

Environmental, Social and
Governance Report

2018



ESSEX 亿胜

ESSEX BIO-TECHNOLOGY LIMITED
億勝生物科技股份有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 1061)

2018 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This board of directors (the “Board”) of Essex Bio-Technology Limited (the “Company”, together with its subsidiaries, the “Group”) hereby presents this environmental, social and governance (the “ESG”) report for the year ended 31 December 2018.

The Board assumes full responsibility for the Company’s ESG strategy and ESG reporting and is responsible for evaluating and determining the ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control system are in place.

The Board is of the opinion that good environmental conditions, social influence and governance structure are crucial to the development of the Group. As such, while seeking to pursue growth in its results, the Group has also been constantly striving for excellence in such areas as environmental protection, social responsibility and corporate governance, and intends to enhance its stakeholder groups’ understanding of the Group through improving its own operational transparency. The principles and benchmarks contained in the “Environmental, Social and Governance Reporting Guide” (the “ESG Reporting Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited have been adopted by the Group as its standards which, together with the experience it has gathered, contribute towards the establishment of a sound ESG framework.

Covering the businesses operated by the Group, this report sets out its strategies and practices in relation to environmental protection, social responsibility and operational governance in 2018, thereby allowing shareholders, investors as well as the general public to gain a more comprehensive and in-depth understanding of the Group’s ESG issues and culture. This report has been prepared in accordance with the ESG Reporting Guide.

The Group will publish its ESG reports annually so as to inform the general public of the latest information on the Group’s relevant work. People from all walks of life are welcome to make any suggestions or comments.

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STAKEHOLDER INVOLVEMENT AND MATERIALITY ASSESSMENT

Stakeholder involvement represents an essential component of the Group's business development and of the performance of its social responsibility. The Group maintains communication with its stakeholders through a number of channels in order to understand and respond to their comments and demands in a timely manner, devoting itself to ongoing constructive, win-win interactions for promoting the sustainable development of the enterprise.

Through collecting and sorting the stakeholders' comments and issues of concern, the Group has determined the key points to be disclosed in this report and reviewed its own performance results and strategic planning regarding the ESG work.

Based upon the aggregated results of the communication with the stakeholders for the year 2018, the Group has decided that the following (set out in the order of priority) shall be its key ESG tasks:

- | | |
|-----------|---|
| 1 | Product responsibility |
| 2 | Supply chain management |
| 3 | Occupational health and safety |
| 4 | Employment practices and labour standards |
| 5 | Staff development and training |
| 6 | Anti-corruption |
| 7 | Use of resources and environmental protection |
| 8 | Waste management |
| 9 | Packaging materials |
| 10 | Emission of exhaust and greenhouse gases |
| 11 | Contribution to the community |

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A. ENVIRONMENTAL

The Group is principally engaged in the manufacturing, selling, marketing and distribution of biopharmaceutical products.

Environmental protection is a cornerstone of the Group's long-term sustainable development. Through adopting practicable measures, the Group performs management over its emissions and use of resources in the course of its specific activities, thereby assuming its responsibility of environmental protection and playing an active role in this connection.

During the reporting period, no material breach of any applicable rules and regulations that have a significant impact on the Group occurred in relation to the environment.

1. *Emissions Management*

Constantly concerned about the issue of emissions arising from its production and operations, the Group strictly complies with the various environmental protection laws and regulations and emission standards of the People's Republic of China (the "PRC"), where the principal production zone of the Group locates, and exercises maximum control over various types of emissions. There are seven production plants equipped in the factory in Zhuhai, which is the principal production zone of the Group.

During the reporting period, the principal emissions arising in the course of the Group's production include liquid waste, solid waste, exhaust and noise. In order to ensure that the relevant emission standards are met, the Group has formulated an internal "Protocol on Pollutant Emissions Management" in accordance with the requirements of the national environmental regulations of the PRC.

Key elements of the "Protocol on Pollutant Emissions Management" are as follows:

1. General liquid waste is required to be treated in a wastewater treatment facility located on the industrial site such that the treated water will meet the requirements of the respective emission standards relating to water pollutants.
2. Centralised collection is implemented in respect of general solid waste, whereby the environmental hygiene authorities are solely in charge of its removal, transportation and treatment.
3. The hazardous liquid and solid wastes arising in the course of a small number of product inspections are required to be separated for collection purposes, stored in a dangerous goods store, and handed over periodically to a professional institution licensed with the national environmental protection authorities for compliant treatment.

