ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. About the Report

The Report is the sixth environmental, social and governance ("ESG") report of CMS. This is an annual report, which covers the fiscal year from January 1, 2021 to December 31, 2021 with some additional related information incorporated that may have occurred outside the Reporting Period.

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 Stock Exchange of Hong Kong Ltd ("SEHK").

The contents of the Report were formulated through systematic procedures, including: project kickoff, review and summarization of the 2020 ESG Report transcript, stakeholder questionnaire, identification and ranking of ESG material issues, determination of the disclosure scope of the Report, collection of relevant information and data, review on the relevant information and data, establishment of the 2022 ESG management goals, preparation of the Report, review and final approval of the Report by the Board of Directors.

1.2 Scope of the Report

The Report discloses the ESG risks and performances of the Group conforming to the principles of "Materiality", "Quantitative", "Balance" and "Consistency" mentioned in the *Environmental, Social and Governance Reporting Guide*. Unless otherwise indicated, the scope of the Report is the same as that of the 2021 Annual Report of the Group, and includes the Company, its wholly owned subsidiaries and majority owned subsidiaries.

1.3 Data Sources and Reliability Statement

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

1.4 Obtaining the Report

The Report, as a part of the Group's 2021 Annual Report, can be accessed and downloaded from SEHK's website (www.hkexnews.hk) and the Group's website (www.cms.net.cn). For further consultation, any opinion or suggestion regarding the Report, please contact the Group via ir@cms.net.cn.

2. ESG Management

CMS has upheld the values of "value creation for customers and social responsibility fulfilment" to continually develop high-quality, affordable drugs that meet clinical needs through innovation as its central driver to protect the people's health. In addition, by practicing the concept of sustainable development, CMS has kept improving the internal operations and governance, and actively committed itself to the charity and environmental protection practices and the maximization of its stakeholders' value. After being rated "AA" for the first time in 2020 by MSCI-ESG, the Group maintained the rating of "AA" in the latest MSCI-ESG rating released in December 2021 and was regarded as a company leading its industry in managing the material ESG risks and opportunities.

2.1 Statement of the Board of Directors

With the sustainable development goal of "carrying out the concept of environmental protection, achieving the value of social responsibility, being committed to becoming a leading sustainable pharmaceutical enterprise in China", in 2021, the Group integrated the environmental protection and social responsibility into the formulation of its operational strategy, contributing to China's efforts in achieving the "dual carbon" goals, namely carbon peaking and carbon neutrality.

The Group has set up scientific and effective ESG governance structure by establishing the ESG Committee at the Board of Directors level, with the Group's Executive Director as its Chairman to take charge of ESG management work and two independent non-executive directors as its members. Under the ESG Committee, the Group has organized the organization-wide ESG Working Group to comprehensively implement specific projects. Moreover, in order to step up the systematic, standardized and transparent ESG governance efforts, the Group has developed *The Environmental, Social and Governance Committee Terms of Reference* to specify the authorities and duties as well as procedures of the ESG management, to ensure the well-ordered advancement and efficient fulfilment of relevant tasks.

The Group attaches great importance to the global tendency of ESG governance, and always stays tuned to the trends of the industry development, and identifies ESG risks and opportunities by objectively reviewing current internal management status. Also, the Group employs the routine stakeholder communication mechanism to learn internal and external advice, demands and concerns, assesses and prioritizes ESG material issues, and takes them into full account when setting and adjusting management guidelines. Additionally, the Group's Board of Directors includes the ESG issues in the scope of its regular discussion and management, involves in the review and approval of the ESG management goals and improvement schemes, audits and grants necessary supporting resources, and reflects and follows up on the implementation progress of the established ESG management goals at the regular Board meetings. Meanwhile, the Group learns from the world's excellent ESG practices to identify the direction of further optimization based on its current operations. During the Reporting Period, the Group improved the management rules and policies in multiple areas of its internal operations, covering compliant operations, product liability, employment, supply chain, environmental protection, public welfare activities managements, and so on, provided more comprehensive guidance for the advancement of ESG management, further promoted the Group's sustainability development.

As a player in the healthcare industry, the Group is well aware of the importance of innovative research to the significant industry development. As driven by innovation with global vision, the Group has deployed nearly 30 innovative medicines with differentiated clinical advantages through collaborative research and development coupled with the quality control throughout the product life cycle, making those medicines with real clinical value more accessible to patients. Looking ahead, the Group will continue to assume the social and environmental responsibilities, build up the innovation strength, and work together with all its stakeholders towards green, efficient and sustainable development.

The Board of Directors of the Group have approved the Report to ensure that there is no false information, misleading statements or major omission in its content.

2.2 Structure and Process of ESG Governance

Thanks to years of ESG management practicing, the Group has formed a three-tier ESG governance framework consisting of the Board of Directors, the ESG Committee and the ESG Working Group to systematically carry out ESG management from the governance level of the Board of Directors to the ESG implementation level. The Group's ESG Committee consists of three directors, among them the Executive Director, Chief Financial Officer and Vice President of the Group, Ms. Chen Yanling is the Chairman of the Committee; The ESG Working Group comprises the heads from each department, and participates in the concrete implementation and reporting of the ESG work. *The Environmental, Social and Governance Committee Terms of Reference* has been published on the Group's official website for all stakeholder's reference.

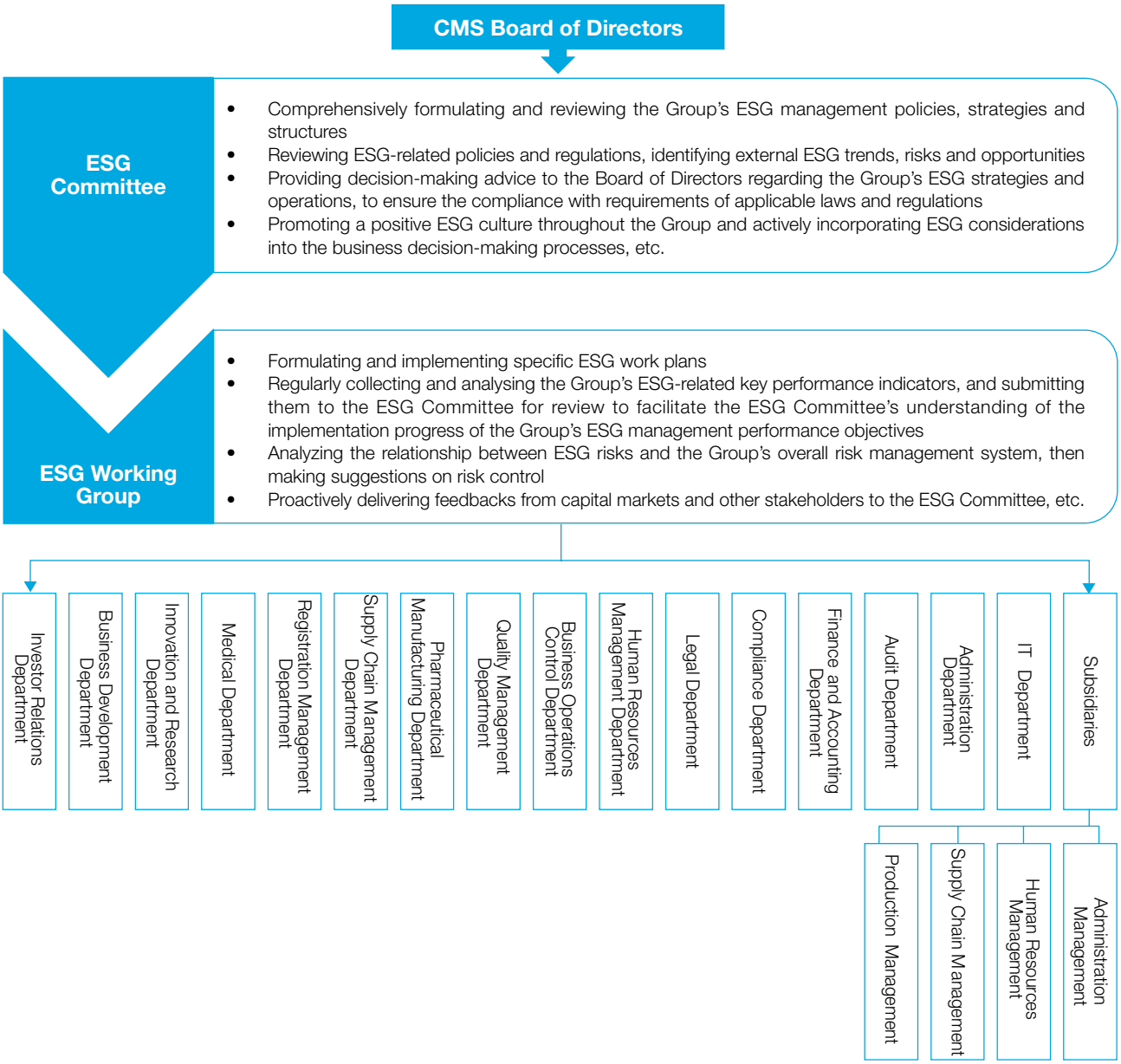

Figure 1 CMS's ESG Governance Framework

The Group's ESG management follows a nested closed-loop process:

- Reviewing the ESG management goals of the previous year, and proposing and implementing improvement solutions to the issues existing in ESG management through internal audit, ESG good practice benchmarking, professional third-party's recommendation, and other ways;
- Determining the ESG management goal for the current year based on the ESG management goal of the previous year and the internal improvement solutions;
- Dividing the ESG management goals to formulate corresponding ESG management supporting measures and plans;
- Supervising the execution of the measures through daily ESG management and dynamic monitoring of ESG information, and regularly reviewing the progress of the plan fulfilment;
- Preparing the annual ESG report according to the current situation of ESG management with reference to the results of stakeholders' survey analysis;
- Checking the results of ESG governance at the end of the year, making adjustments and setting new goals in accordance with the Group's latest internal and external situations.

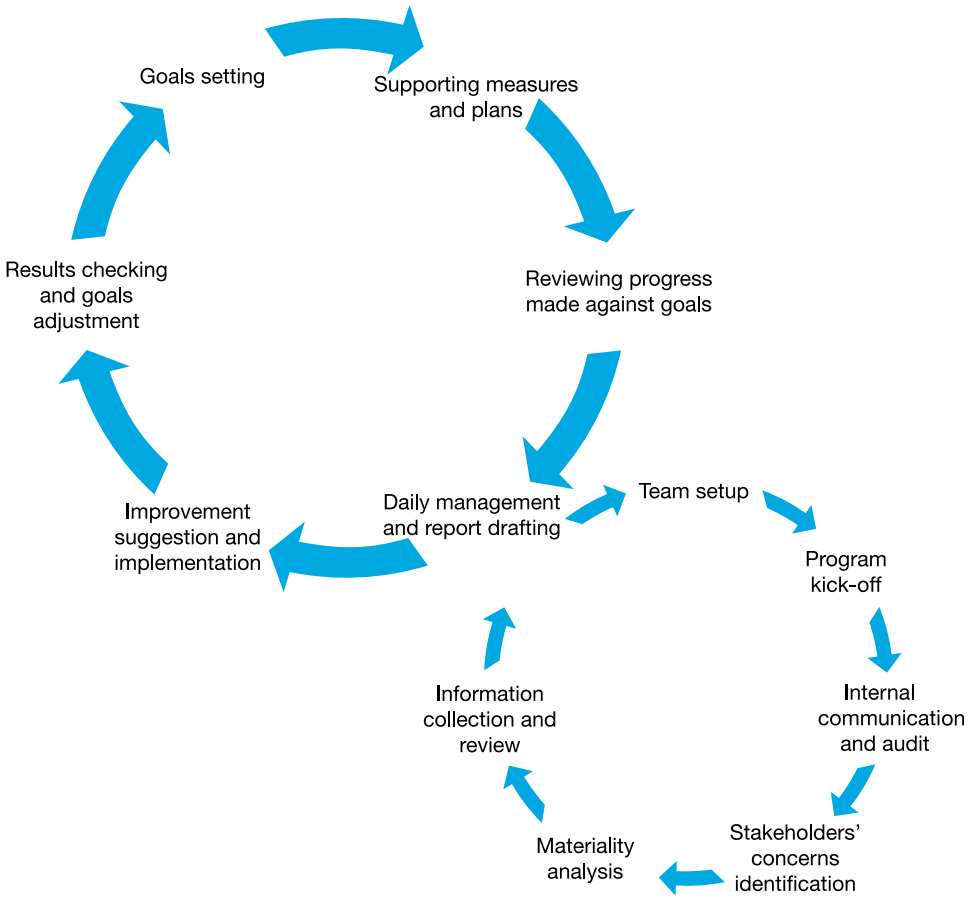

Figure 2 CMS's ESG Management Flow Diagram

2.3 ESG Governance Goal

The Group gives weight to the ESG management by objectives. During the Reporting Period, the Board of Directors reviewed the achievement of CMS's ESG goals regularly and formulated the ESG goals for the next year. See below for CMS's 2021 ESG management condition and 2022 ESG management goals.

Table 1 CMS's ESG Management Status in 2021 and ESG Management Goals for 2022

Issues	2021 ESG Management Status	2022 ESG Management Goals
ESG governance	The Board of Directors was deeply involved in the ESG management, reviewed ESG matters in its four regular board meetings in the year, and monitored improvement of ESG governance	Regularly reviewing internal diversity policy, continuously maintaining the diversity of the Board of Directors
Compliant operation	Established a sound anti-corruption control system based on comprehensive compliance policies, training system, supervision and assessment management, and refined the reporting process to ensure fair operation management	Further building a clean and law-abiding internal corporate culture. Suppliers and employees can 100% report against the Group's staff with their name or anonymously through the reporting and complaining channels and process
Product liability	Conducted responsible marketing based on the quality control throughout the product life cycle; focusing on public health, accelerated the expansion of clinically needed innovative products reserve and promoted their clinical development; improved the construction of an intellectual property protection system	Continuously optimizing the clinical research management system, propelling the registration process of innovative products in China, improving the accessibility of clinically needed drugs with high quality for patients; further intensifying the information security control and enhancing the customer privacy protection
Cooperation and mutual benefit	Ensured effective cooperation between the upstream and downstream of the supply chain, and strengthened the identification and control of ESG risks in each segment of the supply chain through the signing of the *Proposal for Suppliers* and a series of other measures	Making joint efforts with supply chain partners to build a sustainable business ecosystem while strictly controlling the quality and safety
People-oriented practice	Carried out employee climate surveys, to understand the employees' needs; continuously optimized the legal employment, employee development, health and safety and other human resource management policies and practices	Building regular and systematic employee communication system to further protect the rights and interests of employees, optimizing the organizational climate to meet employees' demands
Community dedication	Improved the relevant policies of public service, incorporated philanthropy into the long-term operation plan, undertook corporate social responsibilities via routine public welfare activities	Actively participating in social and public service activities, insisting on paying constant attention to and conducting impact tracking for donees and their communities, to ensure the donation serves its purpose
Environmental protection	Performed environmental audits for pharmaceutical factories, strengthened relevant risk identification and control, continuously optimized and upgraded the production process and equipment based on the actual operation to reduce the impacts on the surrounding environment	Continuously investing resources in environmental protection, and achieving environmental management goals by conserving energy and reducing emissions: (1)The greenhouse gas emission intensity is expected to be reduced by at least 5% by the end of 2023, comparing with 2020 (2)The hazardous waste intensity is expected to be reduced by at least 5% by the end of 2023, comparing with 2020 (3)The non-hazardous waste intensity is expected to be reduced by at least 2% by the end of 2023, comparing with 2020 (4) The electricity intensity is expected to be reduced by at least 2% by the end of 2023, comparing with 2020 (5) The water consumption intensity is expected to be reduced by at least 5% by the end of 2023, comparing with 2020

2.4 ESG Communication with Stakeholders

The Group has established a routine stakeholder communication system to maintain efficient communication with all stakeholders through diverse and targeted channels of communication, and actively respond to the stakeholder's requirements, in order to facilitate the implementation of the Company's sustainable development efforts. CMS has established connections with stakeholders via the following communication methods.

Table 2 CMS's Communication Methods with Stakeholders

Stakeholder	Major Communication Appeal	Main Communication Method
Government and regulatory authorities	• Compliance with laws and regulations, drug safety • Compliant operation under supervision • Tax compliance, employment creation	✓ Government-company seminar ✓ Supervision and inspection ✓ Work report and research
Investor/shareholder	• Standardized governance and rigorous risk control • Prudent operation and value creation • Disclosure compliance, openness and transparency	✓ General meeting, results announcement ✓ Company news, announcements and periodic report ✓ Telephone, email, voting at general meeting ✓ Company official website and WeChat official account ✓ Investor visit, conference and presentation ✓ External road show
Supplier	• Open and fair procurement • Timely communication, win-win developments	✓ Meeting and visit ✓ Work meeting, and communication via telephone and email ✓ Company official website and WeChat official account ✓ Industrial seminar ✓ Public bidding
Distributor	• Integrity management and compliant drugs • Timely communication, win-win developments	✓ Work meeting, and communication via telephone and email ✓ Company official website and WeChat official account ✓ Customer service hotline ✓ Meeting and visit
Employee	• Protection of rights and interests • Employee caring, demand communication • Remuneration and benefits, training and development	✓ Team building activity and employee training ✓ Feedback platform ✓ Employee reception room and management reception day ✓ Employee satisfaction and engagement survey
External practitioner in the pharmaceutical industry	• Product safety, protection of rights and interests • Protection of privacy, business ethics	✓ Disclosure of product label and other information ✓ Academic conference and forum ✓ Processing of customer complaint and feedback
General public	• Good interaction, information disclosure • Product safety, protection of rights and interests • Protection of privacy, business ethics • Inclusive health and charity • Community development and social value	✓ Product labelling and other information disclosure ✓ Processing of customer complaint and feedback ✓ Participation in community public welfare activities ✓ Propaganda of medicine and health knowledge ✓ Company official website and WeChat official account

2.5 ESG Material Issues

During the Reporting Period, in order to further clarify the Group's ESG management concerns, and promptly respond to the stakeholders' requests, the Group extended the ESG issues database and enlarged the coverage of the stakeholder survey with reference to external attention. Feedback from various parties were collected by means of online questionnaires survey as critical basis for the preparation of the Report and the corporate development management.

The Group makes materiality assessment through the following steps:

- Establishment of the issues database: CMS's ESG management issues library in 2021 has been completed and updated with reference to *Appendix 27 Environmental, Social and Governance Reporting Guide of Main Board Listing Rules* issued by SEHK, the concerns of the capital market, the development trend of the pharmaceutical industry and the Group's operations.
- Stakeholder engagement: The Group has established and implemented a stakeholder engagement plan for the year. Through communication with the stakeholder and distribution of online questionnaires, the Group has sought to understand the stakeholders' expectations and suggestions on CMS's ESG issues. During the Reporting Period, the Group received a total of 538 valid questionnaire responses, an increase of 241 compared to the previous year;
- Issue assessment: The Group has assessed the materiality of the issues in two dimensions: "importance to the enterprise" and "importance to the stakeholders", and obtained the materiality matrix and material issues list.
- Review and confirmation: The Group's Board of Directors has reviewed the assessment procedure of the material issues and confirmed the results.

