

2018 Corporate Social Responsibility Report



Shandong Xinhua Pharmaceutical Company Limited

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CHAPTER I OPENING

I. Declaration

The Board and all the Directors of the Company guarantee that the report does not contain any false representation, misleading statement, or major omission, and bear joint and several liabilities for the truthfulness, accuracy and completeness of the content hereof.

II. About This Report

This report is the third social responsibility report issued by Shandong Xinhua Pharmaceutical Company Limited (“the Company”). It describes in detail the Company’s performance of social responsibilities from 1 January to 31 December 2018 (certain facts stated herein go beyond such occurred during the reporting period), which summarizes the achievements for the entire year of 2018 and looks forward the development targets of social responsibilities in the future.

This report was prepared in accordance with “Shenzhen Stock Exchange Guidelines on Normative Operation of Listed Companies on the Main Board”(《深圳證券交易所主板上市公司運作規範指引》), the “Environmental, Social and Governance Reporting Guide” (《環境、社會及管治報告指引》) issued by Hong Kong Stock Exchange, with reference to the “Guidelines to Chinese State-owned Enterprises on Fulfilling Corporate Social Responsibilities”(《關於中央企業履行社會責任的指導意見》) issued by State-owned Assets Supervision and Administration Commission (the “SASAC”) and so on. All of the related data and cases quoted in this report are extracted from relevant statistics of the Company and each of its subsidiaries. All of the related financial information is extracted from the 2018 Annual Results Announcement published. Monetary units mentioned in this report are all denominated in Renminbi.

This report was prepared in both Chinese and English. In case of any discrepancies, the Chinese version shall prevail. This report seeks to be objective and complete. However, the disclosure of social responsibilities may not be entirely satisfactory due to various objective constraints. You are welcome to express your opinions and suggestions through the contacts provided in the last section of this report so that we can continuously improve and enhance the disclosure of our social responsibilities.

This report is published electronically, which can be downloaded from the websites of cninfo (www.cninfo.com.cn) and the Hong Kong Stock Exchange (www.hkex.com.hk) or the official website of the Company (www.xhzy.com).

III. Corporate Profile

Shandong Xinhua Pharmaceutical Company Limited (hereinafter referred to as the “Company”), formerly known as Shandong Xinhua Pharmaceutical Factory that was established in 1943 at Jiaodong Anti-Japanese Base, is a selected large-scale backbone pharmaceutical company in the PRC, the major producer and exporter of analgesics in Asia and an important manufacturer in China for the drugs for cardio cerebrovascular system, anti-infection and central nervous system, with a relatively leading position and great influence in the chemical and pharmaceutical industry in the PRC. As a dual-listed (A+H shares) company, the Company was awarded top 10 technological innovation enterprises of the pharmaceutical industry in the PRC and top 50 best enterprises of the pharmaceutical industry in the PRC, with 12 controlled subsidiaries currently. Major subsidiaries include Zibo Xinhua-Perrigo Pharmaceutical Company Limited (Perrigo Company), Xinhua Pharmaceutical (Shouguang) Company Limited (Shouguang Company), Shandong Zibo Xincat Pharmaceutical Co., Ltd. (Xincat Company).

Currently, bulk pharmaceuticals produced by the Company amounted to 31,000 tons or above annually. The Company is the major producer of drugs such as Analgin, Ibuprofen, Aspirin, Caffeine and Levodopa all around the world, with 10 exclusive varieties of bulk pharmaceuticals such as Etofesalamide, among which, 8 major bulk pharmaceuticals attained a leading position in the PRC in terms of market presence. The annual productivity of preparations amounted to 7 billion tablets, 1 billion injections, 1.5 billion capsules. Since the establishment of the Company, the Company put technology and quality in first priority by adhering to the concept of “product quality connects to the future of the Company and drug quality matters to the lives of people”, strictly controlling quality in the production process and constantly striving for excellence. The Company was the first pharmaceutical and chemical enterprise to obtain the certificates of ISO9001, ISO14001 and ISO10012 in the PRC. All bulk pharmaceuticals and types of preparations in production have passed GMP accreditation. 14 products such as Theophylline and Ibuprofen have passed US FDA accreditation; 10 products such as Theophylline and Aspirin have been granted the COS Certificate from EDQM; Caffeine products passed the social responsibility certificate and environment certificate from USA FDA and HACCP accreditation. In addition, several products have registered in countries such as Russia, Canada and India.

The Company, maintaining a relatively complete research and development system, is a national high and new technology enterprise, and a key high and new technology enterprise under the National Torch Program. The Company has the first national-level enterprise technology centers and post-doctoral research station. As the creator of the “Industry-University-Research” model in favor of the same industry in the PRC, the Company carried out extensive cooperation with more than 50 scientific and research institutions and obtained certain scientific achievements. Currently, the Company obtained 8 approvals for national first class new drugs and 218 patents.

With 75 years of development, the Company has established production parks, namely, the main factory in the headquarters, and No. 1 Branch Factory and No. 2 Branch Factory, forming a rational deployment of joint development of multiple sectors such as bulk pharmaceuticals, preparations and medical intermediate. The Company follows the path of scientific, harmonious and internationalized development unswervingly, pursues self-improvement, expands markets, optimizes structure and increases efficiency to achieve sound and rapid development.

IV. Social Responsibility System

1. Social Responsibility Plan

The Company has been adopting “protecting health and benefiting community” as its corporate missions, duly attaching social responsibility to the Company’s value system and concept system, and conducting social responsibility plan in respect of, among others, corporate operation, value achievement, social impact and environmental performance. It also carried out activities to implement social responsibility management within the company with an aim to achieve all-covered, duly performed and increasingly completed targets of social responsibility, in order to promote the sustainable development of the Company. Following the completion of First Phase Employee Stock Ownership Scheme 2017, the Company launched the Share Option Scheme in 2018, improving the long-term incentive mechanism and thereby promoting the long-term development.

2. Incentive Mechanism

The Company successively launched a series of reward management systems, which had formed the incentive system for social responsibility management. With continuous and effective implementation, the Company showed its appreciation to teams and individuals that made outstanding contributions in business operations, scientific research and development, safety production, energy saving and environmental protection, humanity development and other relevant aspects, and granted full recognition to all behaviors and achievements of the Company with regard to fulfilling social responsibilities. The establishment and optimization of the incentive mechanism enables the Company to build a typical model and delivers very positive impacts for the fulfillment of corporate social responsibilities.

3. Interested Parties

Throughout the years, the Company has been maintaining harmonious, cooperative and win-win relationship with interested parties under mutual trust and has established standardized, positive and smooth communication with various parties, achieved continuous improvement in

values of internal and external interested parties, and strived to adopt a business model to pursue coordinated, sharing, win-win, prosperous and harmonious development with such interested parties.

4. Internal and External Communication Mechanism

Through establishing a mature and smooth network for internal and external communication, the Company has built up an all-round and dimensional platform for internal communication in order to facilitate information transmission and effective communication between all functional departments that are responsible for the implementation of social responsibility, successfully establishing an internal communication system that allows the timely receipt of information and frequent feedback to questions. In terms of external communication, the Company discloses its performance on social responsibilities to the public by, among others, having information circulated through public websites, mainstream media and corporate website. The management of the Company also discloses the Company's performance of social responsibilities to the public by actively attending major activities and meetings and involving interactions among news media.

