out the concept of environmental protection and achieving the value of social responsibility, being committed to becoming a leading sustainable pharmaceutical enterprise in China” as its goal of sustainable development. During the Reporting Period, CMS has established a dedicated ESG management team based on the goal, to push forward the sustainability work comprehensively, and has made a solid step towards the Group’s sustainable development goal.

### 2.2 ESG Management

A complete and scientific management structure is the foundation for well-organized and efficient ESG governance and serves as the key for sustainable development. Based on the Stock Exchange guide and relevant ESG information, CMS has established a complete ESG governance structure with emphatically increasing the involvement of the Board of Directors to improve the overall ESG management.

CMS has formulated a three-tier ESG governance structure to conduct the ESG management, which is shown in Figure 1:

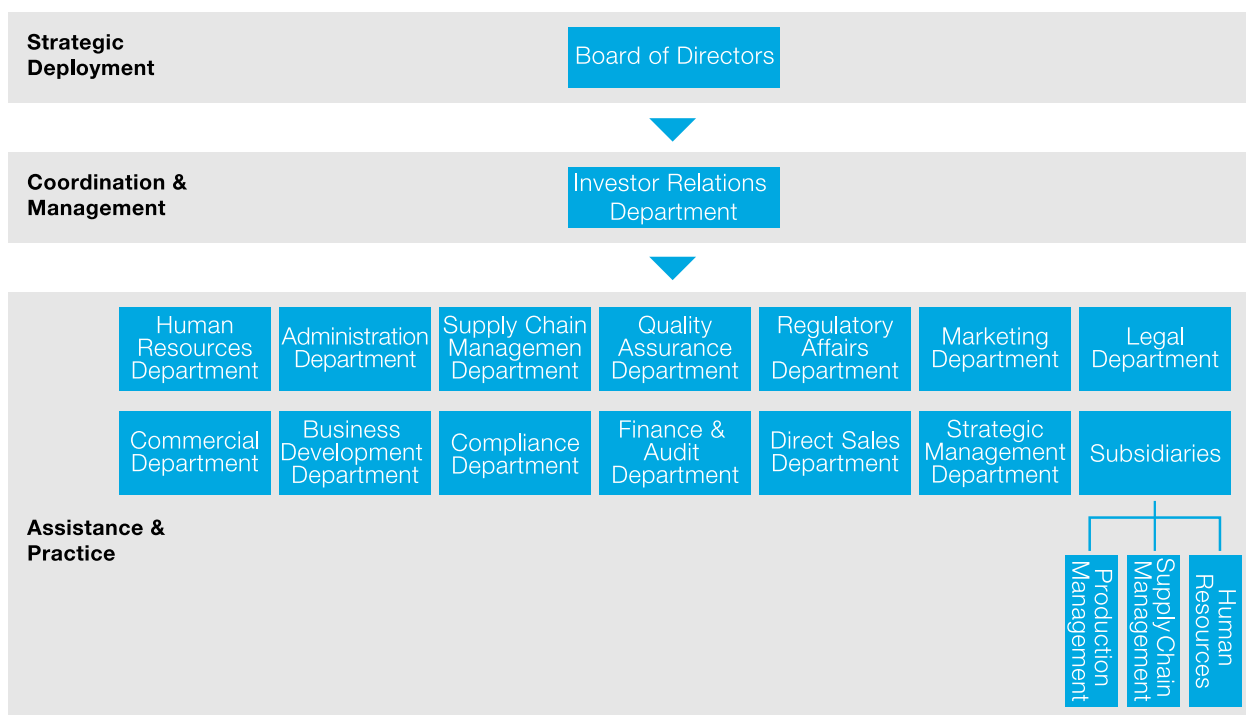


Figure 1 CMS's ESG Governance Structure

- At the top level, Strategic Deployment, the Board of Directors leads ESG management by strategy formulation, administrative system approval, and the review and approval of the ESG Reports and other ESG work deliverables, etc.;
- At the second level, Coordination and Management, the Investor Relations Department of the Group coordinates the implementation of ESG management by coordinating and arranging the annual ESG work for each relevant department and subsidiary, including report drafting and information disclosure, and reporting to the Strategic Deployment level about the ESG work progress and deliverables periodically;
- At the third level, Assistance and Practice, each department and subsidiary of the Group appoints its own ESG coordinator, whose job responsibilities include drafting and implementation of ESG related policies and provisions, collection and reporting of ESG information, and reporting of ESG work deliverables.

The rigorous and well-organized ESG management process provides the working basis and methods for ESG management to improve its efficiency. CMS follows the ESG management process, which is shown in Figure 2:

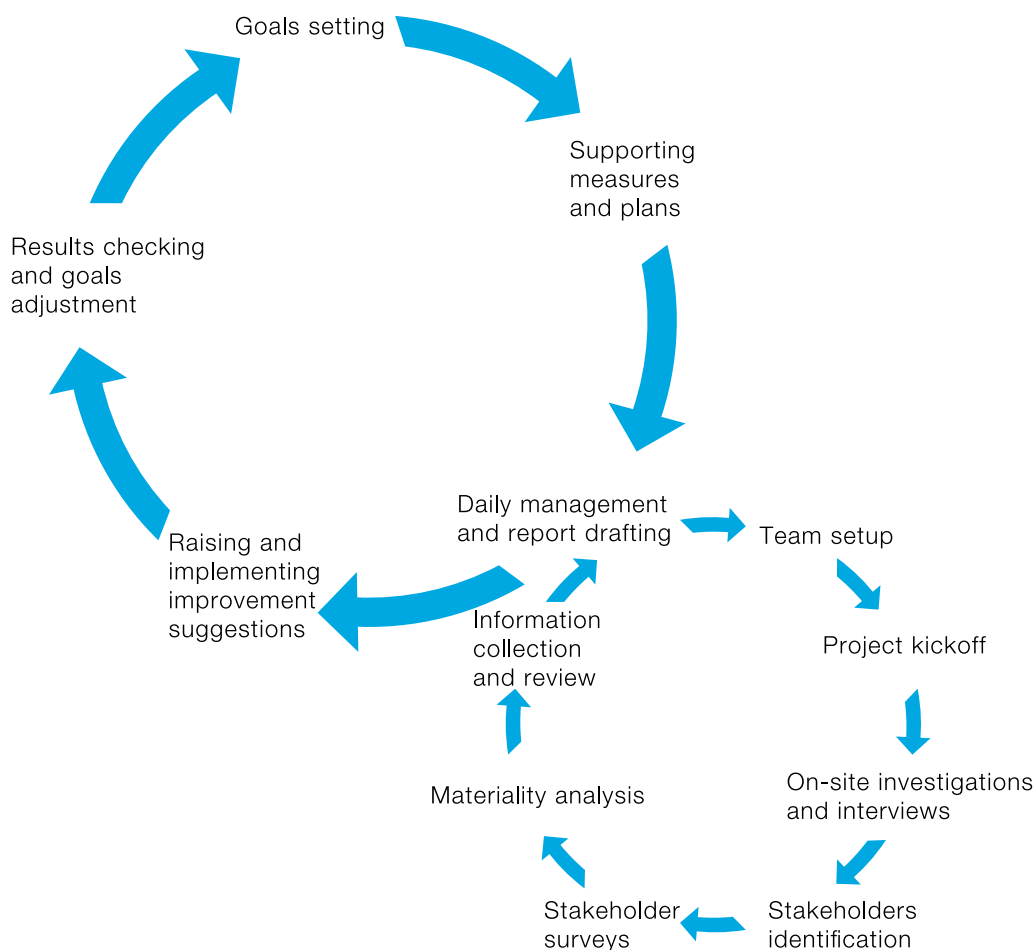


Figure 2 CMS's ESG Management Flow Diagram

CMS has established a nested closed-loop ESG management process: first, setting the annual ESG management goals, and then making supporting ESG management measures and plans based on the ESG management goals, conducting daily management and annual ESG Report drafting based on the measures and plans; making and implementing supporting improvement plans for issues of the existing management practice based on the annual report preparation process in combination with on-site investigations, interviews and stakeholders' concerns, checking work performance at the end of the year, and making adjustments and formulating new goals in time based on the latest progress.

The management process provides a solid foundation for the ESG management work from annual management goals setting to the implementation of specific practices, and meets the implementation needs of ESG management, ensuring the implementation of CMS's sustainable development plan, and continuous improvement of the environmental and social governance of the Group.

See below for CMS's 2018 ESG management condition and 2019 ESG management goal:

Table 1 CMS's 2018 ESG Management Condition and 2019 ESG Management Goal

2018 ESG Management Condition	2019 ESG Management Goal
Well-organized ESG management team and clear working process	Improve the recognition of sustainable development in the Group
Established a relatively enhanced ESG administrative system and policies	Further improve the ESG administrative system and policies
Comprehensive product quality control in production, procurement, storage and sales sections conforming to GSP and GMP requirements	Conduct regular audit on quality management conditions and constantly improve and complete the internal operation to guarantee the product quality
Established good communication, cooperation and supervision mechanisms with suppliers	Strengthen the restriction and control of the suppliers' environmental and social risks
Provided relatively comprehensive safety, health, development, training and welfare systems for employees	Reinforce employee satisfaction survey mechanisms for better understanding of their demands, and constantly optimize the enterprise's organizational atmosphere
Implemented the concept of environmental protection, and controlled the emissions and the utilization of resources	Enhance environmental awareness among employees and reinforce environmental related internal audits

## 2.3 Stakeholder Engagement

CMS has established a routine stakeholder communication system according to stakeholders' demands, the Group is committed to fulfilling the positive interactions with stakeholders with targeted and diverse communication methods, and to making active response to their needs, pushing forward the implementation of sustainable development work.