Based on the results of the survey and discussions of the Board of Directors, the Group has ranked the materiality of issues in 2021 as follows:

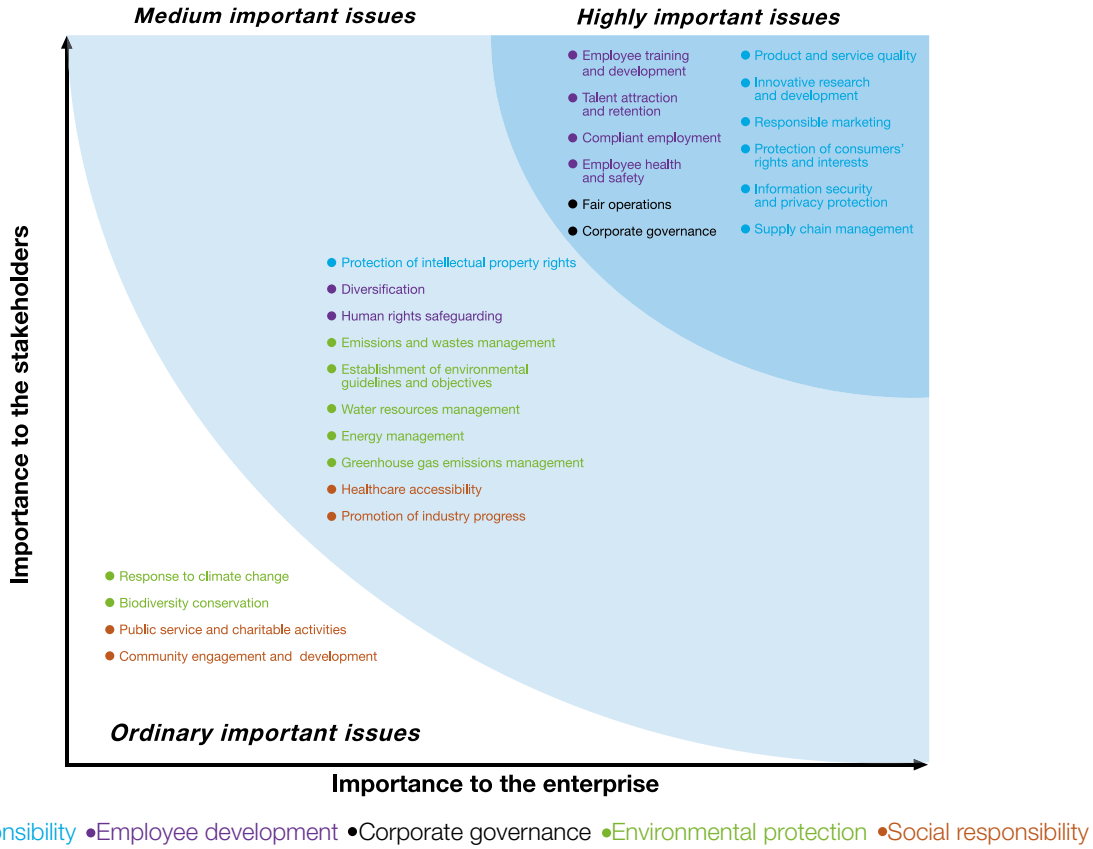

Figure 3 CMS's ESG Materiality Analysis Matrix

The materiality assessment of CMS 2021 ESG issues found 12 highly important issues, 10 medium important issues, and 4 ordinary important issues, the details of which are listed below:

Table 3 CMS's Material Issues List

Importance of issue	Issue scope	Issue
Highly important issue	Product responsibility	Product and service quality
	Employee development	Talent attraction and retention
	Product responsibility	Innovative research and development
	Company governance	Corporate governance
	Employee development	Compliant employment
	Employee development	Employee health and safety
	Employee development	Employee training and development
	Product responsibility	Responsible marketing
	Product responsibility	Protection of consumers' rights and interests
	Company governance	Fair operations
	Product responsibility	Information security and privacy protection
	Product responsibility	Supply chain management
Medium important issue	Environmental protection	Emissions and wastes management
	Product responsibility	Protection of intellectual property rights
	Social responsibility	Healthcare accessibility
	Environmental protection	Establishment of environmental guidelines and objectives
	Environmental protection	Water resources management
	Environmental protection	Energy management
	Social responsibility	Promotion of industry progress
	Employee development	Diversification
	Employee development	Human rights safeguarding
	Environmental protection	Greenhouse gas emissions management
Ordinary important issue	Environmental protection	Response to climate change
	Social responsibility	Public service and charitable activities
	Social responsibility	Community engagement and development
	Environmental protection	Biodiversity conservation

Based on the assessment results of materiality issues, the Group has prepared the ESG Report to respond to the above materiality issues in an orderly manner.

3. Compliance Operation

CMS adheres to the compliance operation principle, strictly observes the laws and regulations of the People's Republic of China and other countries and regions where its business operations and investments are located, and has an array of internal compliance management policies in place to regulate operations in all aspects. Meanwhile, the Group continually enhances its compliance management, vigorously builds a corporate culture of integrity and compliance, and refrains from unlawful acts such as bribery, extortion, fraud, money laundering and other forms of unfair competition by leveraging the Group's organization structure that clearly defines rights and responsibilities, efficient compliance training and assessment systems, smooth communication and whistle-blowing mechanism, and digital technology platform.

Table 4 Laws and Regulations and CMS' Rules and Policies Related to Compliance Operation

Field	Major laws and regulations	CMS' major rules and policies
Compliance operation	*Anti-Money Laundering Law of the People's Republic of China, 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 of State Administration of Industry and Commerce, Prevention of Bribery Ordinance,* etc.	*CMS Anti-fraud Management Policy, Employee Code of Professional Ethics, Budget Management Policy, Procurement Management Policy, Internal Audit Policy, Code of Promotional Conduct, Speaker Regulations, Code of Management for Marketing Activities, General Regulation on Marketing Activities, Compliance Performance Assessment Policy,* etc.

The high standard for business ethics is practiced throughout the Group. A Compliance Management Committee has been set up, chaired by Mr. Lam Kong, the Chairman and Chief Executiveof the Group, and composed of management of the Group such as Chief Operation Officer, Chief Financial Officer and several directors of the Group. The Compliance Management Committee is responsible for overseeing the compliance governance and business ethics issues of the Group, and systematically examines the operations and compliance management of the Group through meetings to further avoid compliance risks and guarantee efficient and compliance operation of the Group.

3.1 Anti-corruption Management

The Group attaches great importance to the anti-corruption management, regarding it as a key part of compliance management. The Group has established *Employee Code of Professional Ethics, Code of Promotional Conduct, CMS Anti-fraud Management Policy, Budget Management Policy, Procurement Management Policy, Internal Audit Policy* and other regulations and policies, which explicitly require employees not to engage in any improper practices such as bribery, corruption, extortion, fraud and money laundering within the Group, or in the interaction with affiliated companies, and other stakeholders including the media, governments, distributors, suppliers and medical personnel. Any forms of facilitation fees are forbidden as well, for strict adherence to the ethical standards to solidify the foundation for compliance operation.

During the Reporting Period, the Group further revises and optimizes the policies on anti-corruption control and management, refined the operation process and the rewarding and disciplinary mechanism to regulate employees' conduct. The Group-wide study of the 2021 edition of *CMS Anti-fraud Management Policy* was conducted from director to employee level (including interns), covering more than 4,900 employees and the study of anti-fraud policy is still underway.

The Group has incorporated the anti-corruption training in its regular training system, adding the anti-corruption content to the compliant marketing training for employees, quarterly training for new recruits, training on expense reimbursement for employees, supply chain management training and other training courses to thoroughly enhance employees' awareness of business ethics and clarify relevant work specifications.

The Group has also constructed an inter-department and multi-dimensional anti-corruption supervision system, and kept strengthening inter-departmental collaboration to improve the capability of corruption risk prevention and control within the enterprise. The Compliance Department of the Group is responsible for improving and optimizing the anti-corruption practice policies, code of conduct and systems, and building a legal and proper framework for compliance activities; the Audit Department carries out irregular audit to promptly identify and control the compliance risk in the operation. During the Reporting Period, the Audit Department carried out 7 audit projects relating to anti-corruption and business ethics at the Group level, identifying relevant risks in each operation activities such as procurement, marketing and investment, produced audit reports and submitted them to the management for timely control and management of compliance risks including anti-corruption and business ethics. The Finance and Accounting Department has developed financial management measures based on the compliance framework to firmly control the entire process from expense budgeting to reimbursement, and in the meantime, leveraged the digital management system to enforce the review and process control, enhancing the transparency of expenses and the compliance of all stages of internal operation; the Legal Department has reviewed all legal documents such as contracts and agreements in the process of business operation, in order to control and prevent legal risks for the Group. Additionally, the Group is subject to the special compliance audit conducted by some multinational suppliers every year, and regularly engages a professional third party to run extra special audit and issue audit report to ensure that the Group's operations comply with the suppliers' high standard compliance requirements.

If it is found and verified after examination that any employee has certain improper behaviours in business, the promotion of the specific employee will be negatively affected, warning or dismissal will be considered for serious cases, and if the act constitutes a crime, the specific employee will even be transferred to the judicial authority for criminal responsibility. In December,2021, the Group promoted all employees to study and sign the *CMS Self-discipline Commitment* to keep the employees more alert to commercial bribery and further enhance the anti-corruption management of the Group. As of 31 December 2021, more than 4,000 employees (including management and general employees) signed the Commitment and the studying is still underway.

Table 5 Abstract of the *CMS Self-discipline Commitment*

Employee's commitment:

- Strictly abiding by the provisions related to incorruptibility and self-discipline
- Properly exercising authority and not using authority to make undue benefit for oneself or a specific related other
- Not embezzling or occupying the resources of the Group, or leveraging own authority to influence or interfere with the Group's business
- Resolutely resisting commercial bribery, not accepting any property from any affiliated units or suppliers
- Not offering bribes to or soliciting bribes from any business-related personnel

Meanwhile, the Group proactively advocates and regulates the suppliers' business ethical conduct. When signing the supply contracts, the suppliers are required to strictly comply with the applicable local laws and regulations, including the provisions related to business ethics. During the Reporting Period, the Group initiated the signing of *Proposal for Suppliers* to domestic and overseas suppliers, advocating their adherence to zero tolerance to any forms of corruption, extortion or bribery, in an attempt to further build a clean supply chain. While distributing the *Proposal for Suppliers*, the Group constantly gathered the suppliers' internal policies and regulations on anti-corruption, and proactively exchanged anti-corruption management measures and experience with them, with a view to promoting communication and sharing of the integrity culture based on transparent, compliant, and ethical business cooperation. During the Reporting Period, more than 50% of the suppliers have signed the *Proposal for Suppliers* (as of 31 December 2021, the total number of the Group's suppliers is 151).

Table 6 Abstract of the *Proposal for Suppliers*

The Group proposes that suppliers:

- Complying with applicable laws, regulations, guidelines, etc. where they operate
- Providing quality, safe and effective products and services that meet the quality standards and contractual agreements of the countries/regions where they operate
- Resolutely resisting bid rigging, bid collusion, accepting of kickbacks and other unfair competition behaviours
- Adhering to zero tolerance for any form of corruption, extortion or bribery

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

3.2 Compliant Marketing and Promotion

The Group implements the concepts of compliance in its marketing and promotional activities, sticking to stringent standard of business ethics and professional way of act, and practices responsible marketing and sales during the interactions with medical and healthcare professionals as well as medical institutions. The Group has developed a complete and clear compliant marketing management system, including several important elements such as compliance rules and regulations, compliance team, compliance training, compliance monitoring and assessment, compliance communication and complaint/appeal, to regulate the marketing and promotional conduct via an all-round system. In addition, the Group has a Compliance Department that exercises multi-dimensional control over promotional behaviours to support the full implementation of the compliant marketing system, in order to eliminate corruption and bribery.

Marketing Compliance Regulations and Policies

The Group has established the comprehensive internal promotion compliance system and standard procedures in accordance with the laws and industry norms, and made timely updates and modifications with the changes in relevant regulations and norms, to provide guidance for its compliant marketing promotion activities. The Group's compliance policies and regulations, including *CMS Anti-fraud Management Policy, Compliance Performance Assessment Policy, Employee Code of Professional Ethics* and *Code of Promotional Conduct*, have provided a sound basis for the implementation of the marketing compliance management. Moreover, the Group has formulated complete standard operation manuals for marketing, including *General Regulation on Marketing Activities, Code of Management for Marketing Activities, Speaker Regulations*, and *Code for Reimbursement of Regional and Headquarters Activity Expenses*, to further specify the work processes and requirements for promotional activities, and mitigate compliance risks in a systematic manner.

Marketing Compliance Promotion and Training

The Group sets responsible marketing and promotion as a key concern in the promotion and training activities for employees. By means of timely, diverse, accessible and understandable communication and training activities, the employees' awareness and understanding of the importance of responsible marketing and relevant codes are strengthened.

The Group has launched several online compliance windows to promote compliance regularly and timely, ensuring the management and employees are fully aware of the Group's compliant marketing requirements in time. Furthermore, the Group periodically organizes various online and offline compliance trainings. During the Reporting Period, the Group ran the compliance training for a total of 15 times targeting the management and/or academic marketing personnel of the Group.

The contents of the compliance promotion and training include but not limited to:

- Holding monthly compliance communication meeting with the promotion team, presenting and elaborating the latest performance and key points of compliance management
- Publishing, sharing and interpreting compliance policies on the Group's internal digital communication platform on a monthly basis, to facilitate the learning of the latest compliance policies for the management and employees;
- Setting the "I want to ask a compliance question" column to provide an open channel for employees to ask compliance-related questions, which will be responded by the Compliance Department within a week. The corresponding responses to employees key concerns are published on the internal digital platform;
- Organizing monthly compliance induction training and quiz for new employees, with the quiz results linked to the annual incentive to and appraisal of the promotion team, to enhance the employees' emphasis on compliance;
- Before and after a new regulation or policy is issued, promptly providing training and directions by means of video teaching, and requiring employees to pass related test, making sure they are familiar with and have a good command of the relevant regulation and policy.

Marketing Compliance Monitoring and Assessment

To strengthen employees' awareness of compliance and the management's engagement and control, the Compliance Department routinely conducts due diligence, unannounced inspection, compliance review of academic promotion activities, etc.; and regularly conducts special spot check, review of marketing vendor, and verification of information authenticity, etc. It produces monthly analysis, examination and assessment reports and the reports are submitted to the management on a regular basis. In addition, the Finance and Accounting Department of the Group scrutinizes the compliance of marketing activities from the perspective of the expense reimbursement by checking the related contracts, site photos, invoices and other vouchers. The Audit Department also carries out irregular audits of marketing activities, verifying the compliance of expenses incurrence, to further reinforce the compliance supervision.

Moreover, the Group has established the *Compliance Performance Assessment Policy* that takes marketing compliance into considerations of the promotion personnel's performance assessment. Therefore, if it is confirmed that any employee breaches the regulations, the employee's bonus and promotion will be negatively affected, and dismissal will apply in serious cases. In order to show that the compliance assessment is originally intended for education instead of penalty, the Group builds a bonus pool with the fines related to compliance to award compliance outperformers, with an aim to provide positive guidance and encouragement. During the Reporting Period, the Group further improved the *Compliance Performance Assessment Policy* by refining the rules for punishing incompliant marketing activity and optimizing the process for employee appeal, to help achieve fairer and more effective compliance assessment management.

Marketing Compliance Communication, Complaint/Appeal

The Group has a Compliance Management Committee chaired by Mr. Lam Kong, the Chairman and Chief Executive of the Group. Compliance Management Committee assesses the current situation of the Group's compliance management, optimize proposals, form resolutions and follow up their progress. Additionally, the Group has regional compliance teams made up of regional managers and compliance specialists in all business regions to enhance the efficiency of compliance information delivery and communication through a dedicated team. Moreover, the Group has launched an open and transparent complaint and appeal system, by which all employees can communicate with and lodge complaints and appeals to the Compliance Department, the compliance teams, and the management of the Group via email, telephone, internal communication system, and other channels.

3.3 Whistleblowing Management

The Group maintains a strict and complete whistleblowing system, and continuously expands the reporting channels and refines the handling process. During the Reporting Period, the Group newly established a website reporting channel to improve the reporting accessibility for the general public. The Groups further refined the *CMS Anti-fraud Management Policy,* specifying the reporting channels, handling process and whistleblower protection provisions to ensure all complaints are duly handled.

Reporting Channels

- Telephone: 0755-82416868 ext. Compliance Department
- Email: compliance@cms.net.cn
- WeChat official account: CMS00867
- Mailing Address: Compliance Department, 6F, Block B, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province, China, 518052
- Website: www.cms.net.cn

Figure 4 Main Reporting Channels

3.3.1 Complaint Process

The Group has established a structured reporting handling processes, and explained and clarified the processes including but not limited to complaint acceptance, handling, results notification, and appeal in the *CMS Anti-fraud Management Policy.*

Acceptance	The Group accepts various forms of real-name or anonymous reporting, makes and retains records of complaint and proof information accurately and completely during the process of acceptance.
Handling	After a complaint is accepted, the content of the complaint and related information will be verified and evaluated. If the reporting content is eligible for case opening, investigators will be appointed according to the position of the person being reported against, and the investigation results be recorded and analyzed. By the avoidance principle, the person being reported against shall not participate in the anti-fraud investigation against him/her as an investigator. Once verified, the investigation records will be submitted to the management members for review. The reporting case will be dealt with exactly in line with the Group's evaluation results, followed by announcement within the Group.
Notification	Within 3 working days after the case is handled, a reply on the handling progress and results will be given to the whistle-blower in spoken or written, or by other proper forms. The whistle-blower has the right to ask the Group about the complaint handling progress and the reporting handling personnel shall reply in a timely manner.
Appeal	If an employee believes that his/her legal rights and interests are harmed, he/she will have the right to make an appeal to the relevant department of the Company and request for a solution.
Archives management	Anti-fraud personnel shall keep properly all the documents throughout the process of the acceptance, registration, investigation and reporting of the whistleblowing complaint. After the end of the whistleblowing examination / investigation, the relevant whistleblowing materials shall be collected as confidential documents.

Figure 5 Reporting Handling Process

3.3.2 Whistleblower Protection

The Group provides all-round protection of whistleblowers, taking all reasonable means to keep whistleblowers from any harm. The *CMS Anti-fraud Management Policy* has clearly stated that anonymous reports are allowed, the whistleblower's personal information and reporting materials shall be kept confidential, and the whistleblower's identity shall not be disclosed without the whistleblower's consent. In the case that any complaint handlers violate the whistleblower protection provisions including intentionally disclosing the whistleblower's information or the reporting content, or reacting negatively or refusing to respond to the reasonable protection request made by the whistleblower for being afraid of being/having been taken revenge on or treated unfairly, the whistleblower may directly report that to the Board of Directors or the Board of Supervisors of the Group. The Group will take disciplinary actions against the violator. Moreover, if any employee harasses or harms the whistleblower, such act will be deemed as serious misconduct, and will be dealt with severely once confirmed.

4. Product Liability

The Group takes "offering competitive products and services to meet China's unmet medical needs" as its mission, upholds the policy of "continuous improvement, quality first", puts a high value on product liability, and strictly abides by applicable national laws and regulations in terms of product and service quality, marketing compliance, privacy protection, pharmacovigilance, protection of intellectual property rights, etc.