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4. The Group strictly adheres to the Local Standards for Emission Limits of Air Pollutants of Guangdong Province such that its exhaust emissions comply with the requirements of the applicable regulations.
5. With regard to noise at the factory boundaries, the Group favours the selection of those electromechanical devices with low levels of noise and vibration, proactively employs noise insulation, acoustic and noise reduction measures and enhances the day-to-day repair and maintenance of its devices, so as to ensure the compliance of its noise emissions with the requirements of the national limits.

The Group's Environmental and Occupational Health and Safety ("EHS") Management System Unit is responsible for supervising the management over its various emissions. In 2018, the Group was subject to non-periodic supervisory spot checks performed by the national environmental protection authorities, and the monitoring results indicated that its various emissions complied with the national and regional standards.

Key performance indicators

Air emissions	2018 kg	2017 kg
Nitrogen oxides	120.57	118.11
Sulphur oxides	0.80	0.69
Particulate matter	5.98	5.79
Greenhouse gas emissions		
	2018 Tonne	2017 Tonne
Direct emissions	92.85	77.22
Indirect emissions (Note)	2,880.81	2,702.15
Other indirect emissions	23.87	20.93
Total	2,997.53	2,800.30

Note: Emission factor (average) of 0.6379 kg/kWh was used for purchased electricity in Guangdong Province.

The greenhouse gases produced by the Group were mainly due to indirect emissions generated from purchased electricity. In order to mitigate emissions, our staff are encouraged to disable the standby mode for all electrical appliances, including computers, photocopying machines and printers when they are not in use. They are also required to ensure that the windows and doors are closed when air-conditioners are on, and turn off the air-conditioners during non-office hours.

Total hazardous waste produced	2018 Tonne	2017 Tonne
Total hazardous waste produced	1.30	1.00

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The hazardous waste produced by the Group mainly consisted of wastewater solution containing methanol and acetonitrile. The intensity of hazardous waste measured by the unit of production volume was extremely low.

Total non-hazardous waste produced	2018 Tonne	2017 Tonne
Total non-hazardous waste produced	12.06	16.30

The non-hazardous waste produced by the Group mainly consisted of packaging materials such as cardboard, all of which are collected by professional recycling firms. The intensity of non-hazardous waste measured by the unit of production volume was extremely low.

During the reporting period, the Group's measures to mitigate emissions have achieved initial success in reducing the intensity of air and greenhouse gas emissions. Also, our wastes have been properly treated according to the aforesaid measures.

2. *Use of Resources and Environmental Friendliness*

As an advocate of green and environmental protection notions, the Group adheres to the principle of treasuring and making the best use of resources, striving to reduce its consumption of resources and lessen its environmental impact.

Clean production measures adopted by the Group include:

- Exercising stringent control over the energy consumed in the course of the production of its products for the continuous enhancement of its energy use efficiency.
- Employing a circulating water system for its production steps, whereby the wastewater generated in the course of the production of purified water was reused for, among others, industrial park greening and cleaning purposes, so as to boost the use efficiency of, and reduce the consumption of, water resources.
- Employing non-toxic and non-hazardous raw materials or those with a low degree of toxicity and hazard, such as using environmentally friendly materials as the refrigerant in air-conditioning systems and chiller plants, so as to lessen the environmental impact of the materials used.
- Strengthening inspection at job shops (i.e. production workplaces) and equipment maintenance so as to discover additional losses resulting from improper operation or malfunction of equipments in time.
- Investing around RMB2,800,000 in the solar photovoltaics project with installation area of more than about 3,000 square metres during the reporting period. The annual electricity generation is estimated to be 532,400 kWh and the energy efficiency can reach 78% which saves electricity charges of around RMB349,000 annually. This project will last for more than 20 years, and can significantly reduce the carbon emissions caused by electricity consumption and realise the concept of environmental protection and efficiency.

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The Group also advocates the notion of green office by formulating the “Employee Code of Conduct”, and by striving to enhance its employees’ awareness of environmental protection and reduce the energy and resources consumption of the office area. Continuous efforts have been made in connection with day-to-day work procedures for transforming the Group’s offices into paperless and decarbonised ones that conserve energy.