During the Reporting Period, CMS has established stakeholder relations via the following communication method:

Table 2 CMS's Stakeholder Communication Methods

Stakeholder	Communication Requirement	Communication Method
Governmental and regulatory authority	<ul style="list-style-type: none"> <li>Compliance with laws and regulations, drug safety</li> <li>Compliant operation under supervision</li> <li>Taxation, employment creation</li> </ul>	<ul style="list-style-type: none"> <li>✓ Government-company seminar</li> <li>✓ Supervision and inspection</li> <li>✓ Work report and research</li> </ul>
Investor/Shareholder	<ul style="list-style-type: none"> <li>Standardized governance, rigorous risk control</li> <li>Stable operation, value creation</li> <li>Information disclosure, openness and transparency</li> </ul>	<ul style="list-style-type: none"> <li>✓ General meeting</li> <li>✓ Operation information, announcement and periodic report</li> <li>✓ Telephone, fax, email, internet-voting for general meeting</li> <li>✓ Company official website and WeChat public page</li> <li>✓ Investor visit, meeting and presentation</li> <li>✓ External road show</li> </ul>
Supplier	<ul style="list-style-type: none"> <li>Open and fair procurement</li> <li>Timely communication, win-win developments</li> </ul>	<ul style="list-style-type: none"> <li>✓ Face-to-face meeting and mutual visit</li> <li>✓ Work meeting and communication via telephone, letter and email</li> <li>✓ Company official website</li> <li>✓ Industrial seminar</li> <li>✓ Public bidding</li> </ul>
Distributor	<ul style="list-style-type: none"> <li>Operation with integrity, compliant products</li> <li>Timely communication, win-win developments</li> </ul>	<ul style="list-style-type: none"> <li>✓ Work meeting and communication via telephone, letters and email</li> <li>✓ Company's official website</li> <li>✓ Customer service hotline</li> <li>✓ Face-to-face meeting and mutual visit</li> </ul>
Employee	<ul style="list-style-type: none"> <li>Protection of rights and interests</li> <li>Caring for employees, responding to employee appeals</li> <li>Remuneration packages, training and development</li> </ul>	<ul style="list-style-type: none"> <li>✓ Occupational health and safety training</li> <li>✓ Feedback platform</li> <li>✓ Daily communication and meeting</li> <li>✓ Performance assessment</li> <li>✓ Questionnaire</li> </ul>
External practitioner in the pharmaceutical industry	<ul style="list-style-type: none"> <li>Product safety, protection of rights and interests</li> <li>Protection of privacy, business ethics</li> </ul>	<ul style="list-style-type: none"> <li>✓ Disclosure of product label and other information</li> <li>✓ Academic conference</li> <li>✓ Processing customer complaint and feedback</li> </ul>
The public	<ul style="list-style-type: none"> <li>Good interaction, information disclosure</li> <li>Product safety, protection of rights and interests</li> <li>Protection of privacy, business ethics</li> <li>Public well-being and charity</li> <li>Community development</li> <li>Social value</li> </ul>	<ul style="list-style-type: none"> <li>✓ Disclosure of product label and other information</li> <li>✓ Periodic visit</li> <li>✓ Handling of consumer complaint and opinion</li> <li>✓ Volunteering activity</li> <li>✓ Donation of money and drugs</li> <li>✓ Spreading knowledge on medicine and health</li> </ul>

## 2.4 Materiality Analysis

During the preparation of this ESG Report, CMS invited professional consultants to review and assess issues on the sustainable development of the Group for the year. Via the comprehensive communication with stakeholders multi-dimensionally through questionnaire, face-to-face communication, on-site visits and etc., the Group finally summarized and delivered the material issues for the year concerning its sustainable development, which constitutes the documentation basis of the Report.

### 2.4.1 Materiality Assessment Procedure

- Build a list of material issues: build CMS 2018 ESG material issue list based on the *Environmental, Social and Governance Reporting Guide* of the Stock Exchange, previous ESG related issues reviews, the Group's existing conditions of the year, the development of the pharmaceutical industry and the stakeholders' concerns;
- Stakeholder engagement: make and implement the annual stakeholder engagement plan, gain the stakeholders' original assessment of the issues through communication and questionnaires;
- Materiality assessment: assess issues by two dimensions of "importance to the company" and "importance to the stakeholders", obtain the Materiality Analysis Matrix and the Materiality Analysis List;
- Review and approval: submit the stakeholder engagement implementation plan and the materiality assessment report to the management for review and approval.

### 2.4.2 Matrix and List of Material Issues

Based on the questionnaire results, the stakeholders materiality ranking listed as following:

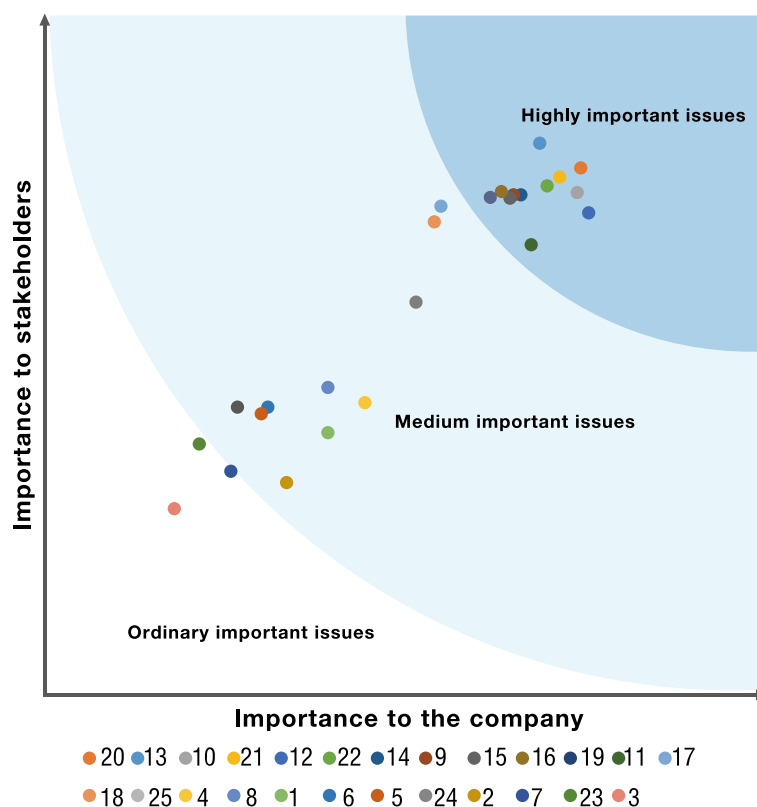


Figure 3 CMS's ESG Materiality Analysis Matrix

The materiality assessment of 2018 ESG issues for CMS found 12 highly important issues, 10 medium important issues and 3 ordinary important issues, the details of which are listed below:

Table 3 CMS's Materiality Analysis List

Importance of issue	Issue scope	Issue no.	Issue
Highly important issue	Company governance	20	Ensuring product and service quality
	Company governance	13	Caring about employee safety and health
	Company governance	10	Compliant operation
	Company governance	21	Improving the pharmacovigilance and drug recall mechanism
	Company governance	12	Providing competitive salary
	Company governance	22	Protection of intellectual properties
	Company governance	14	Providing training and skills enhancement courses for employees
	Company governance	9	Constructing a good company governance system
	Company governance	15	Providing a fair and transparent promotion path
	Company governance	16	Compliant employment
	Company governance	19	Protecting customer rights, interests and privacy
	Company governance	11	Improving the anti-corruption and anti-bribery system
Medium important issue	Company governance	17	Strict execution of supplier admittance and inspection criteria
	Company governance	18	Promoting supply chain sustainable development (environmental protection, anti-corruption, employment, etc.)
	Social responsibility	25	Investment activities to promote the advancement of the medical progress
	Environmental protection	4	Proper treatment of solid waste
	Environmental protection	8	Making guidelines and setting goals for environmental protection work
	Environmental protection	1	Compliance with emission standards
	Environmental protection	6	Energy conservation
	Environmental protection	5	Water conservation
	Social responsibility	24	Participation of public welfare charity, disaster relief activities and others
	Environmental protection	2	Resource investment to reduce emissions
Ordinary important issue	Environmental protection	7	Conservation of packaging materials
	Social responsibility	23	More resource investment to support the development of surrounding communities
	Environmental protection	3	Reducing greenhouse gas emissions

We have acknowledged the stakeholders' major concerns in the Group's ESG report and documented the Report as per the assessment results to respond to stakeholders' concerns in an orderly manner.

### 3. Compliance Operation

The Group utilizes its well-established organizational structure and clear division of duties in combination with information technologies for continuous optimization of internal management methods and management standards to reinforce the compliance operation. In addition, the employees must obey the laws, regulations, provisions and other regulated document and legal procedures applicable to the operation locations of the companies. The Group strictly abides by the market rules, ethics, integrity, professionalism and entrepreneurship to continually overcome challenges.

#### 3.1 Anti-corruption

The Group strictly abides by the *Law of the People's Republic of China on Anti-money Laundering*, *Law of the People's Republic of China against Unfair Competition*, *Criminal Law of the People's Republic of China*, *Interim Provisions on Banning Commercial Bribery*, *Interim Provisions and Amendment on Banning Commercial Bribery* by the State Administration for Industry and Commerce, *Prevention of Bribery Ordinance* of Hong Kong, and other laws and regulations. The Group operates business under strict ethics standards and professionalism.

For anti-corruption, the Group specifies strict ethical bottom lines and quality standards to guide the employees' conduct professionally through setting *CMS Employee Code of Professional Ethics*, which forbids employees from engaging in bribery while interacting with internal or external stakeholders or seeking private benefits through misconduct. The guidance also requires employees to maximize their efforts in preventing activities that could or are likely to lead to bribery and corruption. The Group has also formulated the *Code of Promotional Conduct and Speaker Regulations* to provide behavior requirements and guidance on drug promotion content, promotional behavior professionalism, supplier selection of promotional activities, speaker qualification identification and etc. to ensure the compliance of the Company's promotional activities.