The Group has established a complete internal product quality management system that covers the entire process from clinical research and development, registration and evaluation, manufacture management, launch and medication, post-approval supervision up to product phase-out. The Group applies the digital drug tracing and pharmacovigilance system throughout the product life cycle to guarantee the proper implementation of the product liability system, to comprehensively control over product quality and prevent safety related risks, in order to guard the health of Chinese people with accessible, affordable and reliable drugs.

During the Reporting Period, the Group did not violate any applicable laws or provisions that significantly impact the Group in health and safety, advertising, labels, privacy, intellectual property rights for its products and services.

Table 7 Laws, Regulations and CMS' Rules and Policies Related to Product Liability

Field	Major laws and regulations	CMS' major rules and policies
Product and service quality	*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, Provision for Drug Registration, Good Manufacture Practice of Pharmaceutical Products, Measures for the Supervision and Administration of Pharmaceutical Production, Provisions for Supervision of Circulation of Pharmaceuticals, Good Supply Practice of Pharmaceutical Products, Administrative Measures for the Import of Drugs, Good Supply Practice of Medical Devices, Law of the People's Republic of China on Safeguarding the Consumer Rights and Interests*, etc.	*Quality Risk Management Policy, Internal Audit Management Policy of Quality Management System, Regulations on Drug Procurement, Regulations on Drug Check and Acceptance, Regulations on Drug Maintenance, Regulations on Purchaser' Qualification Review, Management Procedures for Production Process, Regulations on Drug Storage, Derivation Management Procedures, Alteration Management Procedures, Management Procedures for Corrective and Preventive Measures, Regulations on Quality Responsibility, Management Procedures for Unqualified Product, Regulations on Drug Transportation, Regulations on Warehouse Fire Safety Management, Regulations on Inspection, Maintenance and Servicing of Equipment and Facilities, Drug Traceability Management System,* etc.
Marketing, advertising, and labelling	*The Advertising Law of the People's Republic of China, Interim Measures on the Examination and Administration of Advertisement for Drugs, Medical Devices, Health Foods and Foods for Special Medical Purposes, Provisions for Drug Insert Sheets and Labels*, etc.	*Code of Promotional Conduct, Regulations on Drug Sale, Regulations on Label Control, Regulations on Speakers, Code of Management for Marketing Activities, Code for Management of Academic Promotion Materials, Promotion Auxiliaries and Medical Items, Regulations on Advertisement, Operating Procedures for Advertisement Review, Regulations on Academic Promotion Materials, Operating Procedures for Design, Review and Approval of Printing and Packaging Materials,* etc.
Privacy protection	*Civil Code of the People's Republic of China, Personal Information Protection Law of the People's Republic of China, Cyber Security Law of the People's Republic of China, Personal Data (Privacy) Ordinance (Law of Hong Kong Chapter 486), Good Clinical Practice*, etc.	*Employee Code of Professional Ethics, CMS Code of Conduct, CMS Confidentiality Regulations, Regulations on Information Security Management, Management Procedures for Clinical Research*, etc.
Pharmacovigilance and product recall	*Good Pharmacovigilance Practice, Measures for Reporting and Monitoring of Adverse Drug Reactions, Guide for Reporting and Monitoring of Adverse Drug Reactions (for Trial Implementation), Standard and Procedure for Rapid Reporting of Safety Data During Drug Clinical Trials, E2B (R2) Technical Specifications for Safety Message Processing and Individual Case Safety Reports, Administrative Measures for Drug Recalls*, etc.	*Regulations on Drug Safety Information Management, Operating Procedures for Drug Safety Report Handling, Operating Procedures for Medical Information Consultation and Processing, Operating Procedures for Pharmacovigilance System,Operating Procedures for Regular Safety Reporting Management, Operating Procedures for Group Adverse Events Caused by Products, Operating Procedures for Drug Safety Signal Detection, Operating Procedures for Document Retrieval for Product Safety Information, Operating Procedures for Product Safety Event Handling Plan, Pharmacovigilance Continuity Plan, Operating Procedures for Pharmacovigilance Corrective and Preventive Measures, Regulations on Drug Recall, Operating Procedures for Drug Recall*, etc.
Intellectual properties protection	*The Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China*, etc.	*CMS Intellectual Property Management Policy, CMS Anti-fraud Management Policy, CMS Code of Trademark Use*, etc.

4.1 Quality of Product and Service

The finished drugs promoted and sold by the Group are mainly manufactured in countries of manufacturing origins (the suppliers) such as Germany, Denmark, the United Kingdom and France. Pharmaceutical manufacturers in regions or countries such as Europe and the United States have stricter code for quality management and higher quality standards. A small fraction of the rest products are self-produced (during the Reporting Period, the sales contribution from self-produced products only accounted for around 2.9% of the Group's turnover in the case that all medicines were directly sold by the Group). All drugs promoted and sold by the Group have been registered and approved by NMPA. The subsidiaries with their core business in pharmaceutical promotions and sales have strictly complied with Good Supply Practice of Pharmaceutical Products (GSP) and passed the relevant inspection, and the subsidiaries with their core business in pharmaceutical manufacturing have strictly complied with Good Manufacture Practice of Pharmaceutical Products (GMP) and passed the relevant inspection.

Meanwhile, the Group provides regular trainings on product quality and safety management for employees involved in drug development and research, production and operation annually, including but not limited to relevant laws and regulations, professional knowledge and skills, quality management system documents, etc.

4.1.1 Product Quality and Safety

For self-produced products, the Group has strict selection criteria for material suppliers and classifies suppliers according to the importance of materials. Material suppliers, which have important impact on drug quality and medication safety, are required to undergo on-site inspection and audit at least once a year. In addition, the Group carefully inspects incoming materials, including checking information, sampling according to *Sampling Management Procedures* and testing before putting them into use. Meanwhile, to comprehensively guarantee the quality of production materials, the Group has built a traceable material information database for relevant processes and has dedicated personnel to conduct filing management. For finished products, the Group inspects each batch to ensure the products are qualified and well-packed before entering the market. For specific products, samples are taken strictly according to national standards to test stability before outbound delivery, to ensure that products quality align with national standards. The Group also regularly checks the status of production equipment, strictly records the production parameters and the operation process, and has dedicated personnel to monitor the entire manufacturing process.

For imported drug products, including the first imported batch of drugs, biological products, products of standard change or manufacture process alteration and when the company deems necessary, strict inspections are carried out by official professional institutions in accordance with the requirements of national regulations and Import inspection Report shall be issued. The Quality Management Department of the Group conducts the inspection as per GSP requirements once the imported drug products and domestic drug products arrive, and examines the inspection reports(such as Import Inspection Report and/or Inspection Report of Manufacturer) to ensure quality compliance with national requirements. If any product is found to be unqualified, the Group will process in accordance with *Unqualified Product Management Procedure* and timely report in writing. If the products are confirmed as unqualified, the Storage and Logistics Department will transfer the products to the "unqualified zone" for the separate storage. And these products will be recalled and returned to the supplier, or applied to be discarded or destroyed if necessary.

The Group attaches great importance to the storage and warehousing safety of drugs, and has 25 warehouses with well-equipped storage facilities. The Group has formulated *Regulations on Drug Storage* and *Regulations on Warehouse Handling Area Working Safety Management* to specify the drug warehousing process and handling requirements. The Group has also formulated *Regulations on Warehouse Hygiene, Regulations on Warehouse Fire Safety Management, Regulations on Inspection, Maintenance and Servicing of Equipment and Facilities* and *Regulations on Drug Maintenance* to specify the warehouse hygiene conditions, fire safety management, equipment maintenance and drug maintenance. The Group has drug maintenance personnel in the warehouse to constantly monitor the equipment and the storage condition of the drugs, and quarterly summarize and analyse the drug storage and warehousing status.

The Group has formulated the D*rug Traceability Management System* and established a complete product information database with the electronic trace code and the digital system conforming with GSP requirements. The electronic trace code of the drug packaging box, which provides a unique traceable marker for the minimum packaging unit, realizes the information-based traceability of the minimum packaging unit of drugs. Meanwhile, in order to satisfy the business development needs, the Group continuously optimizes the digital system, further providing more effective and comprehensive quality control support for the drug procurement, storage, sale, transportation, and others.

In addition, the Group has *Regulations on Internal Audit of Quality Management System and Operating Procedures for Internal Audit of Quality Management System* in place to conduct the self-inspection and audit of all parts of the quality management system, and rectify the defects found in the internal audit annually. Meanwhile, the Group actively embraces routine inspections and rectification suggestions from external regulators, and effectively promotes the implementation and timely completion of the improvement plan.

4.1.2 Product Labelling, Marketing and Advertising

On the basis of complying with the national laws and regulations, the Group practices responsible marketing, and has formulated a series of internal regulations and codes of promotional conduct, such as *Regulations on Advertisement, Operating Procedures for Advertisement Review, Code of Promotional Conduct, Regulations on Speakers, Code of Management for Marketing Activities, Code for Management of Product Academic Promotion Materials, Promotion Auxiliaries and Medical Items*, to strictly prohibit any promotion that overstates the drug efficacy and etc. Various internal policies stipulate that the drug promotion materials shall be accurate, objective, fair and complete, timely reflect the updated drug information and shall be consistent with the information approved by national regulatory authorities. The promotional materials shall not be effective until they are submitted by the product team of the Marketing Department to the head of Marketing Department for approval, and their academic accuracy shall be examined and approved by multiple levels of responsible persons from the Medical Department of the Group. The Group also has set the *Provisions for Label Control and Management* and *Operating Procedures for Design, Review and Approval of Printing and Packaging Materials* to ensure that drug classification and packaging labelling comply with laws and regulations and the approval documents of regulatory authorities, and used anti-counterfeiting marks on the labels to solidify the foundation for responsible marketing. In addition, the Group rigorously abides by the publication rules of academic promotion advertisement, applies for advertising approval from relevant government departments according to law, and publishes the approved advertisements in professional magazines designated by the NMPA.

4.1.3 Product Complaints

Oriented with creating value for customers, the Group has established a complete customer complaint handling system. For that, the Group has formed the *Regulations on Quality Complaints* and *Operating Procedures for Quality Complaints* to specify the processes of receiving and handling customer complaints, communication and feedback, providing overall guidance for efficient handling of after-sales complaints.

The Group offers diverse customer complaining and reporting channels, including telephone, fax, email, official website, etc. After receiving quality complaints, the employee of the Group shall collect relevant materials as much as possible, and transfer complaints to the Quality Management Department of the Group in time via internal communication methods. After receiving complaints, the Quality Management Department will timely record relevant information into the system and handle the complaints hierarchically. Through the investigation and evaluation, follow-up handling, timely feedback, subsequent tracking and archiving and filing and other processing procedures, the problems verification, effective handling and timely feedback can be realised.

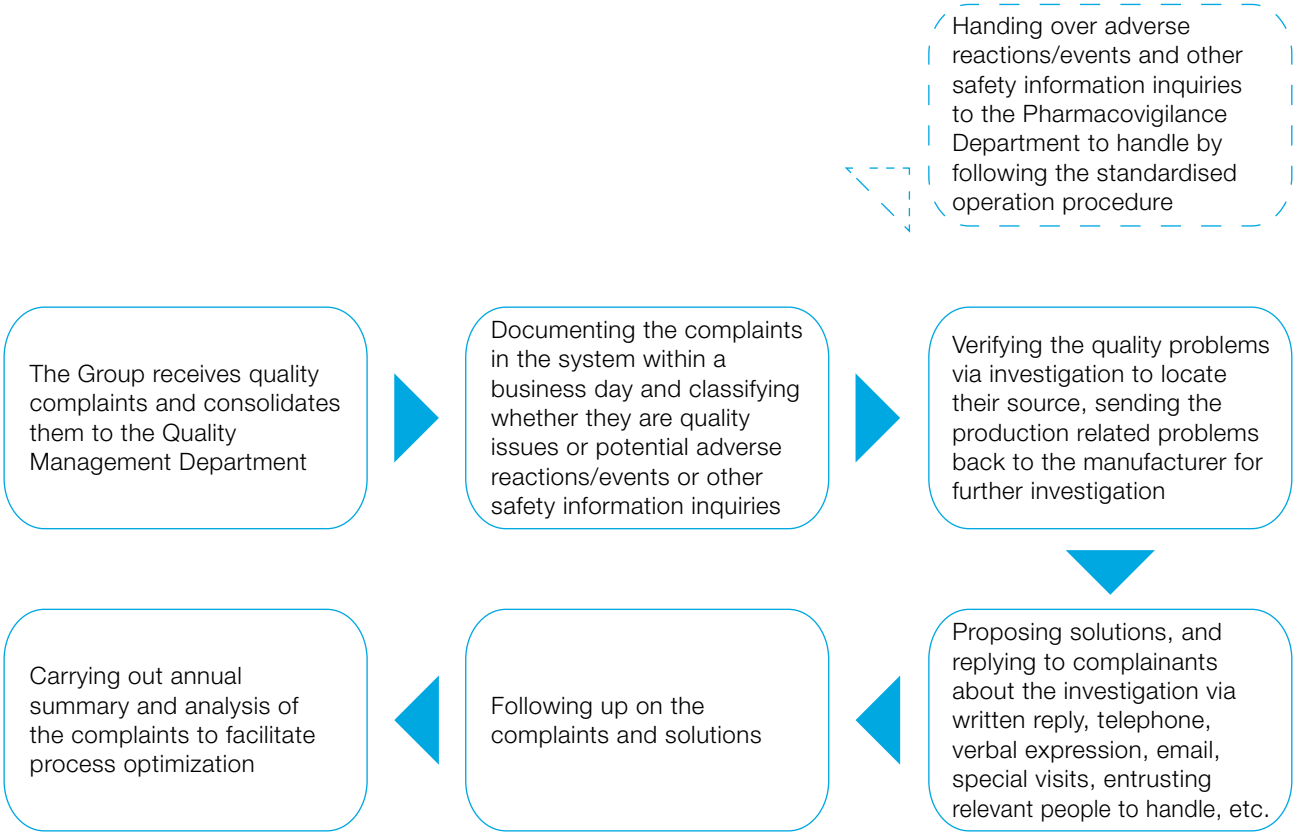

Figure 6 Customer Complaint Handling Process

During the Reporting Period, the Group's product and service quality data is shown below:

Table 8 Product and Service Quality Related Complaints data

	Unit	Year 2021
Number of product and service related complaints	number	160
Response and handling rate for product and service quality related complaints	%	100

4.2 Pharmacovigilance and Product Recall

The Group stresses on the establishment and optimisation of pharmacovigilance and product recall mechanism. The Group has established a comprehensive pharmacovigilance and product recall management system, operational procedures and handling plans in accordance with regulations, industry guidelines and other requirements, so as to fully deploy and implement quality and safety assessment, risk identification and control throughout the product life cycle from clinical researching to post-marketing.

4.2.1 Pharmacovigilance

After being informed of adverse reactions/events and other safety information on a product, the Pharmacovigilance Department of the Group will follow the Group's *Operating Procedures for Safety Report Handling for Drugs* to timely and truthfully record them using the digital pharmacovigilance system, investigate, analyse, assess and summarise the adverse reactions/events and other safety information, and then report them to the regulatory authorities in accordance with regulatory requirements. Moreover, the Pharmacovigilance Department of the Group also proactively collects adverse reaction information on products by various means, such as the official adverse event reporting channel, communicating with practitioners in medical institutions and third-party professional institutions, and consulting academic literature.

The Group regularly assesses safety risks of products, including drugs approved for clinical trials and authorized for marketing in China, and generates the *Periodic Safety Update report* or *Development Safety Update Report*. In addition, the Group regulates the emergency plan for drug safety event according to the *Operating Procedures for Product Safety Event Handling Plan*, timely monitors, evaluates and controls potential risks, and takes immediate and effective measures to deal with the risk once it is identified to prevent further damage. In addition, the Group maintains close communication with domestic and overseas drug/medical device marketing authorization holders and other related partners as well as relevant regulatory authorities to further supervise the continuous improvement of the Group's pharmacovigilance and quality system, ensuring the medication safety of patients.

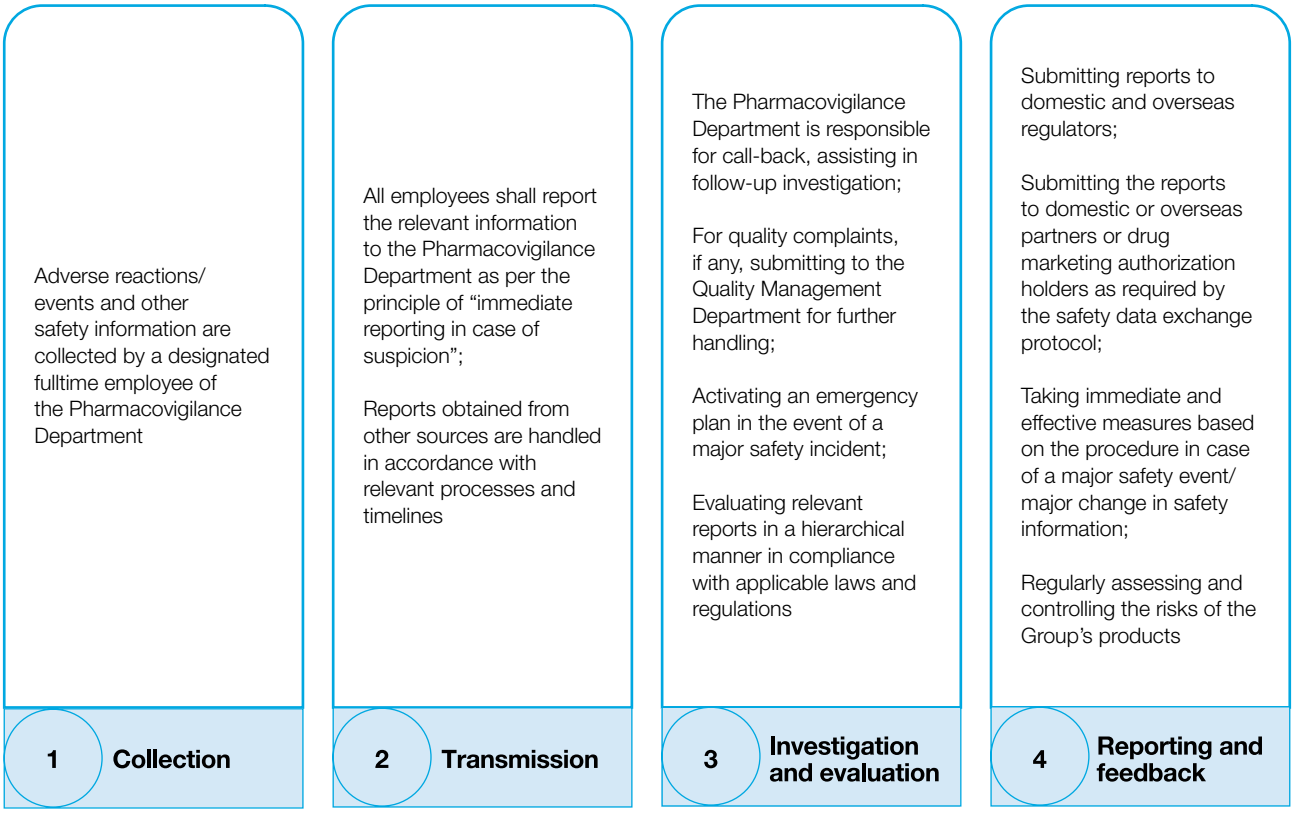

Figure 7 Adverse Reaction/Event Handling Process

4.2.2 Product Recall

The Group has formed relatively complete and mature recall mechanisms and operating procedures, including *Regulations on Drug Recall* and *Operating Procedures for Drug Recall*. If any hidden safety hazard occurs to products, the Group will immediately initiate the recall process. The relevant departments and subsidiaries of the Group regularly hold mock recall drills to ensure effective recall of defective products in the shortest time in case of an emergency, so as to protect customers' rights and interests.