V. Enterprise Honors Obtained in the Year 2018

1. Green Factory of Ministry of Industry and Information Technology (3rd Batch)
2. Xinhua Pharm Online Energy Monitoring System named as National Demonstration Project for Energy and Resource Measurement Services (新華制藥能源線上監測系統獲國家能源資源計量服務示範項目)
3. Outstanding Enterprise Brand of Exported Bulk Pharmaceuticals in the Chemical Pharmaceutical Industry of the PRC for 2018 (2018 年度中國化學制藥行業原料藥出口型優秀企業品牌)
4. Outstanding Enterprise Brand of Exported Preparations in the Chemical Pharmaceutical Industry of the PRC for 2018 (2018 年度中國化學制藥行業製劑出口型優秀企業品牌)
5. Best Enterprise Brand of Listed Companies in the Pharmaceutical Industry of the PRC 2018 (2018 年度中國化學制藥行業上市公司優秀企業品牌)
6. Pharmaceutical Industry Company of Brand Influence 2018 (2018 年度品牌影響力醫藥工業企業)

7. 2018 Best Pharmaceutical Industry Company since Reform and Opening up (2018 年度改革開放醫藥工業優秀企業)
8. Shandong Manufacturing Champion of Single Title (Antipyretic Analgesics) (山東省製造業單項冠軍企業（解熱鎮痛藥）)
9. Key Company for Cultivating Shandong Time-honored Brands (山東省百年品牌重點培育企業)
10. Shandong Top 100 Innovative Enterprises 2018 (2018 山東專利創新企業百強)
11. Provincial Water-saving Enterprise 2018 (2018 年省級節水型企業)
12. Shandong Work Safety Model Company (山東省安全生產先進企業)
13. Shandong Model Company for University-Industry Collaboration (山東省校企合作先進單位)
14. “Best Shandong Pharmaceutical Company” at Ceremony in Celebration of 40th Anniversary of Reform and Opening up (紀念改革開放四十周年「最美山東藥企」)

CHAPTER II CORPORATE OPERATION AND GOVERNANCE

I. Corporate Governance Structure

In 2018, the Company further optimized its governance structure, strengthened risk management and control, enhanced the operational efficiency of the Company and formed an operation system that closely connected the board of directors, board of supervisors and the managerial level and allowed the effective communication among them which has improved the standardization of operation on an ongoing basis. With strict compliance with the requirements of the Company Law, the Securities Law, the Corporate Governance for Listed Companies, and Rules for Shareholders' General Meetings of Listed Companies, Shenzhen Stock Exchange, Stock Listing Rules of SEHK and other laws and regulations as well as related documents, the Company has established a relatively complete corporate governance structure to standardize the operation of the Company. The Articles of Association set out clear responsibility for shareholders' general meeting of the Company, with specific rules of procedure which can be implemented effectively. The responsibilities of the board of directors and the board of supervisors of the Company are clear, with specific rules of procedure which can be implemented effectively. All directors and supervisors had duly performed their duties. Pursuant to the Articles of Association and Work Regulations for General Managers, the managerial level of the Company takes charge of the production and operation of the Company, organizes and implements the resolutions of the board of directors, reports to the board of directors and is subject to the supervision of the board of supervisors.

The board of directors is responsible for guiding and leading the affairs of the Company, formulating strategic directions and setting goals and business development plans. The managerial level of the Company is responsible for executing the strategies, goals and plans passed by the board of directors. The board of directors has formulated the Rules of Procedure for the Board of Directors and the Work Regulations for General Managers, respectively, in accordance with relevant laws and regulations of the PRC and the Listing Rules of the listing places at home or abroad to further clarify the terms of reference of the board of directors, standardize the internal work procedure of the board of directors, fully develop the role of the board of director as the core decision-maker on operation while further streamlining the duties, working units and work procedures for general managers.

By adhering to the concept of “performance-oriented and scientific” management, the Company has established a more mature mechanism for internal control, improved the operational efficiency of the Company, practically enhanced the Company's level of decision-making with regard to various perspectives such as establishment of unit, procedure organization, formulation of laws and regulations, strictly complied with the requirements of the Articles of Association, Rules for Shareholders' Meeting of Listed Companies, Rules of Procedure for Board of Directors, Rules of Procedure for Board of Supervisors, Rules of Procedure for Professional Committees and relevant policies on internal control of the Company, designed a rational internal management system, effectively ensured prudent

decision-making and standardized operation of the shareholders' general meeting, board of directors, board of supervisors and managerial level, practically safeguarded the legal rights of the shareholders and creditors of the Company, continuously optimized and standardized the organizational behavior of the Company and promoted the smooth commencement and stable operation of the business of the Company.

II. Concept System

Management concept: performance-oriented and scientific management

Operation concept: eyes on the future to pursue win-win cooperation

Development concept: quality as the foundation of development, innovation as the motivation of development

Innovation concept: to keep moving on, to excel oneself and to explore a better self

Quality concept: product quality connects to the future of the Company and drug quality matters to the lives of people

Safety concept: Safety is the insurance of the happiness of employees; safety is the prerequisite for successful business performance of a company

Environment concept: environmental protection is the essence of the life and development of Xinhua

Talent concept: to choose talents with both morals and talents; everyone has different talents, with the potential to develop their best

Study concept: I learn, I improve

III. Operating Results

The Company actively adopted practical and effective measures to cope with the adverse influence by the downward trend of the growth in the global economy and the intensifying industrial competitiveness, to improve operational efficiency, accelerate the progress of the structural transformation and upgrading of enterprise, and ultimately achieve sustainable and stable development of the primary business of the Company, so as to reward the shareholders and interested parties of the Company with excellent operating results. In 2018, the Group continued to implement its innovation-driven, international-based development strategy and actively advance its greater preparations strategy; It attached high importance to structural

adjustment of its products, further consolidated its foundation in management and reinforced the construction of production line engineering projects; It strived to overcome various adversities in market competition and seize development opportunities, such that the operating results of the Company achieved a historical high.

In 2018, the operating income amounted to RMB5,207.87 million, representing a year-on-year increase of 15.33%; the total profit amounted to RMB325.08million, representing a year-on-year increase of 21.22%; the actual tax paid by the Company for the year amounted to RMB378.17 million. The Company was granted “Top 50 Industrial Enterprises” by ZiBo city and “Advanced Unit in Financial Contribution” by the administrative committee of the new and high-tech district. Throughout the years, the Company has been maintaining excellent credit rating, and has a good relationship with many financial institutions, such as ICBC, CCB, ABC, China Eximbank, CMBC, CITIC, CIB.

IV. Internal Control and Supervision

The Company comprehensively implemented the “Basic Norms of Internal Control of Enterprises” (《企業內部控制基本規範》), “Guidance on the Application of Enterprise Internal Control” (《企業內部控制應用指引》) and “Guidelines for the Evaluation of Enterprise Internal Control” (《企業內部控制評價指引》) published by five departments including the Ministry of Finance by establishing an internal control working group, with reference to the internal control management system and evaluation measures of the Company, to take full responsibility for the implementation of the evaluation of internal control.

1. Continuously optimizing the internal control system of the Company

Under the framework of comprehensive risk management, the Company has been continuously promoting and optimizing the establishment of internal control system, the control coverage of which includes all key business procedures and items of the Company, and has paid extra attention to important business units, important business items and high-risk areas, with a relatively higher controllability and the ability to satisfy the requirements of external regulatory authorities at the same time. The Company made amendments to the “Comprehensive Risk Management Measures”, which upgraded internal control from detailed control to a strategic level, providing guidance and ideas for the operation and evaluation of internal control. The Company carried out dynamic management on risks to regularly predict and assess all existing and potential risks and formulated corresponding solutions to internal control to achieve the control procedure of ex-ante prediction, in-process control and ex-post rectification. The

Company adopted various effective measures to optimize the establishment of internal control system, made amendments to internal management policies, actively carried out internal special checks and internal evaluation on a regular basis, and strictly implemented various measures on internal rectification to ensure the sound and safe operation of the Company.

2. Carrying out internal special checks

Carrying out internal special checks is an important session of internal control management. The Company initiated inspection on the establishment and implementation of the internal control system of its parent and subsidiaries, so as to timely identify the weaknesses of the enterprises in terms of internal control, reveal potential risks, continuously optimize the internal control system and promote the establishment of risk systems.

In 2018, the Company organized a number of internal special checks, which were conducted under the leadership of the audit department, with working groups formed by related members of the production and operation departments and financial departments of the subsidiaries, focusing on high-risk areas of the Company, which include risks on capital and asset management, engineering projects risks, procurement management risks, sales management risks and financial reporting risks. Members of the inspection groups made appropriate and effective evaluation against the internal control risks on the abovementioned businesses and items, and urged relevant departments to improve and optimize.

The audit department fulfilled its audit and supervision duties by participating in 54 bidding price comparison activities held by the construction department and the purchasing department during 2018, attending tendering meetings, carefully reviewing bidding terms set out in bidding documents, and participating in the scoring process of business tendering. The department reviewed 75 contracts, and performed professional audit on the supplementary terms in contracts to be signed by referring to the Company's actual conditions, with focuses on the project settlement, the determination of labour cost and the viability of settlement terms of lump-sum contracts. It provided 14 pieces of audit advice, which have been adopted, and fulfilled its professional supervision and guidance duties.