The Group has established a multi-dimensional behavior regulation and supervision system to prevent internal and external corruption, bribery, extortion, fraud, money laundering and etc. The Group's management team guides the direction of employee conduct regulation. And the internal Compliance Department promotes compliance culture, training and employee conduct inspection, and monitors, identifies and reports risk of code violation. The Direct Sales Department and Marketing Department guide and monitor regional promotional activities; meanwhile, the Finance & Audit Department enhances expenditure transparency and compliance of promotional conducts through financial management measures under the compliance framework, and utilizes the intelligent cloud system for process management enhancement, fully controlling and reviewing expenditure acts. In addition, as an important strategic supporting department for the company's business operation, the Legal Department controls and prevents legal risks for the Group.



The Group also encourages employees to report and complain suspicious acts, misconduct and code violations through the *Anti-Fraud Management Policy*. Employees can contact the Compliance Department or report to company superiors when detecting or suspecting any conducts violating the employee code of professional ethics via telephone, email, fax, letter, the internal ERP platform and etc. For complaints and reports, the Group shall handle the cases hierarchically based on the positions of the individuals being complained or reported. The persons involved are required to evade, ensuring the fairness and impartiality of case handling. All reports and complaints will be kept confidential to protect the security and interests of the complainant or the informer.

During the Reporting Period, there were no corruption lawsuits against the Group. The Group did not violate any related laws or provisions that significantly impacted the Group in the aspects of anti-bribery, extortion, fraud or money laundering.

## 4. Product Liability

The Group adheres to value creation for customers and is dedicated to providing competitive products and services. The Groups ensures the quality of its products and services, and improves customer satisfaction by building a quality management system, tracking the quality problems and regular quality auditing.

In terms of health, safety, advertising, labeling, privacy, intellectual property and remedial measures for products and services, the Group strictly abides by national laws and regulations including but not limited to the *Drug Administration Law of the People's Republic of China*, *Regulations for Implementation on Drug Administration Law of the People's Republic of China*, *Provisions for Adverse Drug Reaction Reporting and Monitoring*, *Provision for Drug Registration*, *Provisions for Medical Device Registration*, *Provisions for Drug Insert and Packaging Labels*, *Good Manufacture Practice of Drugs*, *Measures for the Supervision and Administration of Drugs Production*, *Provisions for Pharmaceutical Trading License*, *Good Supply Practice of Drugs*, *Administrative Measures for the Import of Drugs*, *Advertisements Law of the People's Republic of China*, *Review and Release Standards of Drug Advertisement*, *Law of the People's Republic of China on Safeguarding the Consumer Rights and Interests*, *Tort Liability Law of the People's Republic of China*, and *Patent Law of the People's Republic of China*.

### 4.1 Guarantee the Safety and Quality of Products and Services

The Group has established the Quality Assurance Department to manage and monitor product quality and a drug quality management system is built based on local laws and regulations as well as the GSP's requirements, covering the processes of quality verification, procurement, storage and etc. to ensure its product's safety and quality. The Group has issued a series of documents concerning its quality management system, departments and positions responsibility, operation procedures, archives and etc. Such documents include but are not limited to: *Regulations on Drug Procurement*, *Regulations on Drug Check and Acceptance*, *Regulations on Drug Removal, Transportation and Distribution*, *Regulations on Drug Storage*, *Regulations on Quality Inquiry Management System*, *Regulations on Quality Complaints*, and *Regulations on Drug Expiration Date Management*.

The finished products promoted and sold by the Group are mainly manufactured in the countries of manufacturing origins such as Germany, Denmark, the United Kingdom, France and China to maximally ensure product quality, with a small fraction of the rest being self-produced. All products promoted and sold by the Group are registered and approved by NMPA; all subsidiaries with core business in pharmaceutical promotion and sales are GSP certified; all subsidiaries with core business in pharmaceutical manufacturing are GMP certified.

For self-produced products (during the Reporting Period, self-produced products have only accounted for 3.9% of the Group's sales excluding the effect of the "two-invoice system"), the Group conducts strict inspection and acceptance of raw materials, including information review and sampling. Raw materials will only be adopted after examination passed, the whole process of which is monitored by the specialized staff. The Quality Assurance Department is responsible for quality inspection and control of raw materials and finished products sampling. Qualified inspection equipments are used for inspecting each raw material and finished product, after which the Quality Assurance Department will issue an Inspection Report for the approved qualified products to ensure compliance with national standards for drugs. In case of unqualified raw materials and finished products, the Group will deal with them as per the procedure on unqualified product management, and set up a special investigation team for cause investigation and correction at the same time.

When the procured finished drugs arrive, the Quality Assurance Department will conduct strict inspection and acceptance as per GSP requirements, and review the official product inspection reports (such as the Custom Clearance Form, Import Inspection Report and Manufacturer Inspection Report) to ensure their quality compliance with national requirements. Once a quality deficiency is found, the Quality Assurance Department will submit relevant evidences to the supplier in written report and immediately shut down the sale by locking-in and freezing the unqualified products according to the GSP management system. When products are confirmed as unqualified by the Quality Assurance Department, the Storage and Transport Department will be immediately informed to transfer the products to the "unqualified zone" with separated storage areas. These products will be recalled, returned to the supplier, and applied to be discarded or destroyed after evaluation if necessary.

The Group owns twenty-two warehouses in Guangdong Province, Hebei Province and Hunan Province for the storage of qualified products. The Storage and Transport Department of the Group is equipped with drug maintenance staff to make sure the storage and maintenance of the drugs is strictly following the regulations including *Regulations on Drug Storage* and *Regulations on Drug Maintenance*. The maintenance staff constantly monitors the warehouse temperature and humidity and the product storage conditions, conduct regular inspections on and maintenance of facilities and equipment, and report to the management regularly, to ensure the products are stored in an environment that meets their quality characteristics. Before delivery and sales of the finished products, the Storage and Transport Department conducts an ex-warehouse check based on regulation requirement, to ensure package integrity and product safety. During the Reporting Period, the Storage and Transport Department has improved related documentation for the system and strengthened relevant employee training, with regular inspections on the implementation conditions. Some improvements have been achieved in drug placement, scattered goods handling, handling management and warehouse management.

The Group has established *Provisions for Label Control and Management* to ensure the drug classification and package labeling meet the local laws and regulations, and the *Operation Procedure of Design, Review and Approval of Printing Packaging Materials* has been formulated to ensure the label compliance with registration approval requirements. All the Group's advertising strictly abides by national requirements and is only published in professional magazines designated by the National Health Commission and NMPA after being inspected and approved by the Provincial Ministry of Health. The Group has also issued the *CMS Speaker Regulations* to provide guidance on writing and reviewing promotional materials to ensure the professionalism and compliance of promotional material.

#### **4.1.1 Customer Complaints**

The Group provides specialized reporting channels and methods for drug quality complaints and adverse reactions/events. Consumers can complain or report to the Group via telephone, fax, email and etc. The Quality Assurance Department oversees product quality complaints and has established the *Provisions for Quality Complaints* and *Operation Procedures for Quality Complaints* to provide detailed guidance for handling product quality complaints. Complaints are recorded in the complaint record and maintenance system and are dealt with after classification according to the level of risk of the quality defects to consumers and the Group. Minor complaints that are not related to product quality and quality query should be responded by reply and explanation in a timely manner; important complaints concerning product quality should be reported to the relevant responsible department for proper solutions and timely responses; severe complaints should be reported to the responsible management of companies and be investigated and assessed. Once a severe complaint is confirmed, the product should be suspended from sales or utilization, and the product recall procedure can be triggered.

The Group has set a pharmacovigilance team to collect, handle and report adverse reactions/events and a series of standardized operation regulations such as the *Management Regulations on Drug Adverse Reaction Reporting and Monitoring*, *Operation Regulations on Drug Adverse Reaction Reporting and Monitoring*. Apart from visits and complaints from patients and doctors, the Group encourages related department to actively collect and report adverse reactions/events. The pharmacovigilance team should record in detail, analyze and deal with reported adverse reactions, timely and truthfully record adverse reactions/events, and investigate, analyze, assess and summarize each case. If drugs with potential safety risks are found, they should be dealt with as per the *Operation Regulations on Drug Safety Signal Detection*. Meanwhile, the Group should not only communicate closely with domestic and overseas drug manufacturers and the NMPA, but also revise domestic labels and instructions to ensure product safety when necessary.

During the Reporting Period, the Group's response and handling rate for product and service quality related complaints from customers have achieved 100%.

#### 4.1.2 Product Recall

In order to recall drugs circulated in the market with safety risks based on the relevant regulation requirements, in the shortest time with minimal adverse impact, the Group has established the *Provisions on Drug Recall* and *Operation Procedures on Drug Recall*. If a recall happens, the Quality Assurance Department should establish a recall work team to draft a recall plan and issue drug recall notices. The involved departments should timely inform relevant customers and all organizations and individuals that may be related to drug sales and usage in order to recall the drugs as quickly as possible, and the stock should be sealed up at the same time. Recalled products should be marked and separately stored in the “returned goods” area; the Quality Assurance Department should conduct a comprehensive inspection on the recalled drugs, analyze the quality conditions and write a summary report; and the Quality Assurance Department should submit related information as required by the local Drug Administration Department in a timely manner.

During the Reporting Period, the Group has not received any sold and delivered product recalls due to safety and health problems.

The Group’s 2018 product and service quality data is shown below:

Table 4 CMS’s 2018 Product and Service Quality Data

	Unit	Product and service quality data
Response and handling rate for product and service quality related complaints	%	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0

#### 4.1.3 Customer Privacy

The Group attaches great importance to consumer privacy protection and maintains the confidentiality of nonpublic information on behalf of customers, suppliers, employees and other stakeholders of the Group conforming to related laws and regulations as well as applicable contracts. Both the *CMS Employee Code of Professional Ethics* and *CMS Employee Manual* specify requirements on the third-party privacy protection. Along with relevant training and confidentiality agreements, the importance of confidentiality duties and the legal consequences of confidentiality violation are also delivered and emphasized. Moreover, the Group’s business management system manages information access and maintenance with limited authorization. Non-authorized employees cannot use, export or copy customer information.