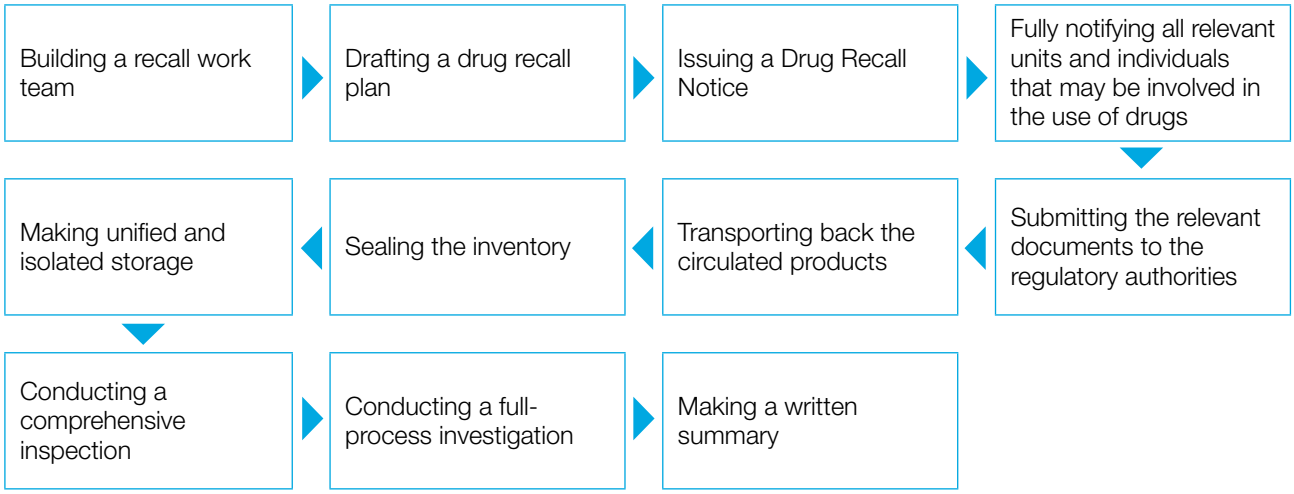

Figure 8 Drug Recall Process

During the Reporting Period, the Group did not receive any sold or delivered product recalls due to safety and health issues.

4.3 Privacy Protection and Information Security

The Group attaches great importance to privacy rights of consumers and protects the privacy information of customers and other stakeholders in accordance with related laws and regulations as well as applicable contracts. The Group has formed the *Employee Code of Professional Ethics, CMS Code of Conduct, CMS Confidentiality Regulations* and other rules and policies to clarify the privacy and confidentiality principle of the third parties, and require all employees to maintain strict confidentiality of the privacy information of consumers.

The Group has established an authorization mechanism for customer data access, requiring employees to inquire and maintain customer data with limited authorization. unauthorized employees have no access, export or copy any customer information. In addition, the Group has signed confidentiality agreements with all its employees to convey and emphasize the importance of confidentiality duties and the legal consequences of breach, with a view to further enhance employees' awareness of confidentiality.

Meanwhile, the Group sets the *Regulations on Information Security Management* to ensure the implementation of information security work. The Information Technology Management Department exercises comprehensive and systematic management of the information and network environment of the Group through internal document separation, document encryption, regular self-inspection, external professional third-party evaluation and other methods. During the Reporting Period, the Group organised annual information security training for employees to further standardise employees' computer and network operations, upgrade their ability to prevent and respond to information security incidents, and better prevent information security incidents such as leakage of private information.

Besides, the Group explicitly requires the digital pharmacovigilance system supplier and other suppliers who may have access to consumers' privacy information to strictly safeguard the privacy rights of consumers through signing contracts and agreements.

4.4 Improvement of Healthcare Accessibility

The Group attaches great importance to the health needs of Chinese people, and proactively invests in and deploys products globally aimed at meeting relatively large clinical needs, in an effort to provide safe, effective, accessible and affordable treatment options for patients in different regions, of different ages and suffering from different diseases. In addition, the Group proactively disseminates health knowledge and improve public health awareness in various approaches, such as publishing general science articles of disease knowledge and setting up the "Disease Science Popularization" column through official channels of the Group, making contribution to improving the accessibility of disease knowledge to the public.

The Group's existing products cover multiple specialist fields, including cardio-cerebrovascular, digestion, ophthalmology, dermatology, paediatrics, etc., all of which have sufficient evidence-based medical evidence, good reputation, relatively low daily treatment cost and high cost-effectiveness and are sold in China after fair pricing through regional bidding procedures. In addition, as of 31 December 2021, among the Group's 9 core products available in market, 7 were included in the National Reimbursement Drug List and 2 were included in National Essential Drug List, which effectively relieved the burden on patients and guaranteed fair accessibility for the general public. In the meantime, the Group lays emphasis on the expansion and penetration of the county-level and lower-tier markets, striving to improve the accessibility of medical products in the entire country and economically backward areas. As of 31 December 2021, the Group's business covered about 50,000 hospitals/medical institutions and more than 200,000 drugstores in China.

The Group actively deploys clinically needed drugs globally and also pays attention to orphan drugs. As of 31 December 2021, the group had Tetrabenazine Tablets for the rare disease Huntington's Disease. Moreover, capitalizing on its own advantageous resources and capabilities, the Group has successfully deployed nearly 30 innovative pipeline products with differentiated clinical advantages through collaborative innovative research. The New Drug Applications of 3 innovative products had been accepted in China during the Reporting Period, including Diazepam Nasal Spray, Tildrakizumab Solution for Injection, and Methotrexate Injection, Pre-filled Syringe (psoriasis).

Table 9 Innovate Products Whose New Drug Application Has Been Accepted in China

Innovative Product	Main Advantages
Diazepam Nasal Spray	The only FDA-approved spray product for acute repetitive seizures in patients aged 6 and above; once approved in China, it will become a first-aid medicine for epileptic seizures that is safe and convenient to use outside the medical setting and has a very rapid onset of action for Chinese child and adult patients
Tildrakizumab Solution for Injection	It is expected to provide the most cost-effective monoclonal antibody treatment option for patients with moderate to severe plaque psoriasis
Methotrexate Injection, Pre-filled Syringe (Psoriasis)	It is expected to be the first methotrexate pre-filled injection for the treatment of psoriasis by subcutaneous administration in China, fulfilling the medication needs for basic treatment of psoriasis patients. This drug is included in the *Urgently Needed Drug List* in China as an urgently needed clinical drug with short supply.

With a view to speeding up clinical research on innovative products, ensuring the compliance and effectiveness of clinical researches and enabling patients to use more affordable and high-quality innovative drugs as early as possible, the Group has established *Regulations on Clinical Research Management*, clarifying the operation specification in the entire process of clinical trials of drugs, and integrating quality management control in every step of clinical research. Besides, all human clinical trials of the Group have passed the ethical review as required by law and follow the ethical principles in the *Declaration of Helsinki*. Before participating in a clinical trial, all subjects are required to sign the *Informed Consent Form of Subjects* which clearly stipulates that they shall have the right to be informed and the right to choose, and that they can refuse or withdraw from the clinical trial at any time, thereby protecting their rights and interests.

During the Reporting Period, the Group's R&D expenditures was RMB 739.3 million (including capitalized and expensed expenditure), accounting for 8.0% of its turnover. In the future, the Group will further improve clinical efficiency, and deploy more innovative drugs in China and overseas to improve patients' access to innovative drugs with real clinical value.

4.5 Protection of Intellectual Properties Rights

The Group focuses on the protection of independent intellectual property rights and regards intellectual property rights as important corporate assets, including but not limited to trademarks, patents, confidential information, production know-how, etc. The Group has formulated and announced *CMS Intellectual Property Management* Policy in February, 2022 to regulate daily maintenance, risk identification and dispute management of intellectual property rights, so as to build a solid foundation for the management of intellectual property rights. Meanwhile, the Group has created an internal document database of intellectual property rights, covering the Group's trademarks, patents, copyrights, etc.

The Group manages intellectual property rights throughout the product life cycle, and comprehensively investigates, evaluates and analyses potential intellectual property risks in product introduction, research, registration, promotion and sales. In addition, the Group also expressly forbids employees to disclose corporate trade or technical secrets in *CMS Anti-fraud Management Policy*, and opens reporting channels such as email, telephone and official website to the public. If any suspected infringement on intellectual property rights is found, the Legal Department of the Group will protect the Group's legitimate rights and interests by using administrative and judicial ways as appropriate, and document the process of defence.

While protecting its own intellectual property rights, the Group respects and safeguards all intellectual property rights related to the corporate business and the interests of their owners. In strict compliance with relevant laws and regulations, the Group requires all its employees to use trademarks and patents of others for business activities with legal authorization, so as to avoid infringing on the intellectual property rights of others.

5. People-oriented Practice

Based on the concept of "strivers-oriented", the Group regards employees as its most valuable assets. The Group strictly abides by relevant national laws and regulations, and continues to optimise human resource management system and policies concerning employment compliance, employees' rights and interests and occupational health and safety. The Group has established a well-developed human resource management framework to comprehensively support the Group's needs for talent management; meanwhile, by coordinating and guiding the human resource management of each subsidiary from the perspective of the headquarters, the Group ensures smooth development of its overall human resource management.

The Group adheres closely to relevant national laws and regulations and its internal rules and policies in terms of employment, occupational health and safety, and employees' rights and interests, including but not limited to those listed in the following table. During the Reporting Period, the Group did not violate any applicable law and regulation that have significant impact on the Group.

Table 10 Laws and Regulations and CMS' Rules and Policies Related to Responsibilities to Employees

Field	Major laws and regulations	CMS' major rules and policies
Employees' rights and interests	The *Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Employment Promotion 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, Regulations of the State Council on the Hours of Work of Employees, Special Rules on the Labor Protection of Female Employees,* etc.	*Human Resource Policy, CMS Employee Manual, Rewarding Measures for Internal and External Talent Recommendation, Regulations on Holiday Management, Internal Trainer Management Policy, Provision on Employee Training Process, Personnel Management Policy,* etc.
Employment compliance	The *Special Rules on the Protection of Juvenile Workers, Provisions on the Prohibition of Child Labor, Law of the People's Republic of China on the Protection of Minors,* etc.	*Measures for Recruitment Management, Social Recruitment Practice Manual, Campus Recruitment Practice Manual, Measures for Background Check Management, Personnel Management Policy,* etc.
Occupational health and safety	The *Work Safety Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Regulations on Work-Related Injury Insurances, Regulations on Occupational Safety and Health, Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents,* etc.	*Provisions on Production Safety, Employee Health Management Procedure, Fire Safety Management Policy, Regulations on Governing Safety Prevention Responsibility, Emergency Plan, Office Building Emergency Plan, Provisions on Workplace Safety Management,* etc.

5.1 Employment Compliance

5.1.1 Legal and Compliant Employment

The Group strictly abides by national laws and regulations and its internal relevant rules and policies, and sticks to legal and compliant employment. The Group follows the procedures for signing, amending, revoking or terminating the labour contracts with all employees, and highlights that employment relationship must be based on the principles of legality, fairness, honesty, mutual consent and willingness. Moreover, the Group has established *Human Resource Policy, Personnel Management Policy* and *Measures for Background Check Management* to standardise processes of employees' background check, on-boarding, dismission and file management. The *Personnel Management Policy* expressly stipulates "prohibition of child labour/forced labour", requiring the Human Resource Department to ensure that candidates' identities are true and valid and meet legal employment requirement, by means of inquiry, information verification and candidate's confirmation signature during the recruitment process, with an aim to eliminate child labour and forced labour. If any violation such as child labour or forced labour is found, the employment will be invalid, the labour contract will be immediately rescinded, and the payable wages and other remuneration prescribed by law will be paid. In addition, the relevant responsible persons will be punished according to the severity of the circumstances.

During the Reporting Period, the Group employed no child labour or forced labour.

The Group's employment and turnover data in 2021 is shown below:

Table 11 Employment Information

Category	Indicator	Unit	Year 2021
Overall	Total number of employees	Person	5,292
By gender and position	- Number of male employees	Person	2,444
	- Number of female employees	Person	2,848
	- Number of employees in mid-level and senior management	Person	141
	- Number of male employees in mid-level and senior management	Person	97
	- Number of female employees in mid-level and senior management	Person	44
By types of employment	- Number of contracted employees	Person	5,292
	- Number of dispatched employees	Person	0
By age	- Number of employees aged under 30	Person	2,108
	- Number of employees aged 30-50	Person	3,021
	- Number of employees aged over 50	Person	163
By geography	- Number of Mainland China employees	Person	5,244
	- Number of HK, Macao, Taiwan and overseas employees	Person	48

Table 12 Employee Turnover

Category	Indicator	Unit	Year 2021
Overall	Turnover rate of employees	%	17.8
By gender	- Turnover rate of male employees	%	17.8
	- Turnover rate of female employees	%	17.8
By age	- Turnover rate of employees aged under 30	%	22.3
	- Turnover rate of employees aged 30-50	%	15.3
	- Turnover rate of employees aged over 50	%	9.7
By geography	- Turnover rate of Mainland China employees	%	17.9
	- Turnover rate of HK, Macao, Taiwan and overseas employees	%	14.3

5.1.2 Protection of Employees' Rights and Interests

Equal opportunity, anti-discrimination and diversification

The Group adheres to the principles of equal opportunity and anti-discrimination, and strictly observes national laws and regulations to ensure that employees' employment, holidays, working hours, remuneration , incentives, training and promotion are not affected by their race, nationality, ethnicity, region, gender, religion, age, sexual orientation, political faction, marital status, fertility status, disability and other factors. The Company has adopted a Board Diversity Policy to ensure that all board appointments will be based on merit and fully takes diversity into account.

In addition, the Group ensures that female employees enjoy legal rights and interests and receive reasonable care and consideration, and provides convenience for female employees by setting up mother-and-infant rooms and other amenities. *CMS Code of Conduct* provides guidance for all employees including the management, to respect, be kind and cooperate with each other, and to foster a positive, equal, diverse and inclusive working environment together. Furthermore, the Group has established complaint and punishment mechanisms, showing zero tolerance for prejudice, discrimination and harassment.

As of 31 December 2021, female employees accounted for 53.8%, female mid-level and senior managers accounted for 31.2% and female board members accounted for 33.3%.

The Group puts high value on employees' thoughts, practices equal communication, and constantly improves the mutual communication mechanism between employees and the management to keep smooth communication channels and create an open and fair communication environment. The Group encourages employees to communicate with the management through the internal ERP platform, email, and online or face-to-face conversation in a timely and effective manner. To address discrimination, the Group accepts real-name or anonymous whistle-blowing in a variety of ways, and puts in place the *CMS Anti-fraud Management Policy* to clarify provisions related to whistle-blowing channels, handling procedures and whistleblower protection, ensuring that all whistle-blowing are properly handled. The Group keeps strictly confidential whistleblowers' personal information and whistle-blowing materials, and will not disclose whistleblowers' identities without their consent. After receiving, verifying and evaluating tip-offs, the Group will put them on record and initiate investigations, and keep truthful and complete investigation records. The handling result will be notified within the Group and sent to the whistleblower within 3 working days. If the employee being reported against thinks his/her legal rights and interests are infringed, he/she is entitled to appeal to the relevant department of the Company, requesting to solve the problem. The Group also actively communicates with employees in forms of interviews after probation/resignation and regular questionnaire surveys. Meanwhile, the labour unions of the Group's subsidiaries have established employee reception room, management reception day and feedback box, aiming to further guide and support employees to speak up.

During the Reporting Period, the Human Resource Department of the Group conducted a organizational climate survey, which takes employee satisfaction and engagement into consideration, in a bid to fully understand the needs and expectations of employees. Improvement measures will be developed and promoted based on the survey results to further protect employees' rights and interests.

Recruitment

The Group's human resource recruitment plan always matches with the Company's strategic needs for business development. Through regular analysis of existing positions and staffing, sorting of valid human resource information in combination with the regular talent demand feedback from each department, the Group forecasts possible changes in personnel mobility, and develops and adjusts the corresponding recruitment plan to build a sound basis for the talent team building. Aiming to ensure an organized recruitment process, the Group has established a mature human resource introduction and reserve channel combining social recruitment and campus recruitment, with systematic measures and manuals on internal management as enhancement, such as *CMS Recruitment Management Measures, Social Recruitment Practice Manual, Measures for Background Check Management, Campus Recruitment Practice Manual and Rewarding Measures for Internal* and *External Talent Recommendation,*.

In order to further expand the sources of talents for certain core positions, on the basis of common social recruitment channels (such as professional human resource website and head hunters), the Group develops the channel for recommending excellent talents supported by an attractive incentive mechanism to motivate all employees and others to recommend suitable talents.

Campus recruitment is an important source of the Group's talent pool. By constantly exploring diversified campus recruitment methods, the Group strengthens its association and connection with colleges and universities to build a sustainable professionals reserve pool. During the Reporting Period, the Group vigorously carried out programs for trainees and interns, held more than 200 online/offline campus recruitment seminars across the country and issued offers to over 400 graduates.

Working Hours

The Group strictly forbids forced labour and implements standard working hours according to laws and regulations. Meanwhile, employees may reasonably arrange working and leisure time according to their job content and the work plan of their departments, so as to form a more efficient working system. In addition, as stipulated in the *CMS Employee Manual*, employees who work overtime as demanded and with the Company's approval will be compensated. Meanwhile, all employees are entitled to statutory holidays and paid leave according to law, and their posts will be 100% kept during the leave.

Remuneration

The Group's remuneration system is inclined to strivers. The employees' remuneration and benefits depend on the Company's performance and employees' own performance. The Human Resource Department of the Group dynamically reviews the employees' remuneration level annually in reference to the reports of professional external consultants to ensure that employees receive fair and competitive salaries and remuneration in the industry. Meanwhile, the department constantly implements and optimises person-post matching certification and level-of-position review to maintain a fair and effective remuneration evaluation system and adjustment rules of the Company.

According to the strategic planning and deployment, the Group establishes the evaluation basis for performance appraisal and incentive system by decoding and dividing strategies to each department. Short-term, medium-term and long-term multi-level incentive systems have been established, and quarterly routine performance review is carried out to ensure fair and effective performance management and incentives. The result of performance appraisal is linked up with the bonus of employees, and the related result will be synchronously sent to employees via the Group's online digital tool immediately after confirmation. In case of any disagreement, the employee can raise an appeal within 5 working days upon receipt of the appraisal result, and the Human Resource Department will organize independent interviews, double check the performance appraisal result, and send the review result to the employee in time. In addition, the Group further improves the honour and reward system, and continues to energize the organization.

Training

The Group organizes diversified training activities to systematically improve the professional competence of employees and promote mutual development of the Company and employees. The Group has established the *Internal Trainer Management Policy* and *Provision on Employee Training Process* to support the implementation and management of training plans.