In 2018, the audit department completed five financial audit projects, and reviewed the audit work of 2017 in accordance with "Internal Audit Standards" and audit plans of the Company. It performed successive audit in respect of audit findings, reviewed the rectification for such issues, and invited entities under the audit to comment on the audit work of 2017.

3. Actively consolidating internal control evaluation

ShineWing has been engaged by the Company to conduct a comprehensive and independent audit on the internal control system of the Company and issue the unqualified opinion "Audit Report of Internal Control for the Year of 2018". During the reporting period, the Company has

improved and optimized the businesses and items which were included in the scope of evaluation in accordance with the suggestions of internal control evaluation. On basis of the day-to-day monitoring and special checking of the Company' s internal control, the Company has assessed the effectiveness of the design and operation of its internal control as at 31 December 2018, completed various tasks with regard to the establishment of internal control during the year, and timely reported to the Independent Audit Committee on the evaluation progress. Having been considered and approved by board of directors, the internal control evaluation report was disclosed publicly on 25 March 2019.

CHAPTER III SOCIAL PERFORMANCE

I. Safety Production

The Company thoroughly implemented the safety concept of “Safety is the insurance of the happiness of employees; safety is the prerequisite for successful business performance of a company”, strengthened the establishment of safety responsibility system within the Company at all levels, and continuously intensified the concept of safety production through rules and regulations, organization protection, condition protection, education training, supervision and inspection, and the promotion of a safety culture.

1. Safety Management System

The Company attached great importance to the occupational safety and health of employees, strictly complied with the Law of the People's Republic of China on Work Safety (《中華人民共和國安全生產法》), Law of the People's Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), Fire Protection Law of the People's Republic of China (《中華人民共和國消防法》), Regulation for Work Safety in Shandong Province (《山東省安全生產條例》), Regulation for Work Safety in Zibo City (《淄博市安全生產條例》) and other laws and regulations, and promulgated and implemented the Management System for Production Safety of Shandong Xinhua Pharmaceutical Company Limited (《山東新華制藥股份有限公司安全生產管理制度》).

Pursuant to the requirements of laws and regulations, the Company has established a safety management system with the chairman of the Company as the chief-in-charge. By entering into “Letter of Responsibility for Safety Production” with principal of various units, the Company gradually carried forward and attached the responsibilities to people, promoted hierarchical risk management and control, streamlined the standardization of safety production, committed to establish an all-covered safety responsibility system that involves all employees, so as to facilitate appropriate safety supervision and effective implementation of safety inspection of the Company.

Adhering to the working attitude of “Safety is of great importance”, the Company carried out special rectification actions on safety production focusing on safety production, fire safety, traffic safety, construction operation, special equipment and hazardous chemicals, etc., and seriously investigated in potential safety risks and carried out rectification measures in respect of persons, positions, time and space one by one, in order to identify problems and mitigate potential risks in a timely manner.

2. Safety Management Measures

(1) Regular Safety Meeting

The Company held one regular work safety meeting every quarter, and the general manager was responsible for organising such meeting. At the meeting, issues identified in work safety inspection of the quarter would be reported, and solutions would be proposed, so that reward and punishment were clear and well-founded.

(2) Investment and construction of equipment and facilities for work safety

The Company increased investment in work safety. In 2018, investment in work safety amounted to RMB39.31 million, including safety investment of the parent company of RMB25 million. The fund mainly flowed to potassium isopropoxide distillation in Workshop 102, hydrogenation upgrade in Workshop 104 and other projects to further improve the safety and automation level of equipment. Projects including the application of automatic packaging line in preparation workshop, installation of ventilation facilities in synthesis plant of Workshop 103 relieved staffs from intensive work and improved the working environment of staffs.

(3) Carrying out standardized construction for safety production

By actively exploring new methods of management for safety production, the Company established standardized safety system to ensure that documents including rules and regulations on safety production, safety operational procedures, corporate management information, technological information and on-site records will be managed to be gradually in line with the requirements on safety standardization and the actual condition of the Company. The Company strictly implemented the laws and regulations in relation to safety production, carried out regular conformance evaluation, conducted investigation in non-conformant items, vigorously carried out standardized construction for safety production and promoted the operational procedures for safety production standardization.

3. Safety Culture Cultivation

The Company commenced safety promotion and training by different means, required the employees to prepare for danger in times of safety, fully comprehended the concept of safety production, strengthened the awareness education of “redline” of employees, set up an occupational health system to protect the health of employees, further strengthened the scope of evaluation, effectively implemented laws and regulations, and fully realized “three ratings and one evaluation”.

The Company carried out a number of activities during the year and delivered speeches on the theme of safety culture within the Company and effectively improved the awareness of safety

production. The Company carried out 6S management, process reengineering, conducted trainings on safety production regularly, encouraged employees to put forward their opinions, selected “golden ideas” on outstanding safety technology and safety production, and organized experience introduction for safety demonstration class. Following the examples of model teams, the employees helped each other and learnt from each other, creating a desirable atmosphere to nurture models for safety production. The Company organized related mass activities such as micro video contest, safety production month, sports meeting on fire safety, skill contest for young employees, composition contest on safety issues, safety comic and blackboard design contest, and made use of platforms such as bulletin boards, WeChat platform, Xinhua Pharmaceutical News and safety briefings to properly promote the safety culture.

The Company strictly executed the “major four plans”, namely “Safety Inspection Plan”, “Safety Training Plan”, “Plan on Safety Technology and Measures” and “Emergency Drill Plan”. To improve the safety awareness and operation of staffs of all level, the Company organised special trainings, offering work safety and dual prevention system construction trainings to 220 group leaders and 200 senior management members, middle management members and management personnel in the production system. It held six sessions of forum for safety officer to improve the safety awareness and operation of safety management personnel. Through training, practice and written test, 479 special work personnel and supervisors were qualified for working at high places and in confined space.

The Company initiated the construction of self-management group, and selected 12 self-management groups as the first batch in the campaign. It conducted random inspection on 15 groups, reviewed workshop safety management systems of 14 production units, inspected safety management of 5 production subsidiaries, and issued inspection reports. The Company organised 10 company-level emergency drills, 59 workshop-level emergency drills for 15 production units, and 660 group-level emergency drills, which included 140 night drills.

4. Safety Inspection Activities

The Company launched 6S comprehensive inspections and dynamic checks continuously, including four 6S comprehensive inspections and six dynamic checks in 2018. It organised 42 group leaders to visited sister companies to exchange experience and views about on-site 7S management, standardised inspection, maintenance and repair and group safety culture construction, helping group leaders to realise further improvement.

The Company performed four-level potential risk identification effectively, launched 5 company-level activities for comprehensive potential risk identification and 12 activities for special potential risk identification, identifying a total of 497 potential risks and recording a rectification rate of 100%.

All subsidiaries launched inspections on both regular and irregular basis, identified potential

safety risks in a timely manner and recorded a rectification rate of 100%.

The Guidelines on Construction of Dual Prevention System for Bulk Pharmaceuticals, with the Company leading the preparation work, was announced as a provincial standard of Shandong Province. The dual prevention system construction of the Company was honoured Management Innovation Silver Award for Shandong Corporate Management Modernisation.

There was no safety incident of general or above level.

II. Social Contribution

1. Product Quality Assurance

(1) Quality Management and Control

The Company strictly controlled quality and has been bearing in mind the core objectives of corporate development is to “protect health and contribute to the society”, adhering to the quality concept of “product quality connects to the future of the Company and drug quality matters to the lives of people”, regarding drug quality and safety as the essence of the Company’s business, continuously improved the level of quality management of products, strengthened the quality management of production, strived to ensure the safety of raw materials, the high quality of production and tailor-made sales services, so as to safeguard the development of the Company as well as the healthy life and promising future of the people.

The Company paid great attention to the product quality and established the well-designed quality management system for drugs in compliance with the “Good Manufacturing Practice for Drugs” (《藥品生產質量管理規範》) (2010 Revision), which runs throughout the life cycle of products and covers all elements affecting the quality of drugs.

The Company strictly abides by the “Drug Administration Law of the People's Republic of China” (《中華人民共和國藥品管理法》), “Good Supply Practice for Pharmaceutical Products” (《藥品經營質量管理規範 (GSP) 》) as well as other laws and regulations and relevant systems of the Company. In 2017, the Company successfully obtained the new ISO9001/14001 dual system certificate and continued to deepen the 6S management. In 2018, there was no product quality incident of general or above level or material quality complaint.