## 4.2 Protection of Intellectual Properties

The Group deems intellectual properties (such as trademarks, patents, confidential information and production knowhow) as important assets of the Group and regulates employee conduct concerning intellectual property protection by the *CMS Employee Manual*. The Group is dedicated to meet China's unmet medical needs, and mainly through collaborative R&D to acquire various patent protected innovative products' assets or rights in China and some Asia-Pacific countries. Moreover, the names, logos and products of the Group are all equipped with registered trademarks and the related use is regulated by the *CMS Code of Trademark Use*. The in-house developed enterprise management system is protected through software copyright. The Group protects the existing intellectual property rights and promptly prevents violation of those by monitoring registered trademark use and regulating external trademark and patent operation in a legal and authorized manner.

During the Reporting Period, the Group has not violated any related laws or provisions that significantly impact the Group in the aspects of health, safety, advertising, labels, privacy, intellectual property and remedial measures for products and services.

## 5. People-oriented Practice

The Group deems its employees as the most valuable assets based on the concept of "strivers as the foundation". The Group ensures compliant employment, protects employee health and safety, promotes employee equality and diversity, and constantly improves its employee training and development systems to provide a good working environment and atmosphere for employees. With its well-organized human resources management system covering employment, training, talent development and employee relations, the Group strives to make sure the smooth process of its organization, talent and company culture management.

In terms of employment (including remuneration, demission, recruitment, promotion, working hours, vacation, equal opportunity, diversity, anti-discrimination and other welfare), occupational health and safety as well as labor codes, CMS strictly conforms to the related national laws and regulations, which include but are not limited to the *Labor Contract Law of the People's Republic of China*, *Labor Law of the People's Republic of China*, *Regulations on the Implementation of the Labor Contract Law of the People's Republic of China*, *Social Insurance Law of the People's Republic of China*, *Minimum Wage Provisions*, *Rules of the State Council on Working Hours of Workers and Staff Members*, *Regulations Concerning the Labor Protection of Female Staff and Workers*, *Work Safety Law of the People's Republic of China*, *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, *Regulations on Work-Related Injury Insurances*, *Provisions on Female and Underage Staff and Workers Protection*, *Provisions on the Prohibition of Child Labor* and *Law of the People's Republic of China on the Protection of Minors*.

## 5.1 Compliant Employment

The Group conducts compliant recruitment of labor, and commits to sign, modify, rescind or terminate the contracts with employees as per national laws and regulations and company rules and requirements. The employment relationship takes effect upon signing the labor contract out of free will and agreement by both parties. The Human Resources Department of the Group checks the ID of each staff to ensure they are aged over 18 to assure the compliant employment. The Group labor contract stipulates the authenticity of candidates' personal information and the Group reserves the right to terminate the contract if such information is found to be false based on the Provisions of the Company. Paid vacation, working hours and work attendance regulations are clearly specified, explained and are implemented as per the regulations on implementation of work attendance rules and local employment laws. Employees are entitled to compensation payment or vacation for working non-office hours as per labor laws and regulations. During the Reporting Period, the Group has strictly implemented measures including but not limited to the above-mentioned methods to prevent the legal risk of child labor and forced labor.

The Group, abiding strictly by national and local laws and regulations, has established the *CMS Employee Manual* covering employment, performance, employee relations and remuneration as the guidance for employees to follow and enhance their sense of responsibility and belonging.

The Group has adopted various recruitment channels, such as recruiting websites, campus job fairs, headhunters and internal referrals, to attract and retain suitable and outstanding talents with competitive remuneration packages, a good working environment and a comprehensive welfare system. The Human Resources Department pays close attention dynamically and reviews the Group's salary level to ensure fair treatment and remuneration for employees. During the Reporting Period, the Group has carried out a comprehensive remuneration reform to improve company competitiveness in the job market. The reform includes rationalization and classification of posts, salary level charts formulation through survey, and determination and adjustment of employee salary based on salary level charts and individual assessments. Moreover, the promotion within the Group is competitiveness-oriented and is regulated by internal regulations, such as the *Regulations on Selection, Appointment and Removal of Managerial Posts of Direct Sales Regions*. Employees may apply for managerial posts through internal competition and referrals with the review and approval of relevant leaders. The Human Resources Department regularly publicizes appointment and removal notices to ensure fairness and effectiveness.

The Group, abiding strictly by laws and regulations, provides employees with five statutory social insurance schemes (basic endowment insurance, basic medical insurance, employment injury insurance, maternity insurance and unemployment insurance) and housing funds, with extra benefits of housing subsidies, commercial accident insurance, physical examinations, employee community activities, overtime dinners, sports activities, holiday presents and etc. The Group also recognizes the contributions of key employees with the *CMS Employee Benefit Scheme* which rewards employees who have made continuous service and significant contributions to the Group's annual business growth, and the "Hall of Honor Awarding System" to select and reward excellent promotional staff with bonus.

The Group strives for a fair and diversified working environment with mutual respect, and adheres to the principles of anti-discrimination and equal opportunity in human resources and recruitment decisions. It seeks to prevent any non-work-related factors such as age, gender, nationality and marital status from affecting employee welfare, training, promotion and demission. The rights and interests of female employees are protected strictly as per national laws and regulations. Female employees of the Group are entitled to statutory holidays during pregnancy, maternity and lactation, and are given reasonable care and consideration. Equality-based communication is encouraged; employees may communicate with the management via the internal ERP platform, telephone, email, face-to-face meeting and etc. The Human Resources Department should conduct interviews with new employee, regular employee and dismissed employees when necessary to understand their concerns and working satisfaction, and report these findings to the managerial level. Employees are encouraged to report discriminatory, harassment and other improper behaviors to the Human Resources Department. If the case is found to be true after investigation, punishment shall be given according to the seriousness of the case, to prevent discrimination and inequality.

## 5.2 Training and Development

The Group's human resources management system consists of Training Division taking charge in new employee training, on-the-job training and training operation. The Training Division formulates its annual training plan and organizes various training activities that combined with the Group's development strategies and departmental requirements, in order to empower and enable employees with capability improvement. The training system is completed and regulated by the *Provisions on Employee Training and Career Development*, *Provision on Employee Training Process*, and *Provision on Internal Speaker Training*, providing essential continual education and necessary support for employees at every stage of their career, to push forward their improvement.

A training base is provided for a focused training environment and atmosphere; digital and mobile technologies and tools are employed to extend the training scope and facilitate flexible, convenient and more effective learning. Besides irregular training for business development and working process modification, and stipulated safety and fire protection training, the Group organizes at least one large-scale training session for fresh employees each year, and provides customized training based on their post functions. The training content mainly includes but is not limit to: company culture, company rules and regulations, product knowledge, compliance culture and GSP-related regulation to enhance the fresh employees' better integration to the Company and understanding about their posts. Professional promotion related posts are subject to advanced trainings focusing on thinking methods, presentation material making, presentation skills and etc. Employees involved in production business are educated on GMP-related systems, product quality, production safety, pharmaceutical regulations, etc.

In addition, for management associate trainees, the Group has a multi-level training system to help them clarify their career path and forge related skills and abilities; for the special operation personnel, the Group stipulates external training and examinations on special equipment operation. The Group also encourages employees to attend external training related to their work to maximize their skills improvement and enlarge their knowledge base.

During the Reporting Period, the Group has achieved 100% employee training coverage with fully covering every categories of employee.

## 5.3 Care for Employees

### 5.3.1 Occupational Health and Safety

The Group strictly abides by national laws and regulations on employee occupational health and safety, provides a healthy and safe working environment for employees, reinforces the implementation of occupational health monitoring measures, and improves the management on prevention and treatment of occupational diseases.

The Group achieves the improvement of the production safety by compliance with and implementation of the *Comprehensive Emergency Plan for Production Safety Accidents, Three Provisions on Production Safety, Investigation and Treatment Plan for Safety Hazards* and etc. A lead group on production safety inspection has been established to implement safe production practices; safety warning signs and first-aid boxes are provided in proper locations; employees receive relevant training on production safety and occupational health and safety, etc. Employees holding posts with healthy and safety risks are provided with personal protective equipments as per national laws and regulations to minimize safety risks. For example, dust related posts are provided with dust masks, and noise related posts are provided with earplugs, ear masks and other protection equipment. During the Reporting Period, the Group provided occupational health checks for all the employees holding posts with healthy and safety risks according to the related laws and regulations.

The Group has formulated the *CMS Office Building Emergency Plan* and regularly organizes fire safety related emergency drills to raise employee safety awareness, improve their self-protection abilities, and prevent accidents. The Group provides annual physical checks for each employee. During the Reporting Period, 100% employees had health checks of their own free will. Meanwhile, employee health risks are also reduced through daily trifles, such as changing drinking water filters on a regular basis, maintaining the air-condition system, carpet cleaning and disinfection, insect and rat extermination, etc.

During the Reporting Period, the Group has no work-related deaths.

The Group's 2018 employee health and safety data is shown below:

Table 5 CMS's 2018 Employee Health and Safety Data

	Unit	Health and safety Data
Work-related deaths	Person	0
Proportion of employees had health checks of their own free will	%	100

During the Reporting Period, the Group has not violated any laws or provisions that significantly impact the Group in terms of employment, occupational health and safety, and labor regulations.



## 6. Cooperation and Mutual Benefits

Effective cooperation with and management of suppliers and distributors are vital to the Group as they reasonably improve product and service quality as well as reduce the operational costs and cooperation risks, helping build the brand image and pushing forward the development of the Company. The Supply Chain Management Department of the Group is responsible for planning and managing procurement and order, international and domestic logistics, warehouse management, sales consignment, etc. to ensure the high operational efficiency of each section of the supply chain. The Supply Chain Management Department has constructed a relatively comprehensive supplier management system by making supply plans based on sales forecasts of products and integrating supervision and support to suppliers from the Quality Management Department.