The Group has set up a dedicated training base in Pingshan, Shenzhen, which provides employees a good centralized training environment and atmosphere. In order to further improve the accessibility and convenience of training, the Group makes full use of digital tools to make available on-site, telephone-access, live streaming, and other ways for employees to participate in training courses. The Group is also active in constructing a digital training management system in an attempt to manage all kinds of training plans, appraisal records, suggestions and feedback systematically and efficiently, so as to further boost its training management efficiency. Moreover, the Group continually improves and leverages internal instructors and course resources, proactively expands cooperation with professional training institutions, and establishes pools with abundant resources of instructors, courses and training institutions, to further underpin the foundation of the Group's long-term employee training.

The Group constantly optimise the "Navigation" training system for full coverage of corporate strategy, corporate culture, professional skill and knowledge, job qualification assessment, management skill and leadership development, policy and regulation, etc. Through the combination of internal and external training, the Group systematically helps all employees improve their capability comprehensively. Besides, in order to better meet the business development needs, the Group actively takes advantage of its own training channels and advantageous resources to periodically carry out targeted professional training for key positions, and also provides financial support for employees in key positions to obtain relevant professional certification.

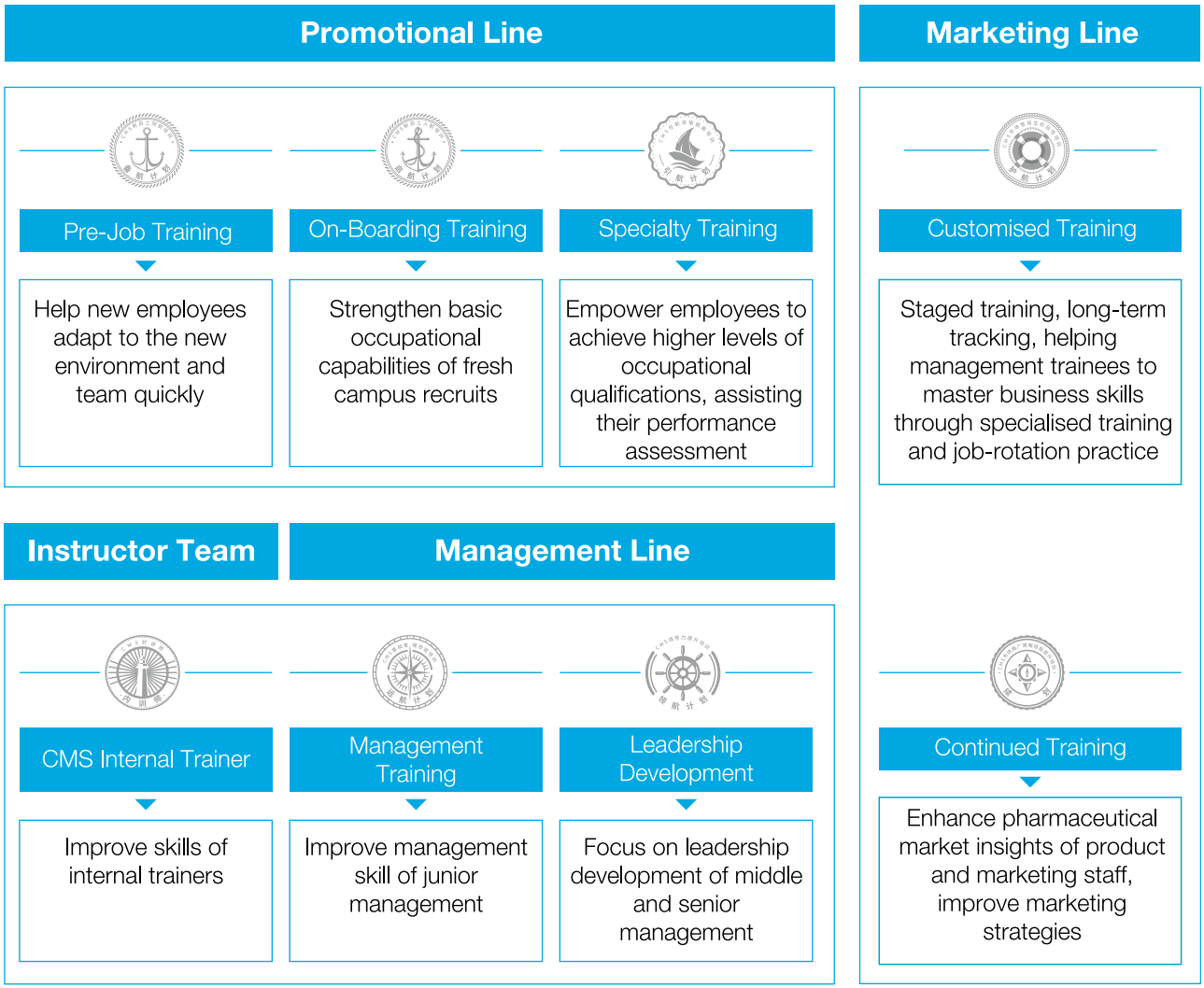

Figure 9 "Navigation" Training System

Table 13 Employee Training Data

	Unit	Year 2021
Total employees training expenditure	Million RMB	6.3
Training coverage of employees	%	73.2
- Training coverage of general employees	%	97.2
- Training coverage of mid-level and senior management	%	2.8
- Training coverage of male employees	%	48.6
- Training coverage of female employees	%	51.4
Employees training duration per capita	Hour	18.0
- Training duration per capita for general employees	Hour	18.2
- Training duration per capita for mid-level and senior management	Hour	12.3
- Training duration per capita for male employees	Hour	19.0
- Training duration per capita for female employees	Hour	17.2

Promotion

The Group adheres to the promotion mechanism that was oriented by competence and integrity and follows the talent promotion principle of "internal selection, step-by-step promotion, classified training, spiral rise, and anomalous promotion in special period". In accordance with the guidelines and requirements of the promotion evaluation mechanism and the performance management system, the Group matches different positions with clear development paths. Meanwhile, the Group puts in place a promotion application system, by which employees can apply for promotion certification on their own initiative. Successful promotion certification will be made public regularly in the form of an appointment and removal announcement. Any employee objecting to the certification process or results may appeal to the Human Resource Management Department, and the latter will make further verification and feedback according to the facts to ensure fair, impartial and open promotion channels and opportunities.

Dismissal

Employee dismissal within the Group is subject to the *Human Resource Policy, Personnel Management Policy* and other internal management regulations. The Human Resource Management Department assists employees who leave the Group in handling transference of social insurance, files, and registered permanent residence as well as other relevant formalities. In addition, the Group holds a demission interview with all quitting employees to figure out their reasons for leaving, analyse specific problems and generate internal improvement plans, in a bid to further optimise the internal human resource management.

5.2 Employees Care

5.2.1 Employees' Health and Safety

The Group attaches great importance to the health and safety of its employees, putting in place *Provisions on Production Safety, Provisions on Fire Safety Management, Provisions on Workplace Safety Management, Employee Health Management Procedure, Regulations on Governing Safety Prevention Responsibility, Emergency Plan, Office Building Emergency Plan* and other safety regulations and management procedures. Moreover, the Group constantly improves the employee occupational health and safety system with production safety and occupational health as the core to create a healthy, safe and agreeable working environment for employees.

Safety Record

Occupational safety and health documents for employees are established; safety assessment of storage and use of hazardous chemicals is completed timely and reported to the safety supervision authority

Health Check

Annual health check is provided for all employees

Safety Protection

Production safety bulletin boards are set up; safety warning signs and first-aid kits are reasonably set, and employees at posts involving health and safety risk are supplied with appropriate personal protective devices such as earplugs, protective gloves, activated carbon anti-toxic masks and respirators; the placement, use and disposal of hazardous chemicals are strictly managed and supervised

Reassuring Fight against Pandemic

External professional institutions are engaged to conduct overall disinfection of the Company's offices according to the development of the pandemic, employees are encouraged and organised to receive COVID-19 vaccines, gathering activities are reported in a timely manner, and consultation service and information sharing on pandemic prevention and control are provided

Safety Training

A comprehensive production safety training system has been set up, which forms a training model with the combination of teaching and assessment by experts from the Ministry of Emergency Management and internal experts, and employees at special posts are required to attend internal and external professional training and assessment on a regular basis, and to work with appropriate license

Emotional Care

Employees are provided with recreational places and various leisure activities to relieve their work stress; new employee interviews and learning and development partners are arranged to understand the adaptation and emotional needs of new employees

Safety Inspection

The relevant subsidiaries set up leading groups for production safety inspection, implement production safety responsibility system, organise the "Production Safety Month" campaign, conduct the assessment of safety production performances and safety production rewards and punishment, carry out regular assessments of major hazard risk in factories and offices, make production safety inspections before and after holidays, and monthly safety inspections of the workplace to prevent accidents

Daily Maintenance

Employees' health and safety are protected starting from daily trifles, for example: conducting maintenance and potential risk identification of corporate vehicles as scheduled, providing regular physical examination of drivers, timely changing drinking water filters, regularly cleaning and disinfecting the central air conditioning and carpets, regularly exterminating insects and rats, and optimising access control equipment to safeguard the safety of the Group's employees and property

Safety Drills

During the Reporting Period, the Shenzhen subsidiary and Tianjin subsidiary of the Group worked with relevant property management companies to conduct safety and fire drills separately, the Hunan subsidiary conducted emergency drills for safety production and fire proof, and the Hebei subsidiary conducted emergency drill for hazardous waste leakage and ethanol spill accident

Figure 10 Occupational Health and Safety System

The Group's employee health and safety data in 2021 is shown below:

Table 14 Employee Health and Safety Data

	Unit	Year 2021
Working days lost due to work-related injuries	Day	375
Number of work-related fatalities	Person	0
Proportion of work-related fatalities	%	0
Proportion of employees with occupational health check benefit	%	100

5.2.2 Employee Benefits

The Group provides employees with five statutory social insurance schemes (basic endowment insurance, basic medical insurance, employment injury insurance, maternity insurance and unemployment insurance) and the housing provident fund in strict accordance with national regulations. Besides, the Group continuously optimises its employee relationship management by actively planning employee activities and providing caring benefits to enhance organizational cohesion. During the Reporting Period, comprehensive employee benefits were provided to our staff, included but were not limited to:

- ✓ Providing allowances to fund employees' round trips for family visit once a year;
- ✓ Providing Taikang group accident insurance to employees;
- ✓ Implementing flexible working hours to provide convenience for employees to balance their work and life;
- ✓ Providing high-quality health check to help employees understand their health conditions;
- ✓ Setting a gym and cooperating with big sports venues for free use by employees, encouraging them to exercise;
- ✓ Setting up an employee book bar, and subscribing to newspapers and books for free reading and using by employees;
- ✓ Setting up an employee canteen to provide a variety of free afternoon refreshments and overtime dinners;
- ✓ Establishing a culture and sports association and multiple branches including badminton, swimming, basketball and yoga branches to regularly organise activities to enrich employees' lives;
- ✓ Appropriating special funds to encourage team-building activities, enhancing friendships between employees;
- ✓ Setting up mother-and-child rooms to provide convenience for lactating employees;
- ✓ Providing festival gifts, benefits and blessings.

6. Cooperation and Mutual Benefit

The Group pays high attention to the supply chain management, strictly abides by relevant national and local laws and regulations, and establishes a comprehensive system of internal supply chain management for a commitment to efficiently cooperate with the upstream and downstream supply chain enterprises to achieve win-win results, reducing procurement risks and protect the product quality and safety.

Moreover, to jointly build a green supply chain, the Group actively takes a variety of measures to encourage and advocate compliance operation, environmental protection and social responsibilities among its domestic and overseas supply-chain partners, and strengthen the identification, supervision and control of environmental and social risks in each segment of the supply chain, in order to make progress together with upstream and downstream partners and contribute to the sustainable development of the supply chain.

Table 15 Laws and Regulations and CMS' Rules and Policies Related to Supply Chain Management

Major laws and regulations	CMS' major rules and policies
The Drug Administration Law of the People's Republic of China, Good Supply Practice for Pharmaceutical Products, Good Manufacture Practice of Pharmaceutical Products, Administrative Measures for the Import of Drugs, Provisions for Supervision of Circulation of Pharmaceuticals, Civil Code of the People's Republic of China, Company Law of the People's Republic of China, Customs Law of the People's Republic of China, etc.	*Regulations on First-time Supplier Qualification Review, Regulations on First-time Variety Review, Operation Provisions on Internal Quality Audit, Regulations on Drug Procurement, Provisions for Material Supplier Management, Operation Procedure of Material Supplier Evaluation, Provisions for Material Procurement, Regulations on Purchaser' Qualification Review, Operation Procedures on Purchaser Qualification Review, Provisions on Management of Low Value Consumables, Admission and Review System for Commercial Partners, Admission and Evaluation System for Carriers,* etc.

6.1 Supply Chain Management

The Group adheres to a strict admission for its supplies and distributors, and applies the regular review mechanism of its supply chain partners. In addition, the Group actively builds long-term cooperative relationships with its partners, lays a foundation for stable and efficient two-way communications and mutual trusts with them by phone, e-mails and exchange visits, and achieves common progress and win-win cooperation through mutual supervision and experience sharing.

6.1.1 Supplier Management

The Group has established the *Regulations on First-time Supplier Qualification Review, Operation Provisions on Internal Quality Audit, Regulations on Drug Procurement, Provisions for Material Supplier Management, Operation Procedure of Material Supplier Evaluation, Provisions for Material Procurement, Provisions on Management of Low Value Consumables* and other internal regulations and policies to guide and standardize the suppliers selection and monitoring, the procurement and other processes.

The drugs that the Group promotes and sells has been introduced through asset purchase or long-term sales agreement to acquire their related products rights in specified regions, and the production is mainly conducted by the original or entrusted manufacturers. Therefore, the Group has sustained long-term and stable strategic relations with upstream suppliers. Moreover, Shenzhen Kangzhe, a business entity in the Group which is mainly responsible for promoting and selling drugs, is certified as an advanced "Authorized Economic Operator (AEO)" by the customs, representing the high-level general supply chain management as well as the excellent internal governance and trade safety control.

The Group has formulated strict admission criteria for its suppliers and examines several aspects of the supplier, including but not limited to company scale, company's history, reputation in the industry and competitiveness, qualifications, production conditions, product category, product quality, environmental protection and social responsibility, to ensure that qualified and quality-reliable products are purchased from enterprises that are legally qualified and take corporate responsibility.

Furthermore, the Group comprehensively reviews the completeness, truthfulness and legal validity of the enterprise's profile, and organizes a field inspection when necessary to evaluate the supplier's quality management system. Once a supplier is selected, the Group will sign a long-term supply agreement with it and dynamically conduct an annual matching evaluation of the supplier's medium- and long-term capability to ensure that the supplier's capacity and product quality meet the Group's demands, thus reduce the terminal risk of the supply chain. Moreover, the Group organizes the supplier quality review at least once a year, establishes the relevant review archives and forms the List of Qualified Suppliers. In addition, the Group uploads the information of its suppliers to a digital platform for systematic management, and the system will issue an alert before the qualification or license is about to expire. If any supplier fails to provide valid supplementary information in time, it will be locked and the cooperation with it will be suspended compulsorily for further prevention and control of supply chain management risks.

The Group actively and closely communicates with suppliers and purchases on demand. For imported drug products, including the firstly imported drugs, biological products, products of standard change or manufacture process alteration and when the company deems necessary, strict inspections are carried out by official professional institutions in accordance with the requirements of national regulations and Import inspection Report shall be issued. Once the imported drug products ans domestic drug products arrive, the Quality Management Department of the Group conducts the inspection as per GSP requirements and examines the inspection reports to guarantee that the products meet the drug standards approved by the national authorities, and takes records in the digital purchasing archives in time.

Once any quality issue is found, the Group will immediately provide feedback to its supplier, urges the supplier to make corrections and gives necessary supports. If any supplier fails to pass the sampling inspection of its drugs by the drug regulatory authorities, has any major quality problem, is ordered to recall its drugs, or has a poor reputation for quality, etc., the Group's Quality Management Department will pay a field visit focusing on whether the supplier's quality management system is sound, the reason for the quality problem and whether the corrective measure is effective, and will make a risk assessment. For unqualified suppliers, the Group has established the relevant exit mechanism to ensure the product quality above the baseline.

All production material suppliers are selected as per *Provisions for Material Suppliers Management*, and their scales, qualifications, states of operations, production capacities, quality management, conditions of carriage, etc. are reviewed in detail, with the *Manufacturer Questionnaire* distributed in the preliminary supplier screening stage for more efficient communications and decision-making. In addition, the Group also selects cost-effective material suppliers through open and fair biddings. Before engaging a supplier, the Quality Management Department and other relevant departments will jointly conduct comprehensive qualification review and on-site quality audit, and inspect the samples, and a small batch trial production will be conducted when necessary. Only suppliers who have passed the full review are eligible to be included the Group's qualified supplier list. According to the degree of importance of materials and the results of quality assessment, the Group implements hierarchical management to qualified suppliers, and maintains at least two qualified suppliers for any production material to ensure the supply of materials in emergency. The Group prioritizes the engagement with those suppliers with the higher assessment scores. Furthermore, the Group updates the list of qualified suppliers in time by annually reviewing the overall quality of the goods supplied; and additionally performs on-site audit of the production material suppliers who have a significant impact on drug quality and safety at least once a year for a further guarantee of the stable supply of materials and the Group's production quality.

If the materials provided by a qualified supplier do not meet the requirements, the Group will first re-inspect the samples to eliminate the problems in the inspection process. If the sample fails the re-inspection, a non-conformity report will be issued and sent to the supplier in time, and the supplier will be notified that the unqualified goods will be returned. Supplier who fails to meet the Group's requirements twice a year will be disqualified. If goods with any severe defect or significant quality risks are found, the purchasing will be suspended.

100% of the Group's finished products and materials suppliers are managed in accordance with above standards. During the Reporting Period, there was no significant product supply delay from the Group's suppliers.

The Group's suppliers data in 2021 is shown below:

Table 16 Quantity of Suppliers

	Unit	**Year 2021**
Total number of suppliers	Number	151
- Number of Mainland China suppliers	Number	98
- Number of HK, Macao, Taiwan and overseas suppliers	Number	53

6.1.2 Distributor Management

The Group has established the *Admission and Review System for Commercial Partners, Regulations on Carrier Admission and Appraisal, Regulations on Purchaser' Qualification Review, Operation Procedures on Purchaser Qualification Review,* and other regulations and policies to support distributor management. The Group prioritizes distributors that are Technology Asset Protection Association (TAPA) certified, GSP compliant, socially responsible and reputable through all-round appraisal and examination of distributors in terms of enterprise qualification, warehousing and distribution capacities, staffing, operations management, channel coverage, responsiveness, reputation in the industry, and dedication to environmental protection, to ensure product quality during the distribution process, and minimise the potential impacts of goods circulation on the surroundings. Moreover, the Group keeps the distributors aware of its series of requirements and standard provisions related to social responsibility to further maintain a sustainable drug circulation system.

6.2 Sustainable Development of Supply Chain

The Group aims to work with its upstream and downstream partners in an attempt to build a green and efficient supply chain system. While strictly controlling quality and safety, the Group makes all efforts to identify, monitor and control the environmental and social responsibility risks in the three parts of the supply chain, namely supplier selection, procurement and production, and distribution, propelling the sustainable and green development of supply chain.