(2) Establishment of well-designed drug recall procedures

Drug recall drills are conducted by the Company every two years. When the product is found to be exposed to hidden quality and safety hazards after hitting the market, the Company shall strictly implement the “Management Standards for Handling Customer Complaints on Preparations and the Returned Products” (《製劑顧客投訴及退回產品處理管理標準》), “Management Standards for Product Recall” (《產品召回管理標準》) and other rules. When

the product is found to be unqualified by customers after delivery, the Company shall handle the case in accordance with the “Management Standard for Handling Customer Complaints and Returned Products” (《顧客投訴及退回產品處理管理標準》); when the product is found to be unqualified by the Company after delivery and shall be recalled, the Company shall recall the product in accordance with the requirements of the “Management Standards for Product Recall” (《產品召回管理標準》).

(3) Effectiveness of quality management and control

During the year, the Company obtained veterinary drug GMP certificates and production permits for eight products. It passed 169 official inspections and foreign audits, completed DMF registration for 16 products in 50 countries, and acquired international registration number for five products.

The Company further promoted the upgrade for continuity, automation, intelligence, completed 15 key projects during the year, improving the production automation and boosting the productivity significantly.

2. Streamlined Terminal Sales Channels

The Company has been constantly streamlining the market of finished drugs and increasing the efforts and investments in terminal sales. Through promoting and introducing the products of the Company through terminal sales channels such as community hospitals (clinics), community drug stores and township health centers while paying regular visits through these terminal sales channels, the Company has spread the proper knowledge on the characteristics and indications of the drugs to the public, enhancing people’s understandings towards medical knowledge, which not only enabled the Company to secure a dominant market share for its finished drugs in the terminal sales market, but also enabled people to benefit from the drugs of the Company with quality assurance, which relieved people from diseases and gained recognition from the society.

In order to ensure the right of citizens to use low-price drugs, the Company seized the chance of the issuance of “Opinions on the Guarantee for the Supply of Low-price Drugs” (《關於做好常用低價藥品供應保障工作的意見》) by 8 departments such as Ministry of Health and National Development and Reform Commission to accelerate the pace to solve various problems such as out of stock, product pricing and team building internally, and to actively pay attention to and cope with policies and opinions published by the state and provinces to stimulate the construction of relevant channels externally.

3. Relationships with Investors, Customers and Suppliers

(1) Management of relationship with investors

As an enterprise listed both domestically and overseas, the Company firmly believes that the key to maintain excellent corporate governance is to connect effectively and closely with its investors. Relationship with investors is an indispensable session for listed companies to maintain outstanding corporate governance. In this regard, the Company formulated the Management System for Investor Relations of Shandong Xinhua Pharmaceutical Company Limited (《山東新華制藥股份有限公司投資者關係管理制度》) and the Administration Measures for Information Disclosure of Shandong Xinhua Pharmaceutical Company Limited (《山東新華制藥股份有限公司信息披露管理辦法》). With adequate information disclosure, the Company strives to strengthen communication with investors and facilitate the understanding and recognition of investors towards the Company, and aims to cultivate the corporate culture that respects investors and to realize the ultimate goal of maximizing the corporate value and shareholders' interests.

The Company has always been committed to protecting the interests of medium and small investors, and timely updated industry information, corporate information and business development to establish a fair, open, accurate and transparent platform for information disclosure so as to facilitate the mutual communication between the investors and the Company.

During the reporting period, the Company strictly complied with the listing rules and other relevant requirements of Shenzhen Stock Exchange and Hong Kong Stock Exchange. When announcing interim and annual results, the Company prepared all types of materials, such as results announcement and briefings, and provided real-time information for investors through the website of stock exchanges and the website of the Company.

The Company took an active participation in varieties of activities related to investor relations such as welcoming different investors and addressing their enquiries during the year, interacting with public investors on the Internet and replying their questions by introducing market condition, the operating results, business development and future prospects of the Company in a variety of ways, further assisting the public in understanding the Company and building a better image for the Company.

(2) Management of relationships with customers

A sound customer management system forms an integral part of the business development of the Company. The Company has been adhering to the concept of “customer-oriented” services. Targeting on customers from different sectors of the Company, the major business sectors organized, analyzed and classified different levels to manage information such as basic

information and credit records of customers by way of in-depth investigation in light of business nature, attaining favorable control over sales management, marketing management and customer service management of the Company based on its ordinary and usual business.

The Company attaches great importance to customer management system. Currently, the Company maintains a large customer information system and has built multi-dimensional customer information control systems to carry out better confidential work for customer information, and has performed regular upgrade to improve its stability and security. In order to satisfy different requirements of customers, the Company has set up contact with each type of customers and understands different needs of customers by communicating and revisiting them and carrying out tailored-made services on such basis.

The Company takes the initiative to deal with complaints and feedback from customers by listening carefully and making records. Based on the issues complained by customers, the Company determines the specific acceptance departments and the person in charge, immediately formulates proposals so as to track the complaints, understand and handle the situation, communicate and revisit the matter with customers in a timely manner. The Company concludes and evaluates the process of dealing with complaints, learns from experience and puts forward suggestions for improvement in order to optimize the operation management and business operation procedure of the Company, hence improving the quality and level of customer services while enhancing the popularity, reputation and customer loyalty of the Company.

Under the “customer-oriented” principle, through surveys on customer satisfaction and regular analysis on market demand, the Company constantly keeps itself abreast of new demands and expectations of the customers, gets familiarized with the changing consumption pattern of customers, and continuously improves the production, operation and service quality of the Company.

The Company maintains good partnerships with a number of domestic and overseas famous enterprises such as Coca-Cola, Pfizer, Bayer, Perrigo. While providing high quality products and services to the customers, the Company is actively seeking for a variety of channels to cooperate with customers. The relocation of the Company and the entrustment of processed products for foreign merchants serve as a great opportunity for the Company to actively innovate, continuously improve its manufacturing skills, and replace original outdated materials and manufacturing skills with new and environment-friendly products and materials, which not only expanded the export volume of preparations but also improved the overall manufacturing skills and management level of the Company.

(3) Supplier Relationship Management

The Company promulgated and strictly complied with the “Standard for Materials Classification and Suppliers Management” (《物料分類及供應商管理標準》) (QG/XH.2.03.019), “Management Standard for Audit on Quality of Suppliers” (《供應商質量審計管理標準》) (QG/XH.2.03.018) and other management systems for supply chain. Pursuant to the administration requirements of the documents, the Company classifies the material suppliers for management purposes and conducts annual review on suppliers regularly. QA organization conducts emergency review by way of risk evaluation on quality-related matters, including material defects, HSE, issues or commercial reasons relating to social ethnics. According to the audit plan for suppliers formulated and issued by QA on an annual basis, the Company conducts regular audit on suppliers. Further, the Company strengthens the management of suppliers via questionnaires, executing quality agreements and other means in accordance with requirements. Unqualified suppliers are required to rectify or will be disqualified from supplying. The changes in materials and suppliers are subject to the approval of QA. When all else are equal, suppliers with Environmental Management System certificates are preferred in the course of selection.

The Company insists on the principles of equal negotiations, mutual benefits and win-win results, establishing long-term strategic cooperative partnership with suppliers with high quality in competence, reputation, products and services. The Company established a unified supplier management system with full-course monitoring and periodical management of its upstream and downstream partners. The Company implemented strict access regulations for suppliers in various levels by seriously verifying their certification system, management system, service system as well as industry rating, carrying out real-time monitoring and regularly or irregularly evaluating of responsibility operation management regarding the compliance with regulations, environmental protection, labor rights protection, integrity operation and so on by cooperative parties.

The Company actively seeks for establishment of long-term strategic cooperative partnership with suppliers passing credit rating authentication in domestic and foreign industries, and stringently conducts environmental assessment and investigation on cooperative parties. The Company has set up the access standards on energy conservation and emission reduction as well as environmental protection for suppliers to ensure the level of energy conservation and environmental protection of the Company during the production process while encouraging suppliers to fulfil their social responsibility in energy conservation and emission reduction.