Through the long-term communication and business contacts, the Group has forged sustainable and stable strategic relationships with suppliers and distributors, and established good communication mechanism with open dialogue and mutual trust. At the same time, during the cooperation, the Group has fully communicated problems within a reasonable scope with suppliers and actively helped with process reform, so as to realize mutual benefits and risk sharing.

### 6.1 Supplier Management

Finished drugs account for the majority of the Group's procurement. Suppliers are regulated with strict admittance criteria and inspected on factors including but not limited to: operation and production qualification, scale and history, industrial reputation and competitiveness, production conditions, product category, quality and prestige, environmental protection, compliance, social responsibility, and etc. Suppliers are required to provide qualification documents including their Drug Production License or Drug Operation License and Business License to ensure the compliance and effectiveness of its operation. Operation and production that is compliant with local related regulations are specified in the supplier agreements or contracts to prevent social related risks of the supplier management; at the same time, when supplier conditions are similar, the nearest supplier with more convenient transportation is preferred to reduce environmental pollution from transportation. Moreover, the Group ensures a fair and open procurement mechanism by bidding, regulates procurement activities with the *Regulations on Drugs Procurement*, *Regulations on Procurement Planning and Review*, and *Regulations on Auditing Supplier Salesperson Qualification*, and ensures the procurement plan complying with operation demands. The *Code of Professional Ethics of CMS* provides policy regulations on the open, fairness and transparency of the procurement system.

The finished drugs the Group promotes and sells are introduced through asset purchase or long-term sales agreement. And the production is mainly outsourced to designated factories or original manufacturers. Therefore, the Group is able to sustain long-term stable strategic relations with finished product suppliers without frequent changes or adjustments. The Group regulates supplier management with the *Regulations on First-time Supplier Qualification Review* and *Operation Provisions on Internal Quality Audit*. First-time suppliers need to go through a comprehensive qualification review coordinated by the Supply Chain Management Department and Quality Assurance Department, and will only be qualified as the Group's supplier if they pass the evaluation, then the further purchase is executed by the Supply Chain Management Department. Moreover, the GSP management system automatically monitors supplier period of validity certifications and blocks suppliers automatically when their certifications expire, purchase order with these suppliers can only be updated or added until the relevant documents is renewed. The Supply Chain Management Department and Quality Assurance Department review supplier quality at least once a year, and build supplier quality review archive, and form the final *List of Qualified Suppliers* after deciding to retain or remove the supplier.

All production material suppliers are selected as per the *Operation Provisions on Material Supplier Assessment and Approval*. Such qualified suppliers should meet the following requirements: complete and valid qualifications, qualified products, reasonable pricing, good production environment and smooth operation of workshops, etc. The list of qualified suppliers will be determined after assessment, auditing and executive review of each supplier. The Group maintains at least two qualified suppliers for any production material to prevent material shortage under emergency. Moreover, the Group also classifies materials according to the level of importance and manages qualified suppliers by different levels with a list of core suppliers to ensure the reasonable distribution of monitoring resources and maximize the efficiency of supplier chain management.

The Quality Assurance Department conducts annual assessments and renews the qualified supplier list based on annual supply quality and relevant cooperation conditions. If the materials provided by the qualified supplier do not conform with the Group's requirements in the official procurement, the Group shall timely notify suppliers on return of unqualified products, the expenses of which and the Group's incurred financial loss shall be all assumed by the supplier; if the supplier is shut down or production is ceased, or quality problems occur three consecutive times, or the supplier fails to implement procurement within three years, with the written application from the supply chain-related departments and review by the Quality Assurance Department, the unqualified supplier shall be deleted from the qualified supplier list and procurement cooperation shall be ceased. The Group organizes on-site product quality auditing on core suppliers at least once a year, and applies to cease procurement from those with critical defects or high quality risks. During the Reporting Period, there has been no significant product supply delay from the Group's suppliers.

The Group's 2018 supplier data is shown below:

Table 6 CMS's 2018 Supplier Data

	Unit	Number of supplier(s)
Total suppliers	Number	87
– Mainland suppliers	Number	75
– HK SAR, Macau SAR, Taiwan and overseas suppliers	Number	12

## 6.2 Distributor Management

Distributors are maintained and managed by the Quality Assurance Department and Commercial Department of the Group, and the *Selection and Assessment System of Distribution Cooperative Partners* is constituted to support related work. The distributors' screening standards include basic criteria (such as GSP qualifications, storage capacity, distribution capacity and working capital), cooperation willingness, distribution channel coverage, market control, brand image, etc. fully guaranteeing the distributors' qualifications and compliance level, and preventing product quality and integrity from negative impacts during the distribution. The Group prefers large-scale distributors with high distribution channel coverage in sales regions to reduce the negative impact on environment during the logistics.

## 7. Environmental Protection

With the guiding principle of environmental protection, the Group has always been striving to integrate the concept of sustainable development into its pharmaceutical operation, pharmaceutical manufacturing and agriculture and livestock business<sup>1</sup>. During the development and operation of business, the Group strictly abides by related national laws, regulations and standards on environmental protection, such as *The Environmental Protection Law of the People's Republic of China*, *Environmental Protection Tax Law of the People's Republic of China*, *The Environment Impact Assessment Act of the People's Republic of China*, and *Emergency Management Measures for Environmental Emergencies*; the relevant internal management procedures have also been formulated based on practical conditions of the Group, with strict control of emission and reasonable use of energy and resources, so as to minimize the impact on environment and natural resources from the business operation and contribute to the construction and sustainable development of the beautiful China.

<sup>1</sup> As at 31 December 2018, the products produced by agriculture and livestock business of the Group has only been consumed internally without contributing revenue of the Group.

## 7.1 Emission Control

### 7.1.1 Solid Waste Management

The Group strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution*, *Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes*, and *Standard for Pollution Control on Hazardous Waste Storage*, and has adopted internal policies and regulations for solid waste management to reduce its generation and emission, and the subsequent environmental impact. Internal policies and regulations of the Group include *Procedure of Hazardous Solid Waste Management*, *Procedure of Hazardous Chemical Management*, *Provisions on Quality-control Laboratory Waste Management* by Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), *Regulations on Company Environmental Protection*, *Regulations on Chemical Wastes*, and *Regulations on Toxic Products* by Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Hebei Xili"), *Regulations on Hazardous Waste* by Pingshan Manufacture Base of Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Pingshan Factory"), and *Procedure of Solid Waste Management* by Hunan Kangzhe Agricultural and Livestock Development Co., Ltd. ("Hunan Agriculture and Livestock").

#### *Pharmaceutical Promotion and Network Management Business*

The majority of the solid waste generated by pharmaceutical promotion and network management business is office and household garbage, which is transported by the property management company of the office locality after being collected and classified by the Group. The Group has implemented the following measures to reduce the office and household waste:

- Reinforce waste classification and recycle the reusable waste in the office;
- Encourage employees to reduce the use of disposable products such as plastic tablewares;
- Encourage paper saving by minimizing unnecessary printing and using paper on both sides for printing.

#### *Pharmaceutical Production Business*

The solid waste generated by pharmaceutical production business including waste laboratory chemical reagents generated during drug testing procedures, herb residues generated in production, sewage sludge generated by the sewage treatment system, and office and household waste.

To reduce the generation of waste laboratory chemical reagents, the Group regulates the ordering of chemical reagents for drug quality testing as per actual demands, controlling unnecessary usage and waste; after drug testing, the quality inspector shall collect the waste chemicals within specified containers according to their types and conditions, and regularly send to qualified institutes for concentrated treatment.

The herb residues generated during drug production are mainly particle filter residues (lignin) and a small amount of insoluble extractives, both of which are non-hazardous waste. The treatment measures adopted by the Group include:

- Transfer to Hunan Agriculture and Livestock farm as fertilizers (Kangzhe Hunan);
- Transfer to clean energy companies as fuels and a small quantity for farmers' livestock feed (Hebei Xili).

All drug production plants of the Group are equipped with sewage treatment system for the treatment of production sewage and domestic sewage. Sewage sludge from water treatment is non-hazardous waste and will be dried and handed over to sanitation department for unified treatment with household garbage. In order to reduce sewage sludge, Kangzhe Hunan has adopted an anaerobic method of biochemical treatment for the second phase of the sewage treatment facilities newly built in 2018, and will considerably reduce sewage sludge generation compared to the aerobic method adopted for the first phase of sewage treatment facilities.

The treatment measure of office and household waste adopted by all drug production plants of the Group is sending it to local environmental protection departments for unified treatment after collection.

#### *Agriculture and Livestock Business*

The solid wastes generated by agriculture and livestock business of the Group mainly include dead twigs and leaves generated by fruit and vegetable plantation, animal excrement generated by livestock breeding, and office and household waste.

The dead twigs and leaves are stored in containers first together with herb residues transferred from Kangzhe Hunan, and then mixed and fermented with organic fertilizers at a certain proportion when needed, so as to make them becoming the fertilizer for corps, and realize the cyclic utilization of organic wastes.

Hunan Agriculture and Livestock adopts automatic collection devices to collect animal excrement and transport them to an organic fertilizer fermentation tank. The mixture is then made into organic fertilizer through bio-fermentation for agricultural plantations. In addition, hen houses and pigpens are cleaned every day, and the cultivation area goes through comprehensive sanitation inspections every week, so as to sustain an environment of high sanitation quality for the farms.

Hunan Agriculture and Livestock arranges specified staff to collect office and household waste and transport it to designated local garbage collection points. To reduce the household waste generation, Hunan Agriculture and Livestock stipulates the monthly quota of waste bags and sanitation papers for each department, encourages waste classification, and recycles reusable waste such as bottles and paper.