For potential risks in each part of the supply chain, including social and environmental risks such as corruption, bribery, unfair competition, illegal operation, inconformity to standard of products or raw materials, pollution of transportation process to the environment, the Group has formulated corresponding prevention and control measures, including but not limited to the followings:

Table 17 Abstract of Environmental and Social Risks Prevention and Control Measures in Supply Chain

Supplier selection	• Adhering to the principle of openness, impartiality and fairness, preventing and controlling possible corruption risks in the bidding process with participation of multiple departments • Including human rights, environmental and social factors into the supplier review; encouraging and tending to choose suppliers advocating the green environmental protection concept or with relevant qualifications, including but not limited to: ISO 14000, ISO 45001, SA8000, AEO, TAPA, etc. • If the candidates are on a par, the one in closer proximity will be preferred for more convenient transportation, to reduce the potential pollution to the environment during the shipment
Procurement and production	• Signing agreement with all suppliers, clearly stating quality credibility and supply integrity in the agreement, in order to manage supply chain integrity • Stating anti-bribery and anti-corruption requirements in the supplier's contract, and requiring suppliers to comply with the local regulatory requirements for operations and production, so as to prevent relevant social risks • Initiate the signing of *Proposal for Suppliers* in order to advocate suppliers to comply with compliance operation, business ethics, human rights and labour standards, protect the environment and respect culture and community • In view of the possible impact of packaging materials used in the production process on product quality and environmental pollution risk, suppliers are required to use packaging materials in compliance with the environmental protection standards. The inner packaging in contact with drugs is required to be at least the food-grade packaging to ensure product safety and realize green packaging
Distribution	• Preferring large distributors with comprehensive distribution channels coverage and dedication to environmental protection so as to reduce the negative environmental impact in logistics • Making available *Standard for Ethics and Compliance, Third Party Compliance Policy, Basic Code for Interactions with Medical Personnel, Medical Institutions and Non-profit Organisations, Self-Testification of Third Party Compliance,* and other provisions, to ensure that partners are aware of and comply with the Group's requirements and criteria for anti-corruption, fair competition, intellectual property protection, data privacy, employment practice, environment, health and safety, encouraging distributors to take social responsibility during the course of the contract

The Group has also made available multiple feedback channels to suppliers and distributors such as email, telephone, and face-to-face communication. Besides, the Group set up a new whistleblowing channel of anti-fraud control via its official website during the Reporting Period. Any incompliant act such as bribery and corruption, unfair competition, disclosure of the Company's trade secret or know-how, and abuse of power of any employee of the Group can be reported via the website. This further facilitates the open communication between the parties and risk identification in the supply chain management. In the meantime, the Group is active in promoting the signing of the *Proposal* for *Suppliers*. During the Reporting Period, more than 50% of the suppliers have signed the *Proposal for Suppliers* (as of 31 December 2021, the total number of the Group's suppliers is 151), this program is still underway.

Table 18 Abstract of *Proposal for Suppliers*

Field	Abstract
Compliance operation and business ethics	• Complying with applicable laws, regulations, standards, guidelines and criteria, including but not limited to the GSP, advertising law and patent law, etc. • Providing high-quality, safe and effective products and services that comply with applicable laws, regulations, quality requirements and standards • Resolutely resisting on bid rigging, bidding collusion, acceptance of kickbacks and other unfair competition, and keeping zero tolerance for any form of corruption, extortion or bribery • Valuing business partners' privacy and confidential information, and ensuring no data or intellectual property right is abused
Human rights and labour standards	• Respecting the protection of internationally recognized human rights and avoiding human rights violation • Avoiding all forms of child labour, forced and compulsory labour • Respecting personal dignity, privacy and rights, abiding by the maximum working hours stipulated by relevant laws, and providing fair remuneration • Promoting equal opportunity and treatment of employees, and rejecting discrimination or harassment for any reason • Complying with laws and standards related to occupational health and safety, and providing safe working environment
Environmental protection	• Complying with environmental laws and standards • Establishing a reasonable internal environmental management system
Community culture	• Facilitating the economic and social development of the community • Ensuring the full respect for the human rights, dignity, culture, and the survival by reliance on natural resources

7. Environmental Protection

In compliance with the concept of green development, the Group is committed to sustaining environmental protection actions in all parts of production and operations, encouraging its subsidiaries related to the pharmaceutical production business, agriculture and livestock business, sales and marketing business, and others to enhance their contribution to environmental protection. All parties across the Group continuously improve the environment management system, keep increasing the resources utilisation efficiency, actively manage and control the impact of production and operations on the surrounding environment, and persistently fulfil the corporate social responsibility for ecological environment protection, in an effort to achieve a common sustainable development between the enterprise and the environment.

The Group's highest governance organisation for environmental management is the Board of Directors. As assisted by the sub-committee, ESG Committee, the Board of Directors oversees the management guidelines, policies and structures in connection with environmental protection, guarantees the compliance of the Group's environmental performance with legal and regulatory requirements. It also identifies ESG related risks and opportunities, and joins hands with the Audit Department in risk management and solution. The ESG Working Group ensures the execution of environmental management activities, and develops the specific environmental management work plans. In addition, the ESG Working Group conducts regular statistics and analysis of the environmental performance, sets environmental goal, tracks its accomplishment progress, and reports that to the ESG Committee on a regular basis. During the Reporting Period, the Group has newly set environmental targets related to the hazardous waste intensity, non-hazardous waste, electricity use and water consumption, which have been approved by the Board of Directors.

During the Reporting Period, the Group's Audit Department conducted a comprehensive environmental internal audit on Kangzhe Hunan, its pharmaceutical production subsidiary, focusing on environmental issues such as pollutant emission management, resource management, ecological protection, and climate change risk responses, etc, and formulated a *Special Environmental Audit Report* to elaborate the environmental governance and gave risk alerts in details. The Group's Audit Department worked with the relevant department heads to assess each risk point and deliver an improvement plan and submit it to the management for review and approval, and then continuously followed up on the implementation of the corrections to ensure standardized environmental governance and prevent and control compliance risks. Hunan Agriculture and Livestock is subject to unscheduled relevant enforcement inspection by local environmental protection authority. The local agricultural quality and safety authority and the green food office periodically inspect the agricultural quality and the environment of plantation base. During the Reporting Period, no major environmental issue was found in all the inspections.

The Group strictly adheres to the requirements of various laws and regulations and CMS' Rules and Policies on environmental protection, including but not limited to:

Table 19 Environmental Protection-related Laws and Regulations and CMS' Rules and Policies

Field	Major laws and regulations	CMS' major rules and policies
Environmental protection	*Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on Environmental Impact Assessment,* etc.	*Integrated Emergency Response Plan for Environmental Incidents, Regulations on Environmental Protection, Regulations on Sanitation Management in Plant Area*
Emission control	*Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution, Emission Control Standard of Volatile Organic Compounds for Industrial Enterprises, Discharge Standard of Pollutants for Livestock and Poultry Breeding, Emission Standard of Air Pollutants for Boiler, Integrated Wastewater Discharge Standard, Wastewater Quality Standards for Discharge to Municipal Sewers, Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants, Emission Standard for Industrial Enterprises Noise at Boundary, Standard for Pollution Control on the Storage and Disposal Site of General Industrial Solid Wastes, Standard for Pollution Control on Hazardous Waste Storage, Administrative Measures for Hazardous Waste Transfer, Regulation on the Administration of Permitting of Pollutant Discharges,* etc.	*Regulations of Boilers Management, Operation Regulation of Exhaust Gas, Exhaust Gas Emission Management Procedures, Operation Regulation of Exhaust Gas, Wastewater Management Procedures, Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility, Regulations on Hazardous Waste, Regulations on Hazardous Chemicals, Solid Waste Management Procedures, Provisions on Quality-Control Laboratory Waste Management*
Resource management	*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,* etc.	*Management Regulations on Energy Conservation and Consumption Reduction, Regulations on Green Agriculture and Livestock, Regulations on Resource Conservation Management, Vehicle Management Regulations, Regulations on Material Distribution*

7.1 Emission Control

The Group's business mainly includes pharmaceutical promotion and marketing business, pharmaceutical production business, and agriculture and livestock business. Among them, the pharmaceutical promotion and marketing business is the main business. The pharmaceutical production business is mainly carried out by Kangzhe (Hunan) Medical Co, Ltd. ("Kangzhe Hunan"), Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Hebei Xili") and Pingshan Manufacture Base of Shenzhen Kangzhe Pharmaceutical Co, Ltd. ("Pingshan Factory") (which did not carry out any production during the Reporting Period), and Lengshuijiang Kangzhe Pharmaceutical Co., Ltd. ("Lengshuijiang Kangzhe") (which was in the trial production stage during the Reporting Period and was not officially put into use yet). The Group has small-scale pharmaceutical production business. During the Reporting Period, the sale of self-produced products only accounted for around 2.9% of the Group's turnover in the case that all medicines were directly sold by the Group. The agriculture and livestock business is mainly carried out by Hunan Kangzhe Agricultural and Livestock Development Co., Ltd. ("Hunan Agriculture and Livestock"). The products provided by Hunan Agriculture and Livestock are for internal consumption and did not contribute to the Group's turnover during the Reporting Period.

Due to the Group's business characteristic, the total amount of environmental pollutants produced was limited, and the impact on the environment and natural resources was insignificant. The Company and its subsidiaries have formulated a series of internal management regulations such as *Regulations on Environmental Protection, Operation Regulation of Exhaust Gas, Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility,* etc., covering the requirements for the management of emissions in the production and operation process, including exhaust gas, wastewater, solid waste, and noise pollution; a relatively comprehensive management system has been formed. During the Reporting Period, the Group updated the *Regulations on Environmental Protection*, which further clarified the requirements for the management of clean production, conservation of natural resources, and responses to climate change.

During the Reporting Period, the Group did not have any significant pollution incident.

7.1.1 Water Pollutant Management

The Company and its subsidiaries strictly comply with national and local laws and regulations, and have formulated and abided by internal management regulations such as *Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility* and *Wastewater Management Procedures* to standardize management of wastewater discharge. The wastewater produced by the Group mainly includes domestic and production wastewater, of which domestic wastewater mainly enters the urban sewage network through sewage pipes and its discharge is reduced mainly through water conservation measures in daily office activities; production wastewater is discharged after reasonable treatment till it meets the standard. The Group's management measures for wastewater include but are not limited to:

Measures to control domestic wastewater in office areas	Measures to control wastewater in pharmaceutical production areas	Measures to control wastewater in agricultural and livestock areas
✓ Issuing *Proposal for Energy Conservation and Emission Reduction in Offices*, setting up bulletin boards for promoting environmental protection and resource conservation to raise the awareness of all employees on water conservation; ✓ Strengthening the inspection of pantries and washrooms, upgrading some aged automatic flush valves, and replacing water-saving taps; ✓ Conducting commissioning of auto flush facilities in office areas to shorten the automatic flushing time.	✓ After production wastewater treatment by the self-built integrated wastewater treatment station, the wastewater that meets regulatory standards is discharged into the municipal network and finally flows into the municipal wastewater treatment plant; ✓ During the Reporting Period, the new wastewater treatment station of the Kangzhe Hunan was put into service to significantly increase the daily treatment capacity; additionally, the coagulation and sedimentation system was added at the end of the new wastewater treatment system to further eliminate suspended solids in water and improve outgoing water quality.	✓ The manure water from agricultural and livestock farms is collected through sedimentation ponds and then made into organic fertilizers to achieve the purpose of recycling; ✓ Plants such as turf are grown around the animal enclosure and park to absorb the animal manure water left outdoors.

Table 20 Wastewater and Pollutant Components Data

	Unit	Year 2021
Wastewater	m^3	84,294.4
Wastewater Intensity	m^3/million RMB	9.13
Ammonia Nitrogen (NH_3-N)	Ton	0.2
Chemical Oxygen Demand (COD)	Ton	2.3

7.1.2 Air Pollutant Management

The Company and its subsidiaries have formulated internal management policies such as *Regulations of Boiler Management, Operation Regulation of Exhaust Gas*, and *Exhaust Gas Emission Management Procedures* to strengthen the management of air pollutant emission and ensure that exhaust gas emission complies with the requirements of national and local laws and regulations. During the Reporting Period, most exhaust gas of the Group was from the pharmaceutical production business. The Company and its subsidiaries took active measures to minimize the negative impact of exhaust gas emission from pharmaceutical production on the environment:

Kangzhe Hunan	Hebei Xili
✓ Long-term use of natural gas-fueled boilers; ✓ Boiler exhaust gas is first adsorbed by activated carbon to remove nitrogen oxides, sulfur oxides and particulate matter from the smoke, then wet-sprayed, and discharged at a specified altitude after reaching the standard. The wastewater generated after the wet-spray enters the self-built sewage treatment station of factories for treatment and recycling; ✓ The cutting and shredding equipment for "pre-treatment" in the Chinese medicine extraction workshop was upgraded in 2021, with a built-in dust collector, and the large whirlwind bag-type dust removers were added to allow dust and exhaust gas to meet the standard and be discharged at a high altitude after multi-stage treatment; ✓ A new sewage treatment station was officially put into use in 2021, adopting a deodorization system to treat exhaust gas; ✓ A third-party professional inspection agency is engaged to sample the organized exhaust gas emitted by steam boilers on a quarterly basis. During the Reporting Period, monitoring results showed that all exhaust gas emissions met the specified emission limits for atmospheric pollutants.	✓ The environment-friendly alcohol-based liquid fuel is used for boilers; ✓ Insisting on purchasing quality fuel to reduce the emission of exhaust pollutants; ✓ A third-party professional inspection institute is commissioned to sample and test the organized exhaust gas emitted by steam boilers on a quarterly basis. During the Reporting Period, monitoring results showed that exhaust gas emissions met the specified emission limits for atmospheric pollutants; ✓ The exhaust gas equipment in the wastewater treatment station was rectified and attached with an exhaust pipe, the secondary activated carbon adsorption treatment device was installed in the laboratory and passed the acceptance inspection of environmental protection facilities.

Table 21 Air Pollutant Emission Data

	Unit	Year 2021
Sulfur Dioxide (SO_2)	Kg	103.2
Nitrogen Oxide (NO_x)	Kg	1,693.7
Particulate Matter (PM)	Kg	143.3

7.1.3 Noise Pollution Management

In accordance with national and local laws and regulations, the Company and its subsidiaries exercise strict control over noise generated during the production and operation process, monitor noise regularly, and require susceptible employees to wear protection equipment. Kangzhe Hunan used the horizontal centrifuges in its oral liquid powder workshop to reduce noise, set noise barriers outside the equipment room, and added sound insulation cotton inside to further reduce the impact of equipment noise on employees and surrounding residents.

During the Reporting Period, the noise monitoring results of the Group met the requirements and did not have a significant negative impact on the staff's occupational health and the local ecological environment.

7.1.4 Solid Waste Management

The Group have formulated internal management regulations such as *Solid Waste Management Procedures, Regulations on Hazardous Waste, Regulations on Hazardous Chemicals,* and *Provisions on Quality-Control Laboratory Waste Management* to control hazardous and non-hazardous waste by category. Hazardous waste is under strict management and transferred to qualified third parties for treatment, domestic waste is classified for treatment, and non-hazardous waste is recovered or recycled, thereby comprehensive waste reduction is achieved. In order to manage and control the generation of solid waste effectively, the Group is committed to reducing the hazardous waste intensity by at least 5%, and the non-hazardous waste intensity by at least 2% by 2023 compared to 2020.

Measures to control non-hazardous waste	
Office areas	✓ Issuing the *Proposal for Energy Conservation and Emission Reduction in Offices*, advocating the reuse of recyclable supplies, encouraging paperless office as the preferred choice, and reducing the use of disposable office supplies, promotional items, etc. ✓ Increasing the number of microwave ovens in canteens, encouraging employees to bring their own lunch boxes for dining and use less disposable tableware, and getting food from canteens as per the need; ✓ Encouraging the classification of garbage: non-recyclable garbage is regularly and centrally disposed of by the building property company; recyclable garbage such as paper, metal, plastic, and glass is recovered or recycled.
Pharmaceutical production areas	✓ Chinese herb residues are mainly particle filter residues (lignin) and a small amount of insoluble extractives, which are non-hazardous solid waste. The Company transports the residues to the compost workshop in Hunan Agriculture and Livestock as one of the ingredients for making organic fertilizers; the subsidiary Hunan Agriculture and Livestock has set up storage tanks to receive the waste medicine residues from Kangzhe Hunan, which will ferment after mixing with organic fertilizers in a certain proportion to produce efficient fertilizers for crops, realizing the ecologic and organic recycling of non-hazardous waste; ✓ Recyclable waste such as waste paper, waste cartons, and waste plastic buckets produced by various workshops and departments is classified and collected for rational recycling or disposal; ✓ The operating procedure is strictly carried out in the wastewater treatment station to control impurities. In addition, oil separation tanks and septic tanks are established for primary treatment of the sludge.
Agriculture and livestock areas	✓ Adopting automatic collection devices to collect animal excrement and making it into organic fertilizers for crops via biological fermentation.

Measures to control hazardous waste
Hazardous waste is mainly from the inspection at laboratories in the pharmaceutical production business: ✓ Strictly complying with the management requirements for the use of related chemicals reagents, ordering and using according to the needs; ✓ Standardizing the operation process of inspection and testing, and minimizing the production of chemical waste residue and waste liquor; ✓ The used chemical reagent or expired chemical reagent are collected and stored in the temporary hazardous waste storage room in time, and a third-party specialized disposal company for hazardous waste is engaged to transfer and dispose of those hazardous wastes on a regular basis.

Table 22 Solid Waste Data

	Unit	**Year 2021**
Hazardous waste	Ton	3.2
Hazardous waste intensity	Ton/million RMB	0.00035
Non-hazardous waste	Ton	1,515.6
– Chinese herb residue	Ton	1,301.0
– Sewage sludge	Ton	63.1
– Household garbage	Ton	151.5
Non-hazardous waste intensity	Ton/million RMB	0.16

7.2 Resource Management

The Group attaches great importance to resource management. It has formulated *Management Regulations on Energy Conservation and Consumption Reduction, Regulations on Resource Conservation Management*, etc. to manage the efficient utilization of resources such as energy, water, packaging materials, and paper. It always focuses on energy conservation and emission reduction in production and operation, in an effort to reduce the impact on the environment and natural resources and promote the sustainable and harmonious development of enterprises and the environment.

The Group advocates a "green and low-carbon" office culture. During the Reporting Period, it further added hygiene, recovery and recycling in the *Proposal for Energy Saving and Consumption Reduction*, encouraging employees to strengthen effective measures for energy conservation and consumption reduction such as the reuse of recyclables, and enhancing the awareness of all employees on environmental protection.

7.2.1 Energy Conservation

The Group constantly promotes conservation and efficient utilization of energy and reduces greenhouse gas emissions from energy use. Compared to 2020, the conversion of electricity for comprehensive energy consumption intensity of the Group is reduced by 21.5% in 2021. In addition, the electricity consumption intensity of the Group is expected to be reduced by at least 2% by the end of 2023 comparing with 2020, and the Group takes the following measures to manage various energy consumption.