4. Science and Technology Innovation

The Company adheres to the development strategy of prioritizing science and technology with innovation driven. The Company continuously increases various investments in scientific research, and strives to build a multi-layered science and technology innovation platform. The Company currently has six major talent cultivation platforms, namely the national enterprise technical centers, the academician workstation, the post-doctoral workstation, the joint cultivation program for master of pharmacy, the position of Taishan Scholar and the senior technician workstation. During the year, the Company brought in 3 doctors and 27 masters. Two more employees were named Taishan Industry Leaders, one as national technical expert, one as Qilu Chief Technician, and one as Shandong Technician of Great Contribution. The Company was listed as Qilu Chief Technician Workstation in Shandong Province and Shandong Model Company for University-Industry Collaboration (Industry-Education Integration).

In the relentless pursuit of truth and pragmatism, the Company made great achievements in product development, technology upgrade and research, which enhancing the back-end support to its overall development and strengthening its core competitiveness, and promoting the innovation-driven development of the whole pharmaceutical industry.

In 2018, the Company invested RMB187 million into research and development, representing a year-on-year increase of 16.01%. It actively promoted the consistency evaluation of generic drugs; 10 products with 14 specifications passed clinical BE test; 6 products under 8 approval numbers submitted applications to CDE and were accepted; 3 products received on-site inspection of National Medical Products Administration. Bulk pharmaceutical re-study for 10 products have been submitted for filing; injection re-assessment for 5 products were launched; 4 bulk drugs passed technical review and were granted the qualification for marketing. The collaboration with Shenyang Pharmaceutical University in new drug for resisting Alzheimer's disease made milestone achievement. Caffeine green synthesis was awarded Provincial Technology Advancement (Second Prize) and Technology Advancement of Petrochemical Industry (Second Prize).

The Company passed the high-tech enterprise review and was recognised as national enterprise technology centre for a second time.

In 2018, 24 patents had been filed, of which 1 was designed, 6 were utility model and 17 were invented.

5. Anti-Corruption

During the year 2018, the Company entered into the Party integrity building accountability agreement with the Party member and leadership personnel, strengthen the implementation of “one post for two responsibilities” to promote the enhancement of establishing cadre team of the Company, set up positive atmosphere of the Company, and stringently executed various requirements for integrity in the industry.

The Company assembled the mid-level management personnel to participate in the test of Party disciplinary regulations and moral and integrity knowledge, and convened cadre alert education conference, in which Party members with the position of assistant to managers or above, leaders and cadre together watch the Cost of Imbalance, enhancing the consciousness of integrity and self-discipline of cadre member of the Party.

The Company further formulated and optimized the Requirements on Integrity and Self-discipline of Party Member and Leadership Personnel (《黨員領導人員廉潔自律的規定》) and the Requirements of Implementing Registration System in relation to Collection of Gifts and Money by Relevant Personnel (《關於有關人員收受禮品禮金實行登記制度的規定》).

The Company issued the Assessment List on Effectiveness of Authorities (《機關作風效能評價表》), performing objective and just assessment on the management department from various perspective. The assessment results were issued in the form of presentation of the Company, in order to supervise further improvement of work style of various relevant units, perform well in work duties, and do the best for management and services.

Through the platform of anti-corruption in respect of the “four-in-one” reporting, namely by mail, visit, the Internet and phone, the Company encouraged real-name reports, and set up Protection System of Whistleblowers and unimpeded report channels to handle the mail and visit cases in a timely manner.

III. Protection of Employees' Interests

The Company firmly fosters a people-oriented development philosophy. Based on development of harmonious labor relations and protection of employees' legal interests, the Company strives to promote building of a service, innovation, learning-oriented team to condense talented people and realize their value, providing talent assurance for the Company's long-term development.

1. Employment Opportunities

The improvement of employment problem is an important way to realize, maintain and develop fundamental interests of the majority, which is in favor of the overall situation of social stability. The Company provided over 200 direct jobs to different talents in the society in 2018. Meanwhile, as the youth occupational training bases of the local government, the Company established training bases with several universities including Shandong University, etc.

The Company has a professional skill talent team with 1,620 people and a high-skilled talent team with 3,346 people. The professional skill talent team contains 208 people with senior titles, 498 people with intermediate titles and 914 people with junior titles. The high-skilled talent team contains one National technical experts, 9 chief technicians in Shandong Province, 19 chief technicians in Zibo City, 684 senior technicians, 743 technicians, 620 senior workers. Meanwhile, the Company formulates plans annually on the introduction of scientific research and technical management personnel according to the reserves and use of talents. The Company recruits around 50 personnel with undergraduate level or above and around 150 technical talents from junior colleges or technical secondary schools as talents reserves of the Company each year. The Company forms its talents team through cultivation of new hires and internal talents.

2. Laws and Regulations

The Company actively executes relevant laws and regulations including the PRC Labor Law (《中華人民共和國勞動法》), the PRC Labor Contract Law (《中華人民共和國勞動合同法》), the PRC Law on the Protection of Minors (《中華人民共和國未成年人保護法》) and the Provisions on the Prohibited Use of Child Labor (《禁止使用童工規定》), and strictly regulates the labor employment, human resources management and remuneration system. The Company stringently complies with national laws and regulations, strictly eradicates illegal employment, prevents illegal acts such as use of child labor and forced labor, actively fulfills social responsibilities, guarantees paid leaves and overtime systems during festive season and holiday, establishes the mediation and protection committee of employees' rights and interests, etc.. Through a series of work such as the establishment and optimization of three-dimensional staff

protection system, encouraging remuneration system and broad staff growth system, the Company provides a stable development platform for employees.

According to relevant requirements of the “Enterprises Democratic Management Regulations” (《企業民主管理規定》) and the “Working Procedures of Enterprises and Institutions Staff (Representatives) Meeting of Zibo City” (《淄博市企事業單位員工(代表)大會工作程序》), as well as the unified deployment of Federation of Trade Unions of Shandong Province, the trade union of the Company comprehensively strengthened organization and construction of basic level trade union to enhance the attraction and cohesion of trade union organizations, and further specifies the rights and obligations of staff representatives to safeguard the rights to know, to vote, to suggest and to appeal.

The Company established a social security system in compliance with the requirements of the government and provided social insurances such as social endowment insurance, medical insurance, employment injury insurance, maternity insurance and unemployment insurance as well as housing provident fund. The rate of coverage of social insurance was 100%.

3. Health of Employees

The Company always insists on providing employees with a balanced work and living environment with a combination of work and leisure. According to the provisions of Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), Regulations of Paid Annual Leave of Employees (《員工帶薪年休假條例》) and other relevant laws and regulations, employees consecutively working for more than one year are entitled to paid annual leave except for national legal holidays. Employees working for more than one year but less than ten years in accumulation are entitled to five days paid annual leave.

(1) Labor Protection

In 2018, with regard to newly constructed projects, the Company focused on strengthening the management of occupational hygiene management system, occupational health supervision, delivery and usage of labor protection equipment for employees, and carried out planned training for employees on prevention of occupational hazards and safety protection knowledge. The Company supervised, inspected and guided the establishment of occupational health protection equipment, the usage of labor protection equipment for employees, emergency plans and drills for accidents of enterprises storing, using and disposing of hazardous chemicals. At the same time, the Company purchased special labor protection equipment such as specialized protection suits and masks for employees on the positions of disposal of fly ashes, waste acid burning and equipment maintenance according to corresponding occupational contraindication, and passed the annual re-authentication of occupational health and safety management system.

(2) Occupational Disease Prevention

The Company earnestly carried through the principle of “prevention first, combining prevention with treatment” for occupational disease prevention, lowered and reduced the rate of occupational disease and the source of hazardous operation through enhancement of contributions to safety production and occupational health system, improving technical level, automatic operation level, occupational safety and health level of employees. The Company and its subsidiaries at each level established a sound system for employees’ annual health check-up, and preliminarily established an occupational health record system for employees, focusing on passing the hazard of monitoring and prevention of occupational disease, enhancing labor protection measures as well as regular and irregular inspection system. The Company and subsidiaries organized occupational health check-up for 4,515 people including organization and institution personnel, personnel prone to occupational hazards, pharmaceutical practitioners, personnel of preservation and special types of work in 2018, to monitor the health of employees .

(3) Protection for Female Workers

The Company keeps increasing protection of rights and interests for female employees. In 2015, the Company revised the special requirements of labor protection for female employees with regard to the scope of prohibited labor for female employees, policies enjoyed by female employees during special period such as pregnancy, confinement and lactation, prevention of sexual harassment to female employees and complaint channels for female employees whose rights and interests were violated. Meanwhile, the trade union of the Company plays an important role in implementing, supervising and promoting labor protection for female employees. The trade union organizes female employee representatives to negotiate, drafts and signs the special collective contract for protection of rights and interests for female employees together with the Company every year, and organizes annual health check for female employees to ensure better labor protection for female employees.