The solid waste emission data of CMS in 2018 is shown below:

Table 7 CMS's 2018 Solid Waste Emission Data

	Unit	Volume	Intensity <sup>2</sup>
Hazardous waste	Ton	0.2	0.00003
Non-hazardous waste	Ton	1,782.0	0.29
– Herb residue	Ton	1,678.5	0.27
– Sewage sludge	Ton	10.7	0.002
– Household garbage	Ton	92.8	0.02

### 7.1.2 Air Pollutant Management

The Group strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution* in air pollutant management. Gas emissions conform to the requirements of *Comprehensive Discharge Standard of Atmospheric Pollutants* and *Emission Standard of Boiler Air Pollutants*. The Group has also implemented internal management policies to reduce air pollutant emissions, such as *Exhaust Gas Emission Management Procedures* (Kangzhe Hunan); *Operation Regulations of Steam Boiler*, *Regulations of Boilers Management* (Hebei Xili), and *Operation Regulations of Exhaust gas* (Pingshan Factory), etc.

To reduce gas emissions during boiler operation, the Group continued to use clean energy for boiler operation: Kangzhe Hunan uses natural gas, and Hebei Xili uses alcohol-based liquid fuel to run the boilers. At the same time, the Group continuously optimizes its production plans to improve boiler operation efficiency to save energy and reduce emissions. Besides, Pingshan Factory has installed activated carbon absorption and wet sprinkler devices on the emission funnels of the Active Pharmaceutical Ingredient workshop, and Kangzhe Hunan laboratory has installed neutralization spray, cross-washing and dehydration and mist-off devices to further reduce atmospheric impact of gas emission.

The air pollutants generated during the Group's production process include Sulfur Dioxide (SO<sub>2</sub>), Nitrogen Oxide (NO<sub>x</sub>) and Particulate Matter (PM).

The detailed emissions data of CMS in 2018 is shown below:

Table 8 CMS's 2018 Air Pollutant Emission Data of Boiler

	Unit	Volume	Intensity
Sulfur Dioxide (SO <sub>2</sub> )	Kg	237.1	0.04
Nitrogen Oxide (NO <sub>x</sub> )	Kg	2,350.4	0.38
Particulate Matter (PM)	Kg	354.7	0.06

<sup>2</sup> All the indicators' intensity data is calculated as per sales revenue, shown as following: total emissions and usage amount divided by sales revenue (unit in RMB million) after excluding the "two-invoice system" in the Reporting Period.

### 7.1.3 Green House Gas (GHG) Management

The Group is fully aware of the impact of climate change on the natural ecosystem, with a series of measures to reduce direct and indirect GHG emissions, which produced significant outcome that GHG direct emission was considerably reduced. The relevant information will be detailed in the *Management of Energy and Resources* section. Besides, the Group also plants trees in and around production plants to mitigate the environmental impact from GHG emissions.

A direct source of the Group's GHG emissions comes from the energy consumption of natural gas, alcohol-based liquid fuels, gasoline, diesel oil and etc.; an indirect source is outsourced electricity.

The detailed emission data of CMS in 2018 is shown below:

Table 9 CMS's 2018 GHG Emission Data

	Unit	Volume	Intensity
Direct GHG emission (Scope 1) <sup>3</sup>	Ton CO <sub>2</sub> e	5,566.7	0.91
– Natural gas	Ton CO <sub>2</sub> e	2,063.0	0.34
– Alcohol-based liquid fuel	Ton CO <sub>2</sub> e	3,317.7	0.54
– Gasoline	Ton CO <sub>2</sub> e	176.5	0.03
– Diesel oil	Ton CO <sub>2</sub> e	8.1	0.001
– Liquefied gas	Ton CO <sub>2</sub> e	1.4	0.0002
Indirect GHG emission (Scope 2)	Ton CO <sub>2</sub> e	4,243.1	0.69
– Outsourced electricity	Ton CO <sub>2</sub> e	4,243.1	0.69
Total GHG emission (Scope 1+2)	Ton CO <sub>2</sub> e	9,809.8	1.60

### 7.1.4 Wastewater Management

The Group strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Water Pollution*, and also has been implementing internal policies for wastewater management, such policies include: *Procedure of Sewage Management* (Kangzhe Hunan), *Operation Regulations of Wastewater* (Hebei Xili), *Operation Standards of Usage, Maintenance and Repair of Sewage Plants* (Pingshan Factory), *Standard Procedure of Sewage Management* (Hunan Agriculture and Livestock) and etc.

#### *Pharmaceutical Promotion and Network Management Business*

The wastewater generated by pharmaceutical promotion and network management business is domestic wastewater, which is handled by the property management company of the office building. Such wastewater directly enters building sewage pipelines leading to municipal sewage networks for the centralized treatment. To reduce domestic wastewater generation, water conservation signs are posted on office walls, and water taps are inspected by specified staff during holidays and vacations to prevent leaks. Leaks will be fixed in time if being found.

<sup>3</sup> During the Reporting Period, the group did not replace air conditioning refrigerants, resulting in zero refrigerant consumption and no contribution to direct GHG emission (Scope 1).

#### Pharmaceutical Production Business

The wastewater generated by the Group's pharmaceutical production business includes industrial and domestic wastewater. All drug production subsidiaries of the Group achieved the diversion of the rainwater and sewage, and are equipped with separate treatment systems for them. The wastewater generated by Kangzhe Hunan and Hebei Xili goes through sewage treatment systems for compliance with *Wastewater Quality Standards for Discharge to Municipal Sewers and Integrated Water Discharge Standard* before being released to municipal sewage pipeline network. The wastewater is then treated by local sewage plants to meet relevant standards and released to natural water body; the wastewater generated by Pingshan Factory goes through sewage treatment systems to meet Grade IA standard of *Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants* and stipulated indices of *The Reuse of Urban Recycling Water- Standard of Water Quality for Urban Miscellaneous Water Consumption* before being reclaimed and re-utilized as cleaning water or greening irrigation water, improving wastewater utilization rate and conserving water resources. In addition, the Group also has upgraded and expanded its sewage plants to maintain its sewage treatment capacity in line with its business scale.

#### Agriculture and Livestock Business

The domestic wastewater generated by the Group's agriculture and livestock business includes cultivation and domestic wastewater, both of which go through filtration and settlement in protective trenches and settlement pools before entering local sewage plants for treatment. To reduce wastewater generation from the very beginning, Hunan Agriculture and Livestock reinforces water conservation education among employees and punishes water wasting behavior; the cultivation department has upgraded the Group's livestock drinking water devices to automatic water-conservative devices; the plantation department has upgraded the irrigation systems of vegetable and fruit greenhouses to automatic irrigation and fertilization integrated systems. In addition, grass is also planted around animal farms and production areas to purify outdoor residual manure water and sewage, to reduce their impact on peripheral communities.

The major pollutants in the wastewater discharged by the Group are Ammonia Nitrogen (NH<sub>3</sub>-N) and Chemical Oxygen Demand (COD).

The Group's 2018 wastewater and pollutant components discharge data is shown below:

Table 10 CMS's 2018 Discharge Data for Wastewater and Pollutant Components

	Unit	Volume	Intensity
Wastewater	m <sup>3</sup>	86,539.4	14.11
Ammonia Nitrogen (NH <sub>3</sub> -N)	Ton	0.1	0.00002
Chemical Oxygen Demand (COD)	Ton	0.9	0.0001



### 7.1.5 Noise Management

The operational noise generated by the Group comes from machine operation during drug production. Regular noise inspections on drug production are organized to ensure compliance with the *Emission Standard for Industrial Enterprises Noise at Boundaries*. During the Reporting Period, according to monitoring results, the noise level of the Group's production plants was compliant with the standards and did not have an obvious negative impact on the peripheral environment.

## 7.2 Management of Energy and Resources

The Group strictly abides by *Law of the People's Republic of China on Conserving Energy*, *Law of the People's Republic of China on Promoting Clean Production*, *Circular Economy Promotion Law of the People's Republic of China*, and other related national laws and regulations, adheres to the concept of sustainable development throughout the whole process of production and operation, establishes and implements internal management policies such as the *CMS Environmental Management Regulations and Regulations on Environmental Protection* to minimize the consumption of energy and the resources, as well as the impact of operation on the environment and natural resources.

### 7.2.1 Electricity Conservation

The electricity consumption of the Group comes from: office operation, drug production, agriculture and livestock breeding. The electricity conservation measures adopted by the Group include:

- Provide employees with training on environmental protection to raise their awareness of energy saving and environmental protection;
- Post slogans in offices and factories to promote energy conservation and emissions reduction;
- Use LED energy-saving lights in offices except for a few artistic chandeliers for decoration;
- Reduce lighting hours by requiring employees to turn off lights when leaving, avoiding leaving lights on for long hours;
- Apply insulating films on office glass curtain walls to reflect outdoor lights and heat, reduce indoor temperature, thus reduce air-conditioners' operation hour;
- Set the air-conditioners at 26°C and post reminder stickers on the air-conditioners' switch;
- Conduct daily inspections on lighting and air-conditioners, and allocate staff to ensure that reasonable use of lighting and air-conditioners by overtime workers during weekends and holidays;
- Turn on the "night mode" of air-condition in proper occasions to save energy;
- Strictly prevent energy waste due to steam leakage in all forms such as "running and dripping" in production plants;
- Adopt frequency control for engine with long stand-by time in production plants;
- Hunan Agriculture and Livestock arrange weekly inspections of electricity consumption by specified staff, and convert the results into employee monthly KPIs to supervise and encourage employee in energy conservation.