Electricity	Electricity is mainly used in pharmaceutical production and daily office: ✓ Scheduling production reasonably to reduce the production time in hot summer and reduce the energy consumption of workshops; ✓ Assigning dedicated personnel to conduct routine supervision and inspection of the use of electricity, and shut down the powered equipment in a timely manner; ✓ Replacing old electric appliances, installing energy-saving lamps such as LED lamps, and adopting solar equipment for street lamps and surveillance facilities; ✓ Setting the air conditioning temperature to 26 degrees Celsius, and regularly maintaining the air conditioners to reduce energy consumption; ✓ Rearranging unreasonable layout of electrical wiring that waste electric power in office areas; ✓ Posting slogans in workshops, office areas and other spaces to promote energy conservation and emission reduction.
Boiler fuel	Fuel is used mainly by boilers in the pharmaceutical production process: ✓ Small gas boilers have been put into use, and their use is reasonably adjusted according to the production load to reduce unnecessary fuel consumption; ✓ Strictly preventing the energy waste due to steam and liquid leakage or dripping, etc.; ✓ Maintaining boilers regularly to ensure reasonable and efficient use of gas boilers; ✓ Detecting and repairing the leakage of volatile organic compounds on a regular basis to reduce emission and leakage of the sealing points; ✓ Purchasing high-quality clean fuels to ensure efficient fuel utilization.
Gasoline	Gasoline is used mainly by vehicles for business use: ✓ Strictly implementing the *Regulations on Vehicle Management*, implementing vehicle registration and approval system for vehicle use, and encouraging employees to travel together to reduce the frequency of vehicle use; requiring drivers of corporate vehicles to do mileage registration and standardizing the use of corporate vehicles; ✓ Regularly inspecting and maintaining vehicles to ensure their normal operation and reduce fuel consumption; ✓ Encouraging employees to walk or take the battery-powered bicycles in the industry park as much as possible; ✓ Replacing vehicles that have been used for many years and consume a lot of fuel with vehicles of smaller engines, and preferring new-energy vehicles during purchase of new vehicles.
Diesel oil	Diesel oil is used mainly by greenhouses' insulation equipment and vehicles for the agricultural and livestock business, and standby power generators for the pharmaceutical production business: ✓ Reasonably scheduling transportation, to reduce the number of transportation times and the frequency of diesel engine use; ✓ Diesel generators are standby power generators for production; the pharmaceutical production department reduces the frequency of diesel generator use through staggered production peak scheduling, and regularly maintains diesel generators.

The Group's GHG emissions mostly come from direct emissions (Scope 1) of energy consumption of natural gas, gasoline, diesel oil, etc., and indirect emissions of purchased electricity (Scope 2).

Table 23 GHG Emission Data

	Unit	Year 2021
Direct GHG emission (Scope 1)[1]	Ton CO_2e	5,540.3
Indirect GHG emission (Scope 2)[2]	Ton CO_2e	4,866.8
Total GHG emission (Scope 1 + 2)	Ton CO_2e	10,407.1
Total GHG emission (Scope 1 + 2) intensity	Ton CO_2e/million RMB	1.13

In line with China's "dual carbon" goals, the Group set a target in 2020, expecting that by the end of 2023, the total GHG emission intensity will decline by no less than 5% from 2020 levels. Through the consumption control of various types of energy, the Group's GHG emissions have been successfully controlled, the GHG emission intensity has decreased by 33.7% in 2021 Compared to 2020.

7.2.2 Water Conservation

The Group's water consumption mainly derives from production and cleaning in drug plants, agricultural irrigation and livestock cultivation, as well as daily use by employees. Through internal policies such as the *Resource-conserving Management Regulations, Management Regulations on Energy Conservation and Consumption Reduction,* and *Regulations on Green Agriculture and Livestock*, the Group strengthens the management of water consumption and enhances employees' awareness of water conservation. During the Reporting Period, Kangzhe Hunan carried out comprehensive inspection of the pipeline network across the factory to prevent leakage and dripping and fixed all problems with hidden risks, thereby reducing the water waste. The Group has set a target to reduce the water consumption intensity by at least 5% by the end of 2023, comparing with 2020 and urges all water-using units to implement water-saving measures.

Production area in pharmaceutical factories	✓ Installing multi-level water meters in each workshop to effectively monitor the water consumption of key segments; ✓ Comprehensively checking, maintaining, and repairing the water supply system in the factory to reduce the waste of water; ✓ Recycling and reusing the cooling water for production in workshops; ✓ Collecting the domestic wastewater and production wastewater to the self-built sewage treatment station for treatment, and then recycling ✓ Avoiding excessive, irrigation water use, making the maximum use of the water treated by the sewage treatment station for watering, and extending the watering cycle properly.
Agricultural and livestock areas	✓ Upgrading the livestock and poultry breeding water equipment to automatic water-saving equipment; ✓ Replacing spray irrigation by drip irrigation in the greenhouse to reduce the water waste; ✓ Using reservoirs and pipeline ditches to store rainwater, and basically realizing the use of natural water for greenhouse irrigation.
Employees' office and living areas	✓ Promoting water conservation and punishing act of water wasting from the source; ✓ Substituting water-saving taps in office areas, dormitories, canteens, and other places, and adjusting properly the auto-flushing interval; ✓ Upgrading some aged automatic flush valves to prevent water waste due to the aging of equipment.

[1]Direct GHG emission: refers to emission from sources owned or controlled by a company, such as emission from coal-fired boilers, fuel vehicles, or processes owned or controlled by a company. ---- GHG Protocol *Corporate Accounting and Reporting Standard (Revised Edition)*

[2] Indirect GHG emission: refers to emission that is caused by the activities of a company but occurs from emission sources owned or controlled by other companies. ---- GHG Protocol *Corporate Accounting and Reporting Standard (Revised Edition)*

Each subsidiary of the Group regularly monitors and measures the risk of water use in operation; Kangzhe Hunan conducts a routine inspection of purified water once a week and a systematic verification once a year in accordance with the methods specified in the *Pharmacopoeia of the People's Republic of China*; according to the requirements of national standards, drinking water is inspected once a month, and a qualified third-party institution is commissioned for audit and inspection every year. Hebei Xili engaged a third-party institution to inspect the tap water every year. Hunan Agriculture and Livestock formulated the *Hunan Agriculture and Livestock Water Testing Methods*, adopting the inspection methods of "seeing, smelling, observing, drinking, tasting and checking", inspects the tap water every month, and invites health inspection and quarantine authorities to come to the site for centralized inspection and testing once a year, thereby ensuring that the water quality meets the standard and guaranteeing water safety.

7.2.3 Packaging Material and Paper Conservation

The Group requires warehouse management personnel to use packaging materials as per the need, and strictly control the quantity of packaging materials to reduce unnecessary waste according to the *Material Distribution Regulations*. In addition, the Group has taken the following measures to promote the recycling of packaging materials and reduce the quantity of packaging materials:

Recycling packaging materials	Reducing packaging materials
✓ Hunan Agriculture and Livestock stipulates that all packaging materials shall meet environmental protection requirements, and packaging recycling marks that meet national standards shall be clearly printed on them; ✓ Setting up packaging material recovery sites at warehouses, so that the recyclable packaging materials generated from the returned products and in other processes are classified and recovered; ✓ Recovering reusable materials such as damaged and old separation films, and using them as other fillers.	✓ Using machines for packaging and carrying out training on packaging operations to reduce waste of packaging materials; ✓ Delivering goods in the whole package whenever possible and reducing the use of packaging materials.

The Group imposes corresponding environmental requirements for packaging material suppliers, insists on choosing environment-friendly packaging materials with higher cost-effectiveness, and requires cooperative packaging material suppliers to provide their environmental evaluation certificates and material quality inspection certificates for production materials. The amount of formaldehyde released from cartons, pearl cotton, blister boxes and adhesives of various packaging materials shall meet the E2-level requirements of GB18580-2001 *Indoor Decorating and Renovating Materials - Limit of Formaldehyde Emission of Wood-based Panels and Finishing Products*.

The Group insists on regulated paper use, and suggests double-sided printing and the diversified use of paper; waste paper recovery bins are provided to encourage the secondary use of the paper not bearing confidential information, to fully promote a paperless office environment.

Table 24 Energy and Resource Utilization Data

	Unit	Year 2021
Conversion of electricity for comprehensive energy consumption	kWh	31,030,740.3
– Purchased electricity	kWh	7,970,635.2
– Purchased electricity intensity	kWh/million RMB	863.54
– Natural gas	m^3	1,101,296.0
– Alcohol-based liquid fuel	Ton	1,664.4
– Gasoline	Liter	69,872.7
– Diesel oil	Liter	857.5
– Liquefied gas	Kg	855.0
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	3,361.87
Total water consumption	m^3	206,317.2
Total water consumption intensity	m^3/million RMB	22.35
Total packaging material	Ton	831.7
– Paper product	Ton	476.5
– Glass bottle	Ton	213.1
– Plastics	Ton	142.1
Total packaging material intensity	Ton/million RMB	0.09
Office paper	Ton	11.7

7.3 Environment and Natural Resource

The Group focuses on developing employees' awareness of environmental protection, delivering green business philosophy, constantly exploring the operation mode of harmonious coexistence with nature, protecting biodiversity, and promoting green, harmonious and sustainable development with stakeholders. The Group's operating process has not involved the extraction and utilization of large quantities of natural resources, nor has had any material environmental impact. The Group has developed regulations such as *Factory Environment Sanitation Management Procedures* and *Comprehensive Contingency Plan for Environmental Emergencies* to implement internal management and protect the environment and natural resources.

The Group pays continuous attention to the protection of biodiversity in surrounding areas in pharmaceutical production business and agriculture and livestock business. The Group's business does not involve animal testing, none of its products and services have had any significant impact on biodiversity, and none of its operation sites have been set up in critical areas for nature conservation.

The Group's subsidiary Hunan Agriculture and Livestock has formulated the *Regulations on Green Agriculture and Livestock* to actively drive the realization of harmless agricultural and livestock production technology, systematic conservation of ecological environment, and environmentally friendly agricultural and livestock products, in an effort to control and mitigate environmental pollution. The Group's protection measures for environmental and natural resources include but are not limited to:

Office areas	Pharmaceutical production areas	Agriculture and livestock areas
✓ Promoting green office program in a top-down manner, starting from daily trifles to reduce resource consumption; ✓ Effectively managing the waste generated in daily work and life, proposing and practicing cyclic utilization to lower impacts on surrounding environment.	✓ Standardizing procurement to prevent environmental damages such as over-harvesting and destruction of biodiversity, etc.; ✓ Strengthening greening project in factories and protecting surrounding water and soil resources.	✓ Cleaning animal enclosure every day, and carrying out regular sanitary inspection to reduce the impact of the breeding area on the surrounding air and water area; ✓ Setting up double-layer protection in the breeding area to strictly prevent the pollution to the surrounding environment; ✓ Collecting and using natural precipitation for irrigation to reduce the consumption of purchased water sources.

7.4 Climate Change Response

The Task Force on Climate-Related Financial Disclosure (TCFD) was created by the Financial Stability Board (FSB) in 2015 to develop consistent guidelines for enterprises in order to assist them in making voluntary climate-related financial risk disclosures. Aligned with the recommendations of the TCFD, the Group voluntarily discloses climate-related information for the four sections of governance, strategy, risk management and metrics and targets through the consistent, comparable, reliable, clear and efficient framework, and will gradually improve the disclosure content in the coming years.

7.4.1 Governance

The main responsibilities of the ESG Committee under the Board of Directors of the Group include formulating and reviewing the Group's climate change-related management policies, strategies and structures, identifying trends, risks and opportunities related to climate change, and supervising the setting and accomplishment of the Group's climate change-related targets.

7.4.2 Strategy

The Group acknowledges that climate change will bring a variety of risks and opportunities to the Group's business. During the year, the Group identified physical risks and transition risks with significant impacts and likelihood from the perspective of business and day-to-day operations, explored potential opportunities, and actively took into account the results of analysis in making the Group's strategic decisions.

Table 25 Identified Climate-related Risks

Risk type	Implication	Potential risks	Potential financial impact
Physical Risk			
Acute risk	Asset losses caused by increasingly frequent extreme weather and climate-related natural disasters such as typhoons, heavy rains, floods, fires, heat waves, and other weather events.	Damage to the Group's fixed assets such as office properties, plant buildings, equipment and office facilities, operation and production interruption, and threats to the normal operations and labor safety of enterprises and the supply chain, caused by extreme weather.	Write-offs and early retirement of existing assets; Reduced revenue due to diminished operation and production capacity resulting from transportation difficulties, supply chain interruption, and staff's health and safety issues caused by disasters.
Chronic risk	Long-term shifts in climate patterns, such as rising global temperatures, rising sea levels, reduced water resources, biodiversity loss and changes in land productivity.	Change in the supply of raw materials for pharmaceutical production, as a result of the animal and plant growth environment change caused by climate change.	Reduced revenue due to supply chain interruption caused by raw material shortages; Increased use and operating costs of resources and energy due to continuous temperature rise.
Transition Risk			
Policy risk	Risks arising from relevant policy regulations, such as energy efficiency requirements and guidelines, more aggressive carbon reduction strategies adopted by countries, carbon pricing or carbon tax regimes implemented in the markets in which the Group operates, and stricter public disclosure requirements.	Potential impact on the Group of policies to be launched regarding the reduction of greenhouse gas emissions, use of less polluting energy, implementation of energy-saving solutions, implementation of water-saving measures, etc. and potentially stricter disclosure requirements from exchanges under China's "dual carbon" goal.	Increased compliance costs; Write-off of existing assets, asset impairment, and early retirement due to policy changes.
Market risk	Change in the supply and demand of existing products and services due to the intensified impact of factors related to climate change.	Changes in the incidence and infection rates of certain diseases, and increased requirements from patients for the effectiveness of corresponding medical products and services due to the impact of climatic factors.	R&D costs for enhancing the effectiveness of pharmaceutical products and services.
Reputation risk	If enterprises fail to take timely measures, the production and operation process will have a long-term destructive impact on the climate, which will in turn have a negative impact on the reputation of enterprises.	Given investors' growing demand and expectations for environment-friendly and low-carbon financing and investment, potential risks of failing to meet the expectations of customers, staff, business partners, and investors in the Group's environmental performance.	Reduced revenue due to reduced demand for products/ services; Additional costs resulting from the transition to low-emission production processes; Decreased available funds.

Table 26 Identified Climate-related Opportunities

Opportunity type	Implication	Potential opportunities	Potential financial impact
Resource opportunity	With the development and iteration of technology and the optimization of operation processes, the efficiency of the use of various types of resources in the operation process of enterprises continues to improve.	In the operation process, the Group effectively controls the use of resources in pharmaceutical production, agriculture and livestock, office work and other aspects by implementing the resource management system and equipment renewal, so as to improve the efficiency of resource use.	Reduced operating costs; Increased production capacity and increased revenue.
Energy opportunity	Opportunities brought by transformation of energy sources and supply methods for enterprise energy consumption, thanks to the evolving technology.	Change in the Group's energy use structure and carbon market trading opportunities brought by the vigorous promotion of the new energy industry by the policy and technological environment and the establishment of the carbon market under China's "dual carbon" goal.	Lowered levelized cost of energy, and lowered operating costs of the Group; Lowered carbon costs or additional profit through carbon trading; Reduced financing difficulties and increased availability of capital for low-carbon enterprises; Improved reputation leading to increased consumers' demand for products and services ,which contributes to higher revenue.
Product opportunity	New opportunities in products and services brought by consumers' willingness to pay for the added value of products and changes in consumer preferences.	Under the broad trend of consumption upgrade driven by the rapid development of China's economy, the preference of consumption has changed, and more attention is paid to the transmission of values in purchasing behavior. The Group's carbon emission control may give the brand an additional implication of low carbon and environmental protection to cater for the needs of consumers.	Increased revenue thanks to consumers' demand for low-emission products and services.
Market opportunity	Changes in the market landscape due to climate change, including the changes in the volumes of existing product and service markets and the emergence of new markets.	Due to the impact of climate change, the infection rates and incidence of diseases change, which leads to the changes in demand for different pharmaceutical products and services, and the emergence of the demand for innovative drugs.	Increased demand for existing products results in revenue growth; Sales of innovative drugs drives additional revenue.

7.4.3 Risk Management

In accordance with the classification of climate-related risks and potential financial impacts in the guidance issued by the TCFD, the Group carries out the climate-related risk identification work based on its business type and its operations. The *Emergency Response Plan for Environmental Incident* and the *Regulations on Environmental Protection* have been formulated that cover relevant management regulations on response to climate change with an aim to adapt to climate change and mitigate disaster risks. To effectively address the identified climate-related risks, the Group has taken a number of measures:

To address physical risks:	To address transition risks:
✓ Augmenting investment in energy-saving and emission-reduction measures, such as increasing the proportion of renewable energy used and reducing dependence on fossil fuels; ✓ Setting up an emergency team to strengthen routine inspection of office areas and factories, check that equipment is in good operation, and try to eliminate safety risks (e.g., strengthening routing inspection, and taking further thermal insulation measures for water pipes in cold winter, etc.).	✓ When building new plants in the future, the Group will carefully select construction sites, improve the quality of construction materials, and change for high-quality equipment to reduce or avoid the impact of extreme weather; ✓ Continuously tracking changes in diseases worldwide, including pandemics, and adjusting pharmaceutical production plans and innovative drug deployment plans based on analysis results.

7.4.4 Metrics and Targets

To supervise and review the Group's performance on climate change management, the Group will disclose climate-related quantitative indicators in its annual reports, and the ESG Working Group will be responsible for setting the Group's climate change-related targets and conducting regular follow-up reviews after they are checked and approved by the Board of Directors.

Table 27 Climate change-related metrics and targets

Metrics	Year 2021	Target
Direct GHG emission (Scope 1)	5,540.3 Ton CO_2e	To reduce total GHG emission intensity by no less than 5% in 2023 comparing with 2020
Indirect GHG emission (Scope 2)	4,866.8 Ton CO_2e	
Total GHG emission (Scope 1 + 2) intensity	1.13 Ton CO_2e /million RMB	

8. Community Dedication

The Group considers the efforts in promoting medical advancement as a momentum for its development, continuously pays close attention to the needs of communities, incorporates social service undertakings into the Group's long-term planning, and actively assumes corporate social responsibility. During the Reporting Period, the Group vigorously carried out a number of community service and public welfare activities such as health care, disease science popularization and charitable donations, to help build a healthy, harmonious and sustainable community environment.

8.1 Promoting Medical Advancement

The Group actively organises disease education activities for general patients. By cooperating with social groups, academic social organizations, and others, and utilising digital conference platforms, the Group promotes the dissemination and popularization of professional medical knowledge, and deepens the understanding and prevention of various diseases among community residents. During the Reporting Period, the Group continued to carry out various activities to contribute to the medical advancement, including but not limited to:

- Live-streaming event on National Eye Health Day

The Group joined hands with JD Health to hold a large live-streaming event under the theme of "Actively Prevent and Control Myopia and Build a Bright Future Together". Multiple well-known ophthalmologists were invited to give speeches. The live-streaming event attracted more than 10,000 people who watched and liked the event.

- Public lecture on inflammatory bowel disease

The Group teamed up with the Gastroenterology Branch of Chinese Medical Association, to hold a large-scale public lecture on World Inflammatory Bowel Disease Day, inviting experts in the field to talk about some of the most typical topics that patients were most concerned about. The total number of viewers online and offline exceeded 2,000.

- Public service event on hypertension

Over the years, the Group has continuously held public service consultation and health education activities for hypertension patients. During the Reporting Period, partnering with the Hypertension Branch of the Chinese Geriatrics Society, the Group held the "October - the Hypertension Publicity Month" activity, during which 30 offline public service consultation and patient education sessions were held, more than 200 medical staff participated, more than 700 patients attended.