4. Career Training and Development

The Company actively implemented education training plans, innovated education training forms, enhanced development of talents, and continuously promoted employees’ comprehensive quality. The Company formulated and printed the “Education Training Plan of 2018”, carefully deployed the education training throughout the year, confirmed the education training projects of the Company and each of its subsidiary, thereby further enhancing its cultivation of talents. The Company organizes orientation training and expansion training for new hires annually to enable them to quickly get adapted to the situation of the Company, to

adjust their working condition, and to actively get used to the working pace of the Company. In order to meet the cognitive demands of employees for new professional capabilities, new technical knowledge and new management idea, education training of the Company involves various aspects such as professional knowledge, technology development, communication and cooperation. Besides, professional institutions were appointed and internal trainings were organized to promote the systematization and routinization of employees' training.

In 2018, the Company has completed 58 corporate level education training projects, and has trained 3,554 staffers in aggregate. The Company sent 973 staffers in aggregate to attend training for staff.

The middle and high-level strategic training, competent management skills upgrading training, safety quality environmental protection equipment professional training, youth backbone staff medicine basic theory training, youth staff safety skills upgrading training, high-skilled talents training, and learning college network inside the company et al were carried out.

The subsidiaries also actively developed the employee training program, participated in the various competitions and competitions organized by the group company, and sent employees to study, effectively promoted the comprehensive quality and professional competence of the staff.

5. Cultural Life of Employees

The Company continues to promote corporate culture construction, create staff cultural brand, create cultural education base, advocate healthy and civilized lifestyle, enhance employees' cultural quality, forming staff culture with Xinhua features. The Company actively promotes its corporate culture through channels such as the Company's website and "Xinhua Pharmacy". The trade union of the Company actively prepares, carefully plans and organizes recreational and sports activities such as labor health lectures, learning of observation, and photo-taking competition to attract employees' participation in order to increase their sense of identity and sense of belonging, and enhance their cultural quality and spirit.

The Company continues to carry out series of sending-warm activities with the theme of "Caring for Employees, Sharing Warm Together, and Mutual Assistance for Harmony", and enhances care and support for employees. The Company has set up special support fund system for employees to achieve dynamic management through establishment of comprehensive files for employees in need, timely adjustment according to the minimal security standards of the government, ensuring the accuracy, completeness of files and timely updating the supporting information.

IV. Social Welfare

1. Social Donations

The Company always insists on fulfilling various social and public responsibilities and moving forward firmly to become a responsible and dignified large state-owned enterprise. The Company closely combines corporate development and social welfare to achieve a win-win relationship of realization of social interests and corporate efficiency. In 2018, the Company made a donation of RMB310,000, as duly performance of its corporate responsibility and commitment to the community.

The Party committee of the Company called on all Xinhua members to actively participate in the “Donation Day” activity to carry forward the traditional virtue of helping the poor and philanthropy and the spirit of dedication to philanthropy. During the year, around 5,380 members from 42 primary units made donations and the funds were submitted to Charity Federation of Zibo City of the trade union of the Company. The Company has been attaching great importance to the “Donation Day” activity for many years, and mobilizes and organizes all employees to actively take part in charitable donations activities to advocate the Chinese traditional virtue of “Compassion for Others, Kindness for Society” through participation and devotion.

The Company continued to implement distribution of grant for employees in need with an amount of RMB852,695 in aggregate for 378 employees throughout the year, among which RMB22,000 was distributed to 5 model workers in need, and RMB313,395 was distributed to 5 employees with difficulty in filing. The Company subsidized 11 students and distributed student grants amounting to RMB39,000 through “Autumn Education Aid” event. The Company held a series of sending-warm activities before new year and the Chinese new year such as visit of leaders for employees in need and model workers to realize “Prioritized Assistance for Primary Level” and comprehensively cater for employees in need.

2. Community Activities

The Company actively devoted to community activities to enrich community life. The Company organized employees to widely carry out mass activities:

(1) Evaluated the index of operating experts in 2018. By carrying out small index labor competition for operating experts aiming at “two increases and two reductions, cost reduction and efficiency enhancement”, during which 594 operating experts were selected with a reward of RMB237,460, thereby further stimulating employees’ initiative and motivating their enthusiasm of participation.

(2) Organized Ankang Cup competition with the theme of “strengthening awareness of safe development, and improving safety of everyone”, advocating each unit to focus on improving employees’ safety quality and carefully held “Ten Ones” activities such as “Holding a Meaningful Safety Activity Day Study”, “Recalling Lessons from an Accident”, “Organizing a Safety Check for All Employees”, “Proposing a Rational Suggestion for Safety Production”, “Watching a Feature Film on Safety Production”, “Having a Practice for Prevention of Accidents”, “Holding a Safety Experience Activity on Reading and Writing”, “Hold a Safety Speech Contest”, “Being a Safety Inspector for One Day” and “Organizing a Training Activity for Inspectors of Trade Union Labor Protection”.

(3) Organized the Technical Contest of the Company in 2018. Over 3,000 employees had take part in the contest, during which the top six of nine specialties received informed recognition, selecting ten technical experts.

(4) The Company held diversified recreational and sports activities in 2018, mainly including climbing on women’s day, long-distance jogging in spring, table tennis and basketball competitions of employees, calligraphy, painting and photography exhibition of employees and various essay activities. The abovementioned activities greatly enriched employees’ community life, showing a positive image of the Company.

The community activities of the Company gained active participation and extensive attention from social organizations, government and individuals. With the mission of “Protecting Health, Benefitting Society”, the Company will continue to provide high quality and efficient pharmaceuticals for contributing to the health of the public.

Each subsidiary is adhering to the group company benevolent good style of work, actively fulfill the social responsibility, actively helping hard worker, to participate in the activities of "kindness to donate a day", actively responded to an appeal by the group activities, participate in or held various style competition activities, actively participate in local public welfare activities of the government, get the consistent high praise from all walks of life.

CHAPTER IV ENVIRONMENTAL PROTECTION

With the concept of treating environmental protection as the lifeline of the existence and development for Xinhua, the Company strictly implemented the PRC Law on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the PRC Law on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the PRC Law on Prevention and Control of Environmental Noise (《中華人民共和國環境噪音污染防治法》), the PRC Law on Cleaner Production (《中華人民共和國清潔生產法》), the Integrated Emission Standards for Air Pollutants (《大氣污染物綜合排放標準》), the National Catalog of Hazardous Wastes (《國家危險廢物名錄》) and other laws and regulations, conscientiously implemented a series of national and local guidelines and policies on energy conservation and environmental protection, took energy conservation and environmental protection as an important means for transforming development mode, increasing efficiency and fulfilling social responsibilities, in an endeavor to overcome the severe and complicated economic situation and the profound influence from the national industrial policy adjustment and control, and carry forward energy conservation and environmental protection work. The Company insisted on sustainable development, optimized the adjustment of product structure, strived to develop new medicines and preparation products with “Two Low and Three High”, namely, low pollution, low consumption, high quality, high curative effect and high efficiency, eliminated products with serious pollution, increased contribution to environmental protection, enhanced the research of environmental protection technology, improved equipment, intensified comprehensive utilization of pollutants, and reduced the emission volume of pollutants to fundamentally achieve environmental governance tasks. Both the implementation rate of the environmental impact assessment system and the environmental protection “three simultaneity” system of the new, extended, reconstructed projects and the synchronous operating ratio of environmental protection equipment and production equipment of the Company reached 100%.

I. Comprehensive Utilization of Resources

The Company constantly pushed forward the energy conservation laws and regulations and management system, implemented various measures in relation to energy conservation and emission reduction, carried out national mandatory energy conservation standards, comprehensively promoted clean production, vigorously develop the circular economy, reduced the use of packaging materials, diligently elevated the comprehensive utilization of resources, promoted the “green, cyclic and low-carbon development” for the enterprise.

The Company insisted on the principle of cyclic development, recycled and reused the afterheat, waste water and rubbish generated in the production process, comprehensively utilized resources, increased the input in wastes recycling devices, eliminated aging and energy-consuming equipment, and reduced the re-pollution of environment from wastes.