### 7.2.2 Gasoline Conservation

The Group's gasoline consumption is from the use of vehicles for business. The Group has established *Regulations on Employee Business Trips* to regulate the use of company's vehicles. At the same time, company vehicles are inspected and maintained by designated staff on a regular basis, and drivers are trained to use the vehicles properly. In addition, The Group also maximizes the use of telephone/video conference system to reduce the demand of company's vehicles for off-site meetings, so as to reduce gasoline consumption. As for necessary transportation, the Group encourages employees to reduce car use and convert to green commuting. For non-emergency, the Group encourages employees to travel together and reduce the frequency of the vehicles usage. Employees work in Hunan Agricultural and Livestock try best to commute by electric buses together.

### 7.2.3 Diesel Oil Conservation

The Group's diesel oil consumption is from vegetable and fruits greenhouse insulation equipment and diesel agricultural vehicles of the agriculture and livestock business, and the emergency electricity generation by backup generators for drug production business. To reduce diesel oil consumption, Hunan Agriculture and Livestock has optimized the traditional vegetable and fruits greenhouses by dividing them into smaller ones and provide double-layered insulation sheets, which enhance their own insulation performance, and thus replace the use of thermal insulation equipment, conserving a certain amount of diesel oil. In order to control the diesel oil consumption, Hunan Agriculture and Livestock also stipulates individual liability for agricultural diesel vehicle usage, and excess consumption should be reasonably explained and purchased by designated staff. Besides, the Group regulates the diesel generator operation as per practical usage demand and conducts regular maintenance to ensure reasonable and efficient consumption of diesel oil.

### 7.2.4 Boiler Fuel Conservation

The consumption of boiler fuel of the Group is only for drug production. To ensure efficient fuel conservation, the Group has established boiler management policies including *Steam Boiler Operation Provisions and Boiler Management Provisions*. At the same time, the drug plants conduct regular inspection and preventive maintenance on steam pipes and equipment to control steam leakage in all forms, such as "running and dripping", so as to improve boiler using efficiency. Besides, the drug plants continuously optimize their production plans by concentrating production schedule, in order to prevent long-time yet low-efficiency boiler operation, reducing unnecessary fuel consumption.

### 7.2.5 Water Conservation

The Group's water consumption includes: production and washing water of drug plants, irrigation for agricultural land, livestock cultivation, and domestic use by employees. The sources of water include municipal tap water, underground water and natural precipitation collection, and there is no difficulty in finding suitable water sources so far. The Group has consistently promoted water conservation and taken various water conservation measures:

- Conduct timely maintenance of the water supply system to prevent leaks;
- Reuse cooling water. See the case of *Cooling water reclamation facilities of Hebei Xili* for more details;
- Pingshan Factory utilizes reclaimed water after compliant treatment by the sewage treatment system;
- Hunan Agriculture and Livestock repairs ditches and pipelines to collect rainwater, and adopts drip-irrigation.

#### **[Case] Cooling water reclamation facilities of Hebei Xili**

Hebei Xili renovated the condensate water pipelines of its workshops for steam condensate water collection. The cooling water was then transferred into soft water boiler tanks for boiler operation and water conservation is realized.

Water and energy conservation effects:

1. The recycled condensate water (reclaimed water) accounts for half of the daily water consumption by the boiler, which is a huge reduction of water consumption;
2. Using reclaimed water can reduce raw water treatment, prolong the utilization period of ionic exchanging resin and conserve water treatment reagents during resin regeneration;
3. The temperature of reclaimed water is relatively high, thus conserving energy for boiler water heating.

### **7.2.6 Packaging Material Conservation**

The Group has established *Material Distribution Regulations* for unified management of packaging materials, and *Quality Standard for Internal and External Packaging Materials* to specify the inspection, release and utilization of packaging materials. The Group has also adopted a series of measures for conservation of packaging materials, which include:

- Make procurement plans of packaging materials as per actual demand and strictly execute the plans;
- Arrange designated staff and storage space to realize locked storage, separate bookkeeping and acceptance and distribution tallies to ensure correct quantity of packaging materials, and prevent loss, outflow and waste;
- Deliver goods as per cargo packages with best efforts;
- Reduce the usage of overturn boxes;
- Recycle and reuse packaging boxes;
- Negotiate with drug suppliers for return and change of damaged packages;
- Employ reusable stainless-steel buckets for storage to reduce the use of disposable packaging materials;
- Hunan Agriculture and Livestock employs professional designer to design package with adhering to environmental protection concept, reasonably reducing waste of packaging materials.

### **7.2.7 Paper Conservation**

The Group's paper consumption mainly comes from office operation. The measures the Group has implemented for paper conservation include:

- Review the content and format of documents before printing to reduce printing with mistakes;
- Except for official documents, use double-sided printing for internal documents;
- Use email as the main communication tool, and scan and convert paper documents into electronic files for emails delivery;
- Re-use single-side paper for scratch and printing of internal documents.

CMS's detailed energy and resources utilization data during the Reporting Period is shown below.

Table 11 CMS's 2018 Energy and Resource Utilization Data

	Unit	Consumption	Intensity
Conversion of electricity for comprehensive energy consumption	kWh	29,758,236.2	4,850.96
- Outsourced electricity	kWh	7,079,280.2	1,154.01
- Natural gas	m <sup>3</sup>	954,116.0	155.53
- Alcohol-based liquid fuel	Ton	1,842.8	0.30
- Gasoline	Liter	77,640.0	12.66
- Diesel oil	Liter	3,111.6	0.51
- Liquefied gas <sup>4</sup>	Kg	480.0	0.08
Total water consumption	m <sup>3</sup>	148,634.2	24.23
- Tap water	m <sup>3</sup>	71,060.2	11.58
- Underground water	m <sup>3</sup>	77,574.0	12.65
Total consumption of packaging material	Ton	544.1	0.09
- Paper	Ton	293.0	0.05
- Glass bottle	Ton	153.4	0.03
- Plastic	Ton	97.7	0.02
Office paper	Ton	8.1	0.001

### 7.3 Environment and Natural Resources

The main businesses of the Group are pharmaceutical promotion and network management, which have mild impact on the environment and natural resources. The Group has adopted measures to reduce office electricity consumption and greenhouse gas emission generated during operation of such businesses.

For drug production business of the Group, the Active Pharmaceutical Ingredients are mainly herbs and animal and vegetable proteins and production water mainly comes from underground water. The main environmental impacts of such business operation mainly include: production wastewater, exhaust gas, solid wastes, noise, and greenhouse gas emission generated by boiler operation and electricity consumption. The Group has adopted relevant measures to ensure high efficiency of energy and resources utilization, thus to reduce pollutant emission of all kinds.

The agriculture and livestock business of the Group also has a limited impact on the environment and natural resources, of which mainly comes from plantation irrigation water and breeding animal excrement. The Group collects and utilizes natural rainwater for irrigation, and has established double-layer protection for the livestock cultivation area, in order to minimize adverse impact on the ecosystem.

<sup>4</sup> During the Reporting Period, liquefied gas was only consumed by Hunan Agriculture and Livestock for its staff canteen.

## 8. Community Dedication

The Group attaches great importance to social contribution of the medical and health field, and pays active attention to the community interests of its company localities. The Group is driven by the goal of pushing forward medical progress and integrates local communities' demand into its goals and policies. Besides medical education-related work, the Group has also organized various public service activities in local communities.

### 8.1 Promoting Medical Progress Advancement

During the Reporting Period, the Group participated in various re-education works in the medical and health field. By promoting proper prescription concept and informing primary physicians of advanced therapies and treatment methods, the Group has promoted medical advancement with good social recognition.

During the Reporting Period, the Group organized various activities to promote the advancement of medical progress. With its contribution in medical and humanity fields, the Group was recognized as a "Humanistic and love Enterprise" by the China Medical Humanities Conference. Following are some of the activities that the Group participated in or sponsored:

- The Group and the Chinese Medical Association Digestive Diseases Branch specialized in the construction and cooperation with the Medical Humanities Collaboration Group. 9 medical humanities lectures were held nationwide and thousands of experts attended the conference;
- The 2018 "Huatuo Project" focusing on the diagnosis and treatment of kidney diseases with activities in Guangzhou, Changsha, Xi'an, Xiamen, Jinan, Beijing, Hangzhou, and etc., the project has reached over 1,200 primary physicians in over 50 cities;
- Primary level oriented lecture tours on healthy blood pressure were initiated in 2018. With lectures held in 8 cities such as Tianjin, Shanxi and Heilongjiang, the project has reached over 1,200 primary physicians in around 80 cities;
- "Compass of Heart – Standardized Medication for Coronary Heart Disease" lecture tour was initiated in 2018, covering over 1,000 hospitals in 20 cities of 14 provinces, 3 direct-controlled municipalities and 1 autonomous region; with online and offline activities, the project has reached over 6,000 doctors.

### 8.2 Participation in Public Service Activities

Social responsibility, as the internal driving force of development, is integrated into the Group's long-term development plan with actively repaying to the society. The Group actively provides public services, performs social responsibilities, encourages and supports more employees to contribute to society.

During the Reporting Period, the Group ranked among the “Top 100 Enterprises of Shenzhen” and “Top 100 Enterprise Taxpayers of the Year”. The agricultural and livestock business of the Group was recognized as a “Leading Enterprise of Agriculture Industrialization of Changde City” and “Hunan Province Green Food Demonstration Base”. Such honors show the efforts made by the Group in improving local community interests, and the public appreciation and recognition of the Group’s brand image. During the Reporting Period, the Group donated around RMB0.2 million under public service projects, mainly organized the following public service activities:

- The Group sponsored the basketball court renewal project of Shenzhen Social Welfare Center Children Welfare Institute and donated shoe cabinets, wireless vacuum cleaners, cameras and other goods, with a total monetary value of around RMB180.0 thousand. The Group has built a long-term assistance mechanism with the Shenzhen Social Welfare Center Children Welfare Institute;
- The Group has supported the “Rusticating” (三下鄉) activities held by “Warm Wind China”(暖風中國) volunteer service teams from Guangdong Medical University for the four consecutive years, and has actively donated cash and drugs since 2015. During the Reporting Period, the Group donated cash of around RMB20.0 thousand;
- The Group donated cash to support education for the community around Hunan Agriculture and Livestock and employed over a thousand nearby villagers in total. During the Reporting Period, the Group donated cash of RMB10.0 thousand.