Energy conservation measures adopted by the Group include:

- Gradually introducing the use of modernised office systems such as office automation system and enterprise resource planning system for reducing the resources consumed in offices.
- Proactively switching to conference calls and online video conferences for lowering the frequency of business trips undertaken by employees and lessening the greenhouse gas emissions caused by such trips.
- Offering commuter bus services connecting to industrial sites for effective reduction of the number of staff members who drive their own vehicle to work.
- Diminishing the use of disposable cutlery and cups for reducing plastic-related pollution.
- Promoting the double-sided use of paper in order to save the paper used for office purposes.

We aim to continue to adopt the above measures to improve energy use efficiency and water efficiency, and have achieved lower energy and water consumption intensity during the reporting period.

Key performance indicators

Direct and indirect energy consumption by type in total and intensity	2018	2017
Electricity consumption (kWh in '000s)	4,515	4,234
Electricity consumption intensity (kWh/unit of production volume)	0.21	0.23
Fuel consumption (L)	53,523	46,110

The fuel consumed by the Group was due to the use of motor vehicles of the Group, and no fuel had been consumed in the production of biopharmaceutical products.

Water consumption in total and intensity	2018	2017
Water consumption in total (m ³)	26,698	28,178
Water consumption intensity (m ³ /unit of production volume)	0.0012	0.0016

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During the reporting period, the Group has no issue in sourcing water that is fit for purpose.

Total packaging material used for finished products and intensity	2018	2017
	Tonne	Tonne
Packaging cardboard used	169.38	137.64
Packaging plastic used	67.89	44.54
Packaging aluminium tube used	30.40	25.04

The intensity of packaging materials measured by the unit of production volume was extremely low.

The Group is also highly concerned about the effects of the packaging materials of its products on the environment and on the health of their users. Regarding the selection of packaging materials, the primary criterion is to ensure that the packaging materials are non-toxic and non-hazardous and those that are readily degradable and recyclable are preferred. In addition, over-packaging is avoided as it would lead to wastage of resources and additional packaging waste.

Saved as disclosed above, the Group's operating activities have no significant impact on the environment and natural resources. Apart from the above-mentioned activities related to emissions and energy and water consumption, the Group has no other activities that have significant impacts on the environment and natural resources.

B. SOCIAL

1. *Employment and Labour Practices*

(a) *Employment*

As human resources represent one of the Group's valuable assets, we offer competitive remuneration packages to our employees while adhering to the "equal pay for equal work" principle. Individuals' background, including their ethnicity, race, nationality, gender, religion, age, political affiliation and marital status, has no bearing on our decision to employ, promote or transfer them nor on the compensation and benefits offered to them. We uphold the notions of equality, willingness, and agreement based upon negotiations, and provide all our staff members with equal advancement opportunities and an equitable platform.

The Group's operations are primarily situated in the PRC, and therefore the staff recruitment and management in respect of that region strictly complied with the relevant laws and regulations in the PRC that have a significant impact on the Group during the reporting period. The eligibility criteria and requirements for the various positions in the Group have been laid down as recruitment standards. The Group's recruitment channels include on-campus recruitment, open recruitment and internal referral.

As of 31 December 2018, the Group had altogether 1,034 staff members, who were mainly located in the PRC. All of our staff members in the PRC had entered into a written labour contract in accordance with the requirements of the Labour Law of the PRC.

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In addition, the Group has established rigorous and prudent procedures in relation to staff dismissal pursuant to the relevant national laws and regulations of the PRC. Where a staff member of the Group has committed a serious dereliction of duty, a serious breach of the PRC laws and regulations or a serious breach of the Group's respective rules and systems, the labour contract entered into with him/her may be terminated, and the matters relating to his/her vacating the office shall be dealt with in accordance with the Administrative Measures for Labour Contracts of the PRC and Staff Handbook of the Group.

The staff remuneration offered by the Group is based upon a wage band that is determined with reference to market levels and the relevant staff member's capabilities, academic qualifications, work experience and job position, while bonus is paid out according to his/her work outcomes, sales results and individual performance, such that the contribution made to the Group by its staff is duly recognised. In addition, in order to enhance the protection extended to its staff, the Group maintains pension, medical, work-related injury, unemployment and maternity insurance as well as a housing provident fund for them in accordance with the relevant laws and regulations. The Group constantly refines its remuneration and staff welfare system to allow its staff to share in the performance results associated with its development.