The Company formulated the Energy Conservation Plan for the 13th Five-Year Plan Period in mid-to-long term, formulated the energy conservation plan on annual basis, implemented the accountability system for energy conservation purposes, and strictly conducted assessment and evaluation. The Company also formulated the Renovation Project Plan for Energy Conservation Technological yearly to ensure capital investment, by adoption of new technologies, new processes, new equipment and new materials, carried out technological renovation in relation to energy conservation, thereby raising utilization efficiency of energy.

The Company implemented recycling of heat energy and transformation for boiler fumes by using the domestic advanced technology, recycled and utilized the afterheat of fumes from boiler tails, recycled the sensible heat and latent heat together to achieve highly efficient use of waste gas and afterheat of boilers and save gas expenses, recycled and utilized the steam condensate water, recycled the steam condensate water of boiler cylinders through the steam condensate water recycling devices for the supplement of boiler feeding, and simultaneously reduced afterheat emission so as to further improve the energy conservation efficiency.

In 2018, the Company adopted domestic advanced technology, new equipment and new materials. 1. Making use of clean and green energy, the Company scientifically and reasonably made use of the idle area in the park to establish a 1.8MW solar energy photovoltaic distributed power station, optimized the model of power supply, and reduced the cost of power consumption by utilizing over 2 million kWh of clean energy per year. 2. Improving and renovating of energy efficiency of major energy consumption equipment, the Company performed integrated improvement and renovation of efficiency for the weak areas of professional test and diagnosis for restriction of energy efficiency of equipment for refrigeration equipment, resulting in significant improvement on utilization rate of power energy. 3. Development of new craftsmanship of energy conservation: the Company adopted mandate extrusion craftsmanship for dehydration of CPC products to replace separation craftsmanship of original centrifugation, resulting in improvement of 50% or above dehydration efficiency, while the operation time of the subsequent drying process was over six hours, and the drying time of the process and the cost of power were significantly reduced, reflecting obvious improvement of energy conservation results.

Set out below is the data for resources consumption in 2018:

Resources	Unit	Consumption in 2018
Power consumption	100 million kWh	1.84
Tap water	10 thousand m ³	294.20
Steam	10 thousand tonnes	52.85
Packaging materials used for finished products	tonne	10,305
Power consumption (energy consumption per RMB10,000 output value)	kWh	482.23
Gasoline consumption (energy consumption per RMB10,000 output value)	tonne	1.39
Water consumption (energy consumption per RMB10,000 output value)	m ³	7.72

Results for comprehensive use of resources: A decrease in the comprehensive energy consumption per RMB10,000 industrial output value in 2018 was recorded as compared to the previous year: power consumption per RMB10,000 output value represented a year-on-year increase of 9.23 kWh; gasoline consumption per RMB10,000 output value represented a year-on-year decrease of 0.12 tonne; and water consumption per RMB10,000 output value represented a year-on-year decrease of 0.03 m³. Energy costs were reduced to approximately RMB7.6869 million.

II. Environmental Protection Upgrades

Facing the increasing severe environmental protection situation, the Company, focusing on the entire layout, kept enhancing the internal control of environmental protection and gradually achieved the upgrading and transformation of its environmental protection work. The Company fulfilled the standards of the pollutant emission controls and improved the emergency management ability of abrupt environmental pollution accidents through strict management and control, adopted responsive environmental protection measures according to industry features, increased the input of environmental protection measures, passed the supervision and reviewing of ISO14001, outperformed the environmental protection target of the local government during the year and promoted the overall level of the environmental protection work of the Company.

1. Treatment of Three Wastes

(1) Solid Waste Treatment

According to the “National Catalog of Hazardous Wastes”, the Company recognized nine hazardous wastes. The Company comprehensively managed the wastes and classified, stored, managed and disposed of them strictly in accordance with national and local requirements. The Company established of solid/liquid wastes treatment energy center at its No. 2 subsidiary to burn the waste colloids generated from the Company, entrusted qualified disposal units to dispose of other wastes by signing agreements, and entrusted professional third parties for harmless disposal of waste solvents and waste medicines.

Transfer and Disposal of Solid Waste

	Transfer and Disposal in 2018
General industrial waste (tonne)	613.68
General industrial waste density (kg/RMB10,000 output value)	1.61
Total hazardous waste (tonne)	4405.822
Hazardous waste density (tonne/RMB10,000 output value)	11.59
Amount of household waste discharge (tonne)	1,500
Density of household waste discharge (kg/ RMB10,000 output value)	3.95

(2) Exhaust Gas Control

The Company made use of treatment facilities such as photoelectric/photo-oxidative catalytic purification, low-temperature plasma, spray tower, carbon fiber adsorption, breathing bag, and “double pipe” technology of liquid material loaders, water absorption, alkali absorption and so on to enable the emission of waste gas to be free from foul smell on the basis of meeting the secondary standard of the “Integrated Emission Standard for Air Pollutants” (GB16297-1996).

Exhaust Emissions

Name	Emissions in 2018 (tonne)
Sulfur dioxide	22
Nitrogen oxides	20
Particulates	1.8
Greenhouse gas	278,000

(3) Effluent Control

The Company adopted the way of combination of source control and end-of-pipe treatment, recycled and reused organics from organic waste water with high COD from each interval

through methods like adsorption and filtration, extraction separation and evaporative fractionation, recycled ammonia water from wastewater with high ammonia nitrogen through stripping, and recycled inorganic salts from high salinity wastewater by means of MVR and double effect evaporation. After the wastewater of the Company is treated by the wastewater treatment plant, the external drainage has reached Class B of the Discharge Standard for Municipal Sewerage System (《污水排入城镇下水道水质标准》) (GB/T31962-2015), with the major pollutant discharge indicators being 500 mg/L for COD and 45 mg/L for ammonia nitrogen, which is eventually discharged into the municipal wastewater treatment plant. The high concentrated organic wastewater after pre-treatment was discharged into the sewage treatment system of the Company.

Waste Water Emissions

Name	Emissions in 2018 (tonne)
Waste water	3,063,484
COD	873.1
Ammonia nitrogen	73.5

2. Adoption of Measures and Achievement of Results

The Company entrusted Qingdao University of Science and Technology as technical support, and entered into a technical service contract with such university, with an aim to providing technical support for the technological transformation of the Company's major products, such as caffeine, analgin, aspirin, ibuprofen, pipemedic acid and other bulk pharmaceuticals. Meanwhile, in cooperation with several domestic well-known environmental protection technology companies, the Company has introduced advanced facilities, such as MVR, TRS, carbon fiber adsorption, low-temperature plasma, photoelectrocatalysis, etc. to carry out in-depth treatment to organized exhaust emissions, so as to prevent the same from being emitted into the atmosphere as VOCs, hence contaminating the surrounding environment.

In 2018, total investment in environmental protection was RMB170 million, among which the environmental protection investment of the parent company amounted to RMB118 million, mainly including the operation costs of wastewater treatment and supporting facilities amounting to RMB39.60 million, and the investment in environmental protection measures amounting to over RMB60.00 million. During the year, a total of 79 environmental protection projects were implemented, among which the incinerator desulfurization and denitrification projects, 103 workshops for beating and washing integrated tank projects and other important measures have been put in place.

The technology of absorption of organic solvent by carbon fiber, technology of TRS removal of hydrogen sulfide and other various advanced technology widely adopted by the Company were

included in the recommended environmental protection technology and means of the environmental protection system of Zibo City.

Meanwhile, the Company increased CWO disposal facilities in 2018, further reducing the TDS of sewage efflux and other indicators, and it was expected to reduce sulfate, chloride and TDS30 tonnes per day.

Each of the subsidiaries actively performed responsibilities of environment protection, adopted various measures for energy conservation and emission reduction, and reduced negative impact of environmental protection. Shouguang Company increased production within increasing pollution through stringent control of sewage emission volume, optimized the treatment in advance, saved liquid alkaline and reduced ammonia nitrogen, and installed frequency conversion and adjustment of blowers to save power.

3. Promotion for Environmental Protection

The Company vigorously promoted environmental protection to enhance environmental protection awareness of all employees. We organized a number of promotion and education activities on environmental protection to improve employees' understanding in low-carbon production and life, promote green office environment, cultivate the awareness of energy saving and environmental protection, standardize environmental protection through the enforcement of laws, and train employees with new environmental protection laws to enhance their environmental protection awareness.