## ESG Reporting Appendix

### Appendix 1 CMS Environmental, Social and Governance Reporting Index

Environmental, Social and Governance General Disclosure and KPIs		Corresponding Chapter	
<b>Environmental</b>			
A1: Emissions	General Disclosure		7.1 Environmental Protection Emission Control
	A1.1	The types of emissions and respective emissions data.	7.1 Environmental Protection Emission Control
	A1.2	Greenhouse gas emissions in total and intensity	7.1 Environmental Protection Emission Control
	A1.3	Total hazardous waste produced and intensity	7.1 Environmental Protection Emission Control
	A1.4	Total non-hazardous waste produced and intensity	7.1 Environmental Protection Emission Control
	A1.5	Description of measures to mitigate emissions and results achieved	7.1 Environmental Protection Emission Control
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	7.1 Environmental Protection Emission Control
A2: Use of Resources	General Disclosure		7.2 Environmental Protection Management of Energy and Resources
	A2.1	Energy consumption in total and intensity	7.2 Environmental Protection Management of Energy and Resources
	A2.2	Water consumption in total and intensity	7.2 Environmental Protection Management of Energy and Resources
	A2.3	Description of energy use efficiency initiatives and results achieved	7.2 Environmental Protection Management of Energy and Resources
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	7.2 Environmental Protection Management of Energy and Resources
	A2.5	Total packaging material used for finished products and with reference to per unit produced.	7.2 Environmental Protection Management of Energy and Resources
A3: The Environment and Natural Resources	General Disclosure		7.3 Environmental Protection Environment and Natural Resources
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	7.3 Environmental Protection Environment and Natural Resources

**Appendix 1 CMS Environmental, Social and Governance Reporting Index** -continued

Environmental, Social and Governance General Disclosure and KPIs		Corresponding Chapter	
<b>Social</b>			
B1: Employment	General Disclosure	5.1 People-oriented Practice Compliant Employment	
B2: Health and Safety	General Disclosure	5.3 People-oriented Practice Care for Employees	
	B2.1	Number and rate of work-related fatalities	5.3 People-oriented Practice Care for Employees
	B2.2	Description of occupational health and safety measures adopted, how they are implemented and monitored	5.3 People-oriented Practice Care for Employees
B3: Development and Training	General Disclosure	5.2 People-oriented Practice Training and Development	
	B3.1	The percentage of employees trained by gender and employee category	5.2 People-oriented Practice Training and Development
B4: Labour Standards	General Disclosure	5.1 People-oriented Practice Compliant Employment	
	B4.1	Description of measures to review employment practices to avoid child and forced labour	5.1 People-oriented Practice Compliant Employment
	B4.2	Description of steps taken to eliminate such practices when discovered	5.1 People-oriented Practice Compliant Employment
B5: Supply Chain Management	General Disclosure	6.1 Cooperation and Mutual Benefits Supplier Management	
	B5.1	Number of suppliers by geographical region	6.1 Cooperation and Mutual Benefits Supplier Management
	B5.2	Description of practices relating to engaging suppliers, how they are implemented and monitored	6.1 Cooperation and Mutual Benefits Supplier Management



**Appendix 1 CMS Environmental, Social and Governance Reporting Index** -continued

Environmental, Social and Governance General Disclosure and KPIs		Corresponding Chapter	
<b>Social</b>			
B6: Product Responsibility	General Disclosure		4 Product Liability
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	4.1 Product Liability Guarantee the Safety and Quality of Products and Services
	B6.2	How they are dealt with the products and service related complaints received	4.1 Product Liability Guarantee the Safety and Quality of Products and Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights	4.2 Product Liability Protection of Intellectual Properties
	B6.4	Description of quality assurance process and recall procedures	4.1 Product Liability Guarantee the Safety and Quality of Products and Services
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	4.1 Product Liability Guarantee the Safety and Quality of Products and Services
B7: Anti-corruption	General Disclosure		3.1 Compliance Operation Anti-corruption
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	3.1 Compliance Operation Anti-corruption
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	3.1 Compliance Operation Anti-corruption
B8: Community Investment	General Disclosure		8 Community Dedication
	B8.1	Focus areas of contribution	8 Community Dedication
	B8.2	Resources contributed	8 Community Dedication

## Appendix 2 CMS Environmental KPIs

KPIs	Unit	Year 2017 <sup>5</sup> (adjusted)	Year 2018
<b>Air Pollutant</b>			
Sulfur Dioxide (SO <sub>2</sub> )	Kg	1,981.2	237.1
Nitrogen Oxide (NO <sub>x</sub> )	Kg	5,390.6	2,350.4
Particulate Matter (PM)	Kg	392.3	354.7
<b>Wastewater and Pollutant</b>			
Wastewater	m <sup>3</sup>	83,689.5	86,539.4
Wastewater intensity	m <sup>3</sup> /million RMB	15.00	14.11
Ammonia Nitrogen (NH <sub>3</sub> -N)	Ton	Non-disclosure	0.1
Chemical Oxygen Demand (COD)	Ton	Non-disclosure	0.9
<b>GHG</b>			
Total GHG emission (Scope 1+2)	Ton CO <sub>2</sub> e	10,918.4	9,809.8
Total GHG emission intensity <sup>6</sup>	Ton CO <sub>2</sub> e/million RMB	1.96	1.60
Direct GHG emission (Scope 1)	Ton CO <sub>2</sub> e	7,157.3	5,566.7
Indirect GHG emission (Scope 2)	Ton CO <sub>2</sub> e	3,761.1	4,243.1
<b>Solid Waste</b>			
Hazardous waste	Ton	0.3	0.2
Hazardous waste intensity <sup>7</sup>	Ton/million RMB	0.00005	0.00003
Non-hazardous waste	Ton	123.3	1,782.0
Non-hazardous waste intensity <sup>8</sup>	Ton/million RMB	0.02	0.29

<sup>5</sup> To ensure the comparability over the year, all the intensity of KPIs were adjusted for the Year 2017, that is, the total emissions or usage amount divided by the sales revenue (unit in RMB million) after excluding the "two-invoice system" in that year.

<sup>6</sup> During the Reporting Period, the energy consumption structure of the Group was changed, and the Group preferred the clean energy. All the other energy consumptions were decreased except natural gas, thus reducing GHG emissions and its intensity.

<sup>7</sup> During the Reporting Period, Pingshan factory was not required to produce any Active Pharmaceutical Ingredient due to the changes of the R&D testing arrangement, leading to little pharmaceutical waste produced and decreasing emission volume of hazardous waste and its intensity compared with the Year 2017.

<sup>8</sup> As the improvement of the Group's level of refined ESG management and ESG information disclosure, the emission volume of herb residues and sewage sludge is disclosed in the Report of the Year 2018, leading to increasing emission volume of total non-hazardous wastes and its intensity over the Year 2017.

**Appendix 2 CMS Environmental KPIs** -continued

KPIs	Unit	Year 2017 (adjusted)	Year 2018
<b>Energy</b>			
Conversion of electricity for comprehensive energy consumption	kWh	Non-disclosure	29,758,236.2
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	Non-disclosure	4,850.96
Outsourced electricity	kWh	6,462,835.1	7,079,280.2
Outsourced electricity intensity	kWh/million RMB	1,158.50	1,154.01
Natural gas	m <sup>3</sup>	651,197.0	954,116.0
Natural gas intensity <sup>9</sup>	m <sup>3</sup> /million RMB	116.73	155.53
Alcohol-based liquid fuel	Ton	2,493.7	1,842.8
Alcohol-based liquid fuel intensity <sup>10</sup>	Ton/million RMB	0.45	0.30
Gasoline	Liter	82,756.6	77,640.0
Gasoline intensity	Liter/million RMB	14.83	12.66
Diesel oil	Liter	3,896.0	3,111.6
Diesel oil intensity <sup>11</sup>	Liter/million RMB	0.70	0.51
Liquefied gas	Kg	Non-disclosure	480.0
Liquefied gas intensity	Kg/million RMB	Non-disclosure	0.08
<b>Water Resource</b>			
Total water consumption	m <sup>3</sup>	133,140.3	148,634.2
Total water consumption intensity	m <sup>3</sup> /million RMB	23.87	24.23
<b>Packaging Materials</b>			
Total packaging material	Ton	451.8	544.1
Total packaging material intensity	Ton/million RMB	0.08	0.09

<sup>9</sup> During the Reporting period, the production volume in Kangzhe Hunan obviously increased, leading to an augmentation of natural gas consumption and its intensity compared with the Year 2017.

<sup>10</sup> During the Reporting period, the production volume of Hebei Xili decreased compared to the last year, so the consumption of alcohol-based liquid and its intensity decreased year-on-year.

<sup>11</sup> During the Reporting period, Hunan Agriculture and Livestock adopted effective savings measures of diesel usage, so the consumption of diesel oil and its intensity decreased compared with the Year 2017.

### Appendix 3 CMS Social KPIs

KPIs	Unit	Year 2018
<b>Care for Employees</b>		
Work-related deaths	Person	0
Proportion of employees had health checks of their own free will	%	100
<b>Training and Development</b>		
Employee training coverage	%	100
<b>Supplier Management</b>		
Total suppliers	Number	87
Mainland suppliers	Number	75
HK SAR, Macau SAR, Taiwan and overseas suppliers	Number	12
<b>Guarantee the Safety and Quality of Products and Services</b>		
Response and handling rate for complaints	%	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0
<b>Anti-corruption</b>		
Corruption lawsuits	Number	0
<b>Participation in Public Service Activities</b>		
Total donation amount for public service activities	Million RMB	0.2