Apart from their entitlement to national statutory festivals and holidays, the Group's employees are also entitled to paid annual leave, marriage leave and bereavement leave, etc. The wages, subsidies and awards, etc. in respect of paid leave are offered in accordance with the relevant national policies and the Group's Staff Handbook.

Placing emphasis on our staff's development and career planning, we have been continuously refining our performance appraisal and promotion mechanisms. The Group performs half-yearly and annual appraisals that cover three major aspects, where the performance outcomes, professional attributes and attitude of the staff are assessed. The appraisal programme adheres to the principles of fairness, impartiality and objectiveness. Staff members may give an account to or lodge a complaint with our human resources department should they have any objections to their appraisal results.

The Group offers promotion opportunities to those staff members who have achieved exceptional outcomes. By taking into consideration an array of factors including the performance appraisal results, personal capabilities and strengths of the staff, the Group guides them to pursue advancement towards higher management or technical positions and provides them with related training, offering assistance to them for the fulfilment of their personal career aspirations.

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Staff structure

	As of 31 December 2018	As of 31 December 2017
Group headcount	1,034	1,024
New recruits during the reporting period	176	217
Departed employees during the reporting period	166	156
Current staff categorised by:		
Academic qualifications		
Postgraduate or above	61	45
Undergraduate	276	273
Post-secondary vocational education	430	444
Secondary vocational education or below	267	262
Rank		
Middle management or above	93	75
Production workers	64	66
Sales representatives	664	705
Technical staff	90	74
Other office staff	123	104
Professional titles		
Senior titles or senior technicians	6	5
Mid-level titles	23	19
Junior titles	33	23

Key performance indicators

Total workforce

	As of 31 December 2018	As of 31 December 2017
By gender		
Male	515	513
Female	519	511
Total	1,034	1,024

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	As of 31 December 2018	As of 31 December 2017
By age group		
18-29	270	291
30-39	511	514
40-49	221	191
Above 50	32	28
Total	1,034	1,024

	As of 31 December 2018	As of 31 December 2017
By geographical region		
PRC	1,022	1,015
Hong Kong	9	8
Overseas	3	1
Total	1,034	1,024

Employee turnover rate

By gender	2018	2017
Male	15%	13%
Female	13%	13%

By age group	2018	2017
18-29	16%	40%
30-39	15%	31%
40-49	7%	2%
Above 50	13%	4%

By geographical region	2018	2017
PRC	14%	13%
Hong Kong	25%	20%
Overseas	0%	0%

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(b) *Health and Safety*

Adhering to its “nature-integrated, environmental betterment, people-oriented and continuous improvement”（融入自然，改善環境。以人為本，持續改進）approach, the Group is committed to offering a safe and healthy work environment to its staff.

With reference to the OHSAS 18001 standard for occupational health and safety management systems, the Group has established its EHS management system for the specific implementation of a safe production liability system. The EHS Management System Unit performs inspections and offers training in respect of safe production on a periodic basis such that knowledge and skills relating to safe production are imparted to the staff. Fire evacuation, self-rescue and escape drills, etc. are held every 6 months and are intended to enhance the staff’s fire safety awareness and relevant skills.

Job shops adopt dust removal and noise reduction measures. Requirements for the storage and use of dangerous goods such as flammable and explosive substances have been laid down, and those workplaces presenting hazards are identified, assessed and managed in a comprehensive manner for maximum reduction of the impact on the health of the staff. Professional institutions are engaged annually to perform tests on the workplaces in order to supervise, prevent and diminish the risk of occupational diseases.

Medical check-ups are arranged for all staff members every year on a periodic basis, and occupational medical check-ups are arranged on a periodic basis for those who are engaged in work associated with potential occupational health and safety risks in strict compliance with the stipulations of the Law of the PRC on the Prevention and Control of Occupational Diseases and of related labour protection regulations. The occupational disease hazards presented by the production premises are monitored and assessed on a periodic basis. During the reporting period, medical checkups were arranged by the Group for all of its operational staff members who might be subject to occupational disease hazards, and the results indicated that all of them were in good health.