The Company commenced the theme activity of "environment day" to gather different units in making slogans and banners for environmental protection and energy saving and pasting and hanging them in the plants, set up a column for environmental protection and energy saving in corporate magazine, and offer training classes on environmental protection and energy saving.

The Company set up classes for new environmental protection laws to promote low-carbon life and green consumption. By way of a variety of promotion and education, the Company and its employees further strengthen their concept on environmental protection and energy saving, develop a recycling economy, and actively propel the transformation towards low-carbon and recycling production and life.

Advocating green office. We optimized energy saving and environmental protection policies of the Company, managed the inspection system, advocated paperless office, encouraged the recycle of printing paper; optimized the system for cross-regional video and telephone meetings to reduce travel expenses, advocated employees to travel with green vehicles, made use of environment-friendly materials and rewarded energy saving behaviors. Environmental protection and energy saving measures should be carried out in daily production and lives. Special attention should be paid to electricity and water saving within the production and office

areas. Switch off the lights in equipment rooms and corridors which are not in use and control the use of water. The use of water and electricity in the plants of the Company shall be included in the scope of evaluation on workshop fees so as to encourage energy saving.

III. Social Supervision and Social Demonstration

Enterprise is the entity who is responsible for the treatment of environmental pollution. Pursuant to the requirements of environmental regulations of the government, the Company strengthened internal control, increased capital investment, adopted advanced production skills and treatment techniques to ensure standardized emissions or “zero emission”, actively fulfilled its social responsibility for environmental protection and received social supervision. In order to practically push the waste emitting units to live up to their environmental responsibilities, fully exert social supervision on enterprise waste emission and effectively implement all laws and regulations related to environmental protection, the Company has formulated and established standards and an evaluation system for social responsibility which are in compliance with the provincial disclosed requirements for environmental protection information on major waste-emitting units and the disclosed requirements for the supervision and inspection results of provincial enterprises, carefully prepared the annual plan for environmental protection and the social responsibility report on environmental protection, timely filed with the environment department of the government, published the environmental protection information of the Company on the websites of the Company and the government, made its complaint channels available to the public, listened to all types of issues on environmental protection raised by the public and timely adopted corresponding measures to deal with different problems. The advanced management measures on energy-saving and environmental protection as well as techniques of the Company are highly recognized by all sectors of the society.

While receiving supervision from all sectors of the society, the Company actively exerted its technology and management advantages and properly developed its role in effective energy-saving, emission reduction and environment protection, hence building a good corporate image and successfully served as a demonstrative enterprise in the society.

CHAPTER V FUTURE PROSPECTS

2019 is the crucial year for the PRC to be determined to comprehensively develop the well-off society. The Company will expedite the conversion of new and old power, improve development of quality as the main lines, constantly promote the transformation and upgrading of industry structure, strive to consolidate the market development, accelerate the development of preparation, enhance competitive strength of API, attach significant importance to lifeline engineering, continue to promote intelligent plants and establishment of garden-like plants, boost the various work to be on the new stage, and realize breakthroughs of corporate development to embrace to 70th anniversary of establishment of the new PRC with remarkable results.

The Company will continue to respond to the “Belt and Road” initiatives, actively nurture brands, optimize channel establishment, explore integrated advantages of products and resources, and cultivate a more competitive international layout. In 2019, the Company will continue to deepen the reform of safety management system, optimize the establishment of energy management system, actively promote energy conservation, emission reduction and green production, continue to improve the sense of satisfaction, acquisition and happiness of employees, and create a blessed and warm working environment. Meanwhile, the Company will perform social responsibility as its mission, actively contribute to the society, continue to be devoted in charity activities and philanthropy, and deliver positive energy of corporate development to jointly develop a harmonious society.

During the new development era, the Company will continue to adhere to its corporate mission of “protecting health and benefiting community”, insist on its core value of “placing quality as the first priority and developing its business in a scientific manner”, focus more on the improvement in product quality and efficiency, the enhancement of comprehensive ability of corporate governance, optimization of resource integration and environmental protection, the role of scientific research as a source power, and the encouragement of the motivation of all talents, actively fulfill corporate social responsibilities and contribute to the development of the society.

The Company will continue to strengthen its responsibility awareness, constantly improve its ability in creating comprehensive values in the society, economy, energy and environment, and continuously optimize the social responsibility system, committed to integrate the concept of social responsibility in every aspect, which includes corporate governance, production, operation and development.

The Company will continue to implement the “people-oriented” concept in talent seeking, further improve the happiness of employees, actively create a better working environment, enrich the spiritual and cultural lives of employees, and increase their sense of belonging. The Company will further create employment with development to maintain social stability.

The Company is willing to communicate with all sectors of the society more actively, and will constantly improve the transparent disclosure on the fulfillment of social responsibility of the Company, actively promote industry development and impel social advancement, improve the influence and social appeal of the Company, and will be committed to build a strong pharmaceutical supplier of preparations in the PRC and a global production base of bulk pharmaceuticals.

CHAPTER VI QUESTIONS AND FEEDBACK

In order to continuously optimize the disclosure and preparation works on social responsibility, we sincerely hope to listen to your opinions and advices. If you have any questions regarding the corporate social responsibility of the Company or any questions in relation to the corporate social responsibility report, please do not hesitate to contact us. We treasure your valuable opinion to further improve our social responsibility works.

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GUIDELINES AND INDEX OF THIS REPORT

The Company has complied with the provision of “Non-Compliance and Explanation” as set out in the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited. The following table reports the summary of compliance.

Areas, Aspects and Key Performance Indicators (KPIs)	Provision of “Non-Compliance and Explanation”	Reference to page no.
A. Environment		
Aspect A1	Emissions	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, in respect of air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste.	29
KPI A1.1	Types of emissions and related emission data	32-33
KPI A1.2	Total emissions and (if applicable) density of greenhouse gas	32
KPI A1.3	Total amount and (if applicable) density of hazardous waste generated.	32
KPI A1.4	Total amount and (if applicable) density of non-hazardous waste generated.	32
KPI A1.5	To describe measures to reduce emissions and results achieved.	33-34
KPI A1.6	To describe the methods of handling hazardous and non-hazardous wastes, measures of reducing the quantity of production and results achieved.	32-33
Aspect A2	Use of Resources	
General disclosures	The policies of using effectively resources (including energy, water and other raw materials).	29
KPI A2.1	Total direct and/or indirect energy consumption and density by types.	31
KPI A2.2	Total water consumption and density.	31
KPI A2.3	To describe the energy use efficiency initiatives and results achieved.	31
KPI A2.4	Description of any problems in obtaining the applicable water supply and enhancement of the water consumption efficiency initiatives and results achieved.	31
KPI A2.5	Total amount of package materials used in the finished	31

	product and (if applicable) the amount per unit of production.	
Aspect A3	The Environment and Natural Resources	
General disclosures	The policies of reducing significant impact of issuer on environment and natural resources.	29
KPI A3.1	To describe the significant impact of business activities on the environment and natural resources and the actions which have been taken for managing such impacts.	29-30
B. Society		
Aspect B1	Employment	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant impact on the issuer, in respect of remuneration and dismissal, recruitment and promotion, hours of work, holidays, equal opportunities, diversification, anti-discrimination and other treatments and benefits.	13,23
Aspect B2	Health and Safety	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant impact on the issuer, in respect of provision of safe working conditions and protection of employees against occupational hazards.	18、29
Aspect B3 Development and Training	Aspect B3 Development and Training	
General disclosures	Policies on knowledge and skills to enhance employees' performance of duties with description of training activities.	25
Aspect B4	Labour Standards	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant on the issuer, in respect of prevention of child labour or forced labour.	23
Aspect B5	Supply Chain Management	
General disclosures	Environmental and social risk policies to manage the supply chain.	19,20
Aspect B6	Product Responsibility	
General disclosures	(a) The polices; and (b) compliance with relevant laws and regulations which have a significant impact on issuer, in respect of health and safety, advertising, labeling and privacy matters and remedial methods for products and services provided.	16,17
Aspect B7	Anti-corruption	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant impact on issuer, in	22

	respect of prevention of bribery, extortion, fraud and money laundering.	
Aspect B8	Community Investment	
General disclosures	The policies on understanding of needs of community in which it operates by community involvement, and ensuring that its business activities would take into account community interests.	27