8.2 Participation in Public Service Activities

In order to continuously fulfill social responsibilities and provide management standards for various public service activities, the Group has formulated and released the *External Donation Management Policy* to further define the principles of community public service donations, types of donations, internal approval procedures and rules. The Group requires that donations be made for legal, compliant, voluntary and non-profit purposes, that continuous attention be given to recipients of donations or their communities and the influence of donations be tracked. By preparing an annual quantitative tracking summary, the Group ensures that its donations serve the intended purposes and play a role in promoting community development.

During the Reporting Period, the Group took initiative to explore and grasp social activity opportunities that contributed to the development of public services, and successfully held a number of public service activities. The total amount of donation for public services in communities was about RMB1.2 million, including but not limited to:

- The Group actively contributed to the reconstruction work in Henan Province which was devastated by torrential rains and floods by donating RMB1.00 million to Henan Charity General Federation. All the donated funds have been used to support Henan's anti-flood program according to continuous tracking and follow-up.

- Since 2003, the Group's subsidiary in Hunan has been conducting long-term donation and funding for education to local educational institutions in Li County, Hunan Province. During the Reporting Period, it donated education funds of RMB130,000, all of which were used to reward and support outstanding teachers and poverty students. As of the end of 2021, its accumulated funding for local education bureaus and schools totaled about RMB1.15 million.

- Since 2017, the Group's subsidiary in Hunan has continuously carried out its nursing home support program, regularly providing benefits to local nursing homes in Li County, Hunan Province. During the Reporting Period, the Group provided seasonal fruits to over 40 elderly people in nursing homes, donating materials worth about RMB25,000.

- Since 2016, the Group's subsidiary in Hunan has provided free agricultural technology guidance to farmers around Li County, Hunan Province, as well as hired an annual average of about 5,000 local farmers, driving the re-employment of the local farmers in the neighborhood.

- For 3 consecutive years, the Group's Shenzhen subsidiary participated in the "Urban Superman" activity in Majialong Community in Shenzhen, donated about RMB25,000 accumulatively to 7 residents living in difficulties, and received the title of "Ambassador for Making Dreams Come True" from the local community.

- The Group's Shenzhen subsidiary donated consolation supplies to anti-pandemic and vaccination staff in Majialong Community in Shenzhen, expressing gratitude to the frontline anti-pandemic staff in communities through real actions.

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index

Environmental, Social and Governance General Disclosure and KPIs			Chapter
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	7. Environmental Protection
	A1.1	The types of emissions and respective emissions data	7.1 Environmental Protection Emission Control
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.2 Environmental Protection Resource Management 7.4 Environmental Protection Climate Change Response
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.1 Environmental Protection Emission Control
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	7.1 Environmental Protection Emission Control
	A1.5	Description of emission target(s) set and steps taken to achieve them	7.1 Environmental Protection Emission Control
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	7.1 Environmental Protection Emission Control
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	7. Environmental Protection
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	7.2 Environmental Protection Resource Management
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	7.2 Environmental Protection Resource Management
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	7.2 Environmental Protection Resource Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	7.2 Environmental Protection Resource Management
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	7.2 Environmental Protection Resource Management

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Chapter
A. Environmental			
A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	7.3 Environmental Protection Environment and Natural Resource
	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 Resource
A4: Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	7.4 Environmental Protection Climate Change Response
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	7.4 Environmental Protection Climate Change Response
B. Social			
Employment and Labour Practices			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	5.1 People-oriented Practice Employment Compliance
	B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	5.1 People-oriented Practice Employment Compliance
	B1.2	Employee turnover rate by gender, age group and geographical region.	5.1 People-oriented Practice Employment Compliance
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	5.2 People-oriented Practice Employees Care
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	5.2 People-oriented Practice Employees Care
	B2.2	Lost days due to work injury.	5.2 People-oriented Practice Employees Care
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	5.2 People-oriented Practice Employees Care

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Chapter
B. Social			
Employment and Labour Practices			
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. *Note: Training refers to vocational training. It may include internal and external courses paid by the employer.*	5.1 People-oriented Practice Employment Compliance
	B3.1	The percentage of employees trained by gender and employee category (e.g. mid-level and senior management, general employees).	5.1 People-oriented Practice Employment Compliance
	B3.2	The average training hours completed per employee by gender and employee category.	5.1 People-oriented Practice Employment Compliance
B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	5.1 People-oriented Practice Employment Compliance
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	5.1 People-oriented Practice Employment Compliance
	B4.2	Description of steps taken to eliminate such practices when discovered.	5.1 People-oriented Practice Employment Compliance
Operating Practices			
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	6. Cooperation and Mutual Benefit
	B5.1	Number of suppliers by geographical region.	6.1 Cooperation and Mutual Benefit Supply Chain Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	6.1 Cooperation and Mutual Benefit Supply Chain Management
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	6.1 Cooperation and Mutual Benefit Supply Chain Management 6.2 Cooperation and Mutual Benefit Sustainable Development of Supply Chain
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	6.1 Cooperation and Mutual Benefit Supply Chain Management 6.2 Cooperation and Mutual Benefit Sustainable Development of Supply Chain

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Chapter
B. Social			
Operating Practices			
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	4. Product Liability
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	4.2 Product Liability Pharmacovigilance and Product Recall
	B6.2	Number of products and service related complaints received and how they are dealt with.	4.1 Product Liability Quality of Product and Service
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	4.5 Product Liability Protection of Intellectual Properties Rights
	B6.4	Description of quality assurance process and recall procedures.	4.1 Product Liability Quality of Product and Service 4.2 Product Liability Pharmacovigilance and Product Recall
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	4.3 Product Liability Privacy Protection and Information Security
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	3. Compliance Operation
	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 Management
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	3. Compliance Operation
	B7.3	Description of anti-corruption training provided to directors and staff.	3.1 Compliance Operation Anti-corruption Management 3.2 Compliance Operation Compliant Marketing and Promotion

Appendix 1 Environmental, Social and Governance Reporting Guide Content Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Chapter
B. Social			
Community			
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	8. Community Dedication
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	8.1 Community Dedication Promoting Medical Advancement 8.2 Community Dedication Participation in Public Service Activities
	B8.2	Resources contributed (e.g. money or time) to the focus area.	8.2 Community Dedication Participation in Public Service Activities

Appendix 2 Key Environmental KPIs[3]

KPIs	Unit	Year 2019	Year 2020	Year 2021
Air Pollutants				
Sulfur Dioxide (SO_2)[4]	Kg	26.4	0.0	103.2
Nitrogen Oxide (NO_x)[4]	Kg	1,698.6	2,046.1	1,693.7
Particulate Matter (PM)[4]	Kg	238.4	165.5	143.3
Wastewater and Pollutants				
Wastewater	m^3	57,536.7	71,298.0	84,294.4
Wastewater intensity	m^3/million RMB	8.97	9.64	9.13
Ammonia Nitrogen (NH_3-N)[5]	Ton	0.1	0.1	0.2
Chemical Oxygen Demand (COD)[5]	Ton	1.2	0.8	2.3
GHG[6]				
Total GHG emission (Scope 1 + 2)[8]	Ton CO_2e	12,081.5	12,581.5	10,407.1
Total GHG emission (Scope 1 + 2) intensity[8]	Ton CO_2e /million RMB	1.88	1.70	1.13
Direct GHG emission (Scope 1)[7]	Ton CO_2e	5,854.1	5,895.3	5,540.3
Indirect GHG emission (Scope 2)	Ton CO_2e	6,227.4	6,686.2	4,866.8
Solid Waste				
Hazardous waste	Ton	0.2	4.3	3.2
Hazardous waste intensity	Ton/million RMB	0.00003	0.00058	0.00035
Non-hazardous waste	Ton	1,676.8	1,531.3	1,515.6
Non-hazardous waste intensity	Ton/million RMB	0.26	0.21	0.16

[3] From 2021 onwards, the Group adopts the revenue "in the case that all medicines were directly sold by the Group" for the calculation of the intensity of environmental indicators, that is, the total amount of emissions or use divided by the revenue "in the case that all medicines were directly sold by the Group" (RMB million) during the corresponding reporting period. The intensity data of environmental indicators in 2019 and 2020 have been restated accordingly.

[4] The annual emission of air pollutants is the estimated value, which is calculated from the total natural gas consumption of the boiler, the fixed gas consumption rated of the boiler and the emission rate. The emission rate comes from the test report of a professional third party hired by the Group so the emission rate is related to the production status and fuel quality at the test time point. In addition, the calculation method of air pollutants was changed. In the past, the annual emission was calculated according to the rate of a single test report during the Reporting Period. In 2021, the emission was calculated according to the average rate of multiple test reports during the Reporting Period. For details of the calculation formula, please refer to Appendix 4 "Calculation of Key Environmental KPIs"

[5] During the Reporting Period, the increase in NH_3-N and COD was mainly due to: (1) The calculation method was changed. In the past, the annual emission was calculated according to the rate of a single test report during the Reporting Period. In 2021, the emission was calculated according to the average rate of multiple test reports during the Reporting Period. For details of the calculation formula, please refer to Appendix 4 "Calculation of Key Environmental KPIs"; (2) The increase in production and the increase in the trial production of new drugs lead to an increase in production wastewater; (3) The change in market demand leads to the adjustment of the production structure, resulting in a change of pollutants in the production wastewater.

[6] The emission factors used in the calculation of GHGs in 2021 come from the revised version of HKEX Appendix II: Guidelines on Reporting Environmental Key Performance Indicators in May 2021. The emission factors used in the calculation of GHGs from 2019 to 2020 come from the version of HKEX Appendix II: Guidelines on Reporting Environmental Key Performance Indicators before May 2021 and after 2020.

[7] During the Reporting Period, the GHG emission (Scope 1) included the GHG reduction of newly planted 45 trees by Kangzhe Hunan in 2021.

Appendix 2 Key Environmental KPIs - continued

KPIs	Unit	Year 2019	Year 2020	Year 2021
Energy				
Conversion of electricity for comprehensive energy consumption[8]	kWh	30,443,173.8	31,675,959.7	31,030,740.3
Conversion of electricity for comprehensive energy consumption intensity[8]	kWh/million RMB	4,744.66	4,283.31	3,361.87
Purchased electricity	kWh	7,010,258.4	7,520,182.0	7,970,635.2
Purchased electricity intensity	kWh/million RMB	1,092.58	1,016.90	863.54
Natural gas	m^3	875,788.0	1,057,711.0	1,101,296.0
Alcohol-based liquid fuel	Ton	2,095.3	1,914.8	1,664.4
Gasoline[8]	Liter	80,272.9	67,814.2	69,872.7
Diesel oil[9]	Liter	1,616.9	2,117.3	857.5
Liquefied gas[10]	Kg	480.0	435.0	855.0
Water Resources				
Total water consumption[11]	m^3	204,687.8	282,658.0	206,317.2
Total water consumption intensity	m^3/million RMB	31.90	38.22	22.35
Packaging Materials/Office paper				
Total packaging materials	Ton	659.3	932.1	831.7
Total packaging material intensity	Ton/million RMB	0.10	0.13	0.09
Office paper[12]	Ton	8.0	8.3	11.7

[8] During the Reporting Period, the Group conducted a completeness and consistency review of the environmental data, and found that some production gasoline consumption data were missing in 2020. The Group restated the gasoline consumption data in 2020 in this Reporting Period. Relevant data in 2020 are also restated, such as comprehensive energy consumption converted electricity and its intensity, and total GHG emissions (scope 1+2) and its intensity.

[9] During the Reporting Period, most of the diesel oil was consumed by Hunan Agriculture and Livestock. Due to the decline in output, diesel consumption decreased.

[10] During the Reporting Period, all liquefied gas consumption was consumed by Hunan Agriculture and Livestock. As it added a canteen, the consumption of liquefied gas for cooking increased.

[11] During the Reporting Period, Kangzhe Hunan improved the water efficiency through extensive investigation and maintenance of potential water leakage problems, resulting in a decrease in the water consumption.

[12] During the Reporting Period, the number of employees in office increased, resulting in an increase in office paper use.

Appendix 3 Key Social KPIs

KPIs	Unit	Year 2019	Year 2020	Year 2021
Employment				
Total number of employees	Person	4,052	4,372	5,292
Number of male employees	Person	1,903	2,024	2,444
Number of female employees	Person	2,149	2,348	2,848
Number of employees in mid-level and senior management	Person	Non-disclosure	Non-disclosure	141
Number of male employees in mid-level and senior management	Person	Non-disclosure	Non-disclosure	97
Number of female employees in mid-level and senior management	Person	Non-disclosure	Non-disclosure	44
Number of contracted employees	Person	4,052	4,372	5,292
Number of dispatched employees	Person	0	0	0
Number of employees aged under 30	Person	2,150	2,180	2,108
Number of employees aged 30-50	Person	1,782	2,042	3,021
Number of employees aged over 50	Person	120	150	163
Number of Mainland China employees	Person	Non-disclosure	Non-disclosure	5,244
Number of HK, Macao, Taiwan. and overseas employees	Person	Non-disclosure	Non-disclosure	48
Employee Turnover				
Turnover rate of employees	%	18.6	13.9	17.8
Turnover rate of male employees	%	19.9	14.2	17.8
Turnover rate of female employees	%	17.3	13.7	17.8
Turnover rate of employees aged under 30	%	20.1	19.3	22.3
Turnover rate of employees aged 30-50	%	17.4	7.9	15.3
Turnover rate of employees aged over 50	%	5.5	6.8	9.7
Turnover rate of Mainland China employees	%	Non-disclosure	Non-disclosure	17.9
Turnover rate of HK, Macao, Taiwan and overseas employees	%	Non-disclosure	Non-disclosure	14.3
Occupational Health and Safety				
Working days lost due to work-related injury[13]	Day	338	240	375
Number of work-related fatalities	Person	0	0	0
Proportion of work-related fatalities	%	0	0	0
Proportion of employees with occupational health check benefit	%	100	100	100

[13] During the Reporting Period, the causes of employees' work injuries included traffic accidents, collisions and accidental falls on the way to and from work.

Appendix 3 Key Social KPIs - continued

KPIs	Unit	Year 2019	Year 2020	Year 2021
Training and Development				
Total employees training expenditure	Million RMB	2.9	5.3	6.3
Training coverage of employees	%	83.0	70.7	73.2
Training coverage of general employees[14]	%	99.6	98.1	97.2
Training coverage of mid-level and senior management[14]	%	0.4	1.9	2.8
Training coverage of male employees[14]	%	Non-disclosure	47.5	48.6
Training coverage of female employees[14]	%	Non-disclosure	52.5	51.4
Employees training duration per capita	Hour	34.1	18.5	18.0
Training duration per capita for general employees	Hour	34.4	18.6	18.2
Training duration per capita for mid-level and senior management	Hour	3.2	12.6	12.3
Training duration per capita for male employees	Hour	Non-disclosure	20.2	19.0
Training duration per capita for female employees	Hour	Non-disclosure	17.0	17.2
Supplier Management				
Total number of suppliers	Number	106	116	151
Number of Mainland China suppliers	Number	87	78	98
Number of HK, Macao, Taiwan and overseas suppliers	Number	19	38	53
Quality and Safety of Product and Service				
Response and handling rate for product and service quality related complaints	%	100	100	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0	0	0
Number of product and service related complaints	Number	150	137	160
Anti-corruption				
Corruption lawsuits	Number	0	0	0
Participation in Public Service Activities				
Total donation amount of public service activities	Million RMB	0.2	18.8	1.2

[14] During the Reporting Period, the Group adjusted the calculation method of the training coverage rate of general employees, mid-level and senior management, male employees and female employees according to the HKEX Appendix III: Guidelines on Reporting Social Key Performance Indicators. Use the formula: Coverage of trained employees by related categories = number of trained employees in related categories/total number of trained employees. The Group has restated relevant data for 2019 and 2020 according to this calculation method.

Appendix 4 Calculation of Key Environmental KPIs

Statistical targets: the Company, its wholly owned subsidiaries and majority owned subsidiaries
Intensity KPIs: From 2021 onwards, the Group adopts the revenue "in the case that all medicines were directly sold by the Group" for the calculation of the intensity of environmental indicators, that is, the total amount of emissions or use divided by the revenue "in the case that all medicines were directly sold by the Group"(RMB million) during the corresponding reporting period.

Indicator	Data source	Calculation method	Parameter usage
Sulfur Dioxide (SO_2)	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission	Rate of emission: average value of tests in the environmental test report
Nitrogen Oxide (NO_x)	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission	Rate of emission: average value of tests in the environmental test report
Particulate Matter (PM)	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission	Rate of emission: average value of tests in the environmental test report
Wastewater	Office/domestic wastewater: Water consumption* estimated coefficient or calculated according to monitoring result Production wastewater: calculated according to the monthly ledger of sewage treatment amount	/	/
Ammonia Nitrogen (NH_3-N)	Production wastewater: calculated according to the monthly ledger of sewage treatment amount	Ammonia nitrogen concentration*total amount of production wastewater discharged	Ammonia nitrogen concentration: average value of tests in the environmental test report
Chemical Oxygen Demand (COD)	Production wastewater: calculated according to the monthly ledger of sewage treatment amount	COD concentration*total amount of production wastewater discharged	COD concentration: average value of tests in the environmental test report
Direct GHG emission (Scope 1)	Consumption of fuels	Fuel consumption*(carbon dioxide emission coefficient + methane emission coefficient*methane GWP + nitrous oxide emission coefficient*nitrous oxide GWP)	Carbon dioxide emission coefficient/ methane emission coefficient/ methane GWP/nitrous oxide emission coefficient/nitrous oxide GWP: *Appendix 2:* Revised version of HKEX *Appendix II: Guidelines on Reporting Environmental Key Performance Indicators in May 2021*
Indirect GHG emission (Scope 2)	Total amount of purchased electricity	Electricity consumption amount*power grid carbon emission factor	Power grid carbon emission factor: Revised version of HKEX *Appendix II: Guidelines on Reporting Environmental Key Performance Indicators in May 2021*

Appendix 4 Calculation of Key Environmental KPIs - continued

Indicator	Data source	Calculation method	Parameter usage
Household garbage	Estimated based on production days or working days	Household garbage per day*production days or working days	/
Sewage sludge	Estimated according to the work record ledger	The number of sludge bags produced per day * the weight of each bag	/
Chinese herb residue	Total weight of the Chinese medicine input	/	/
Amount of waste chemicals generated in laboratories	Calculated according to transfer records of hazardous waste	/	/
Comprehensive energy consumption	Total amount of fuel consumption and purchased electricity	Fuel consumption * standard coal conversion coefficient * electric power equivalent value	Standardized coal coefficient and electric power equivalent value: National Standard of the People's Republic of China, *General Rules for Calculation of the Comprehensive Energy Consumption (GB/T2589-2020)*
Purchased electricity	Calculated according to the financial invoice	/	/
Natural gas	Calculated according to the financial invoice	/	/
Alcohol-based liquid fuel	Calculated according to the financial invoice	/	/
Gasoline	Calculated according to the financial invoice	/	/
Diesel oil	Calculated according to the financial invoice	/	/
Liquefied gas	Calculated according to the accounting documents	/	/
Water consumption	Calculated according to the financial invoice	/	/
Packaging materials	Calculated according to the actual amount used	/	/
Office Paper	Calculated according to the actual amount used	/	/