During the year 2018, (i) no workplace fatality or injury occurred in the Group; and (ii) the Group has been in compliance with all relevant laws and regulations relating to its employees’ health and safety which have a significant impact on the Group.

(c) *Development and Training*

The Group places emphasis on staff nurturing and provides on-the-job training opportunities. Committed to realising the development of both our staff and the enterprise, we adopt a mode of training that is characterised by centralised management, rank-based training, management techniques and business skills. Specialised training is organised in respect of different positions every year, covering numerous aspects such as content related to administration, quality management, skills and sinology. Besides, induction training is offered to new recruits, while specific training on, among others, corruption-free business practices and senior management knowledge is additionally offered to the middle and senior management. Through our comprehensive training system, we ensure that each of our staff members is equipped with the knowledge and skills that are necessary for fulfilling the requirements of his/her position. The Group also offers financial assistance for education and training to encourage its staff to pursue continuing education and self-improvement.

During the year 2018, the Group organised altogether 544 training sessions attracting an aggregate attendance record of 4,482 attendees, equivalent to approximately 14 hours of training per employee on average.

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Key performance indicators

Percentage of employee trained

By gender	2018	2017
Male	49%	54%
Female	51%	46%

By employee category	2018	2017
Production workers	84%	87%
Middle management	12%	9%
Senior management	4%	4%

Average training hours completed per employee

By gender	2018 Number of hours	2017 Number of hours
Male	13.1	11.8
Female	13.5	12.0

By employee category	2018 Number of hours	2017 Number of hours
Production workers	14.4	12.0
Middle management	9.0	12.0
Senior management	3.0	9.3

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(d) Labour Standards

During the reporting period, the Group strictly complied with the national and local laws and regulations that have a significant impact on the Group relating to human rights and labour rights, including but not limited to those preventing child and forced labour. Regarding the management over recruitment and staff induction, it is expressly stipulated, as a rigorous ban of child labour practices, that new recruits must be aged 18 or above.

The working hours of the Group's employees are enforced in compliance with the requirements of the relevant local laws and regulations, and no forced labour or compulsory overtime work is allowed. In accordance with the stipulations, overtime payment should be made to, or an alternative holiday should be arranged for, those staff members who have been engaged in overtime work.

The Group has established a staff representative congress to conduct discussions on those systems relating to staff benefits, and has also formed a trade union committee which exercises the rights and performs the obligations of a trade union in compliance with the Trade Union Law of the PRC for safeguarding the legitimate interests of the staff. In addition, the Group has formulated a Staff Complaint Management System to ensure that appropriate means are made available to its staff for expressing their wishes.

In the course of the implementation of the EHS management system, the Group's concern for its staff's occupational health is boosted while the good quality of their work environment is ensured. Besides, the Staff Handbook has been formulated as the Group's employment guidelines and serves to further protect the legitimate interests of the staff.

2. Operational Practices

The Group strives to offer high-quality and safe products to its customers, and to build a good reputation and achieve positive word-of-mouth.

In the course of our operations, we focus on the continuous and effective management of the supply chain and exercise stringent control over our production process in order to ensure the quality of our products. We consistently conduct our business in a compliant manner, and are determined to eliminate corruption, the giving or acceptance of bribes, fraud and any other acts of dishonesty with the aim of enhancing our corporate integrity, and as our commitment to upholding a sound and orderly business environment.

(a) Supply Chain Management

Supply chain management remains to be one of the important aspects that the Group is concerned about. While placing emphasis on the control over its product quality risks, the Group seeks to ensure that such activities comply with the requirements regarding the sustainable development of both the environment and the society.

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In order to ensure the quality of the raw materials, ancillary materials and packaging materials supplied, the Group has formulated the Audit and Management Protocol for Material Suppliers in strict compliance with the requirements of the Pharmaceutical Administration Law of the PRC, the Good Manufacturing Practices for Pharmaceutical Products and other related laws and regulations. According to the said Protocol, the Group performs standardised management over the procurement of its raw materials, ancillary materials and packaging materials, and maintains a sound supply system through the creation of a Qualified Supplier List. All of the Group's suppliers are located in the PRC.

The Group performs dynamic management over all of its suppliers and assesses their performance in terms of both goods supply and service quality on a periodic basis. Their qualifications are audited and the certificates of such qualifications are checked for the presence of any update. On-site audits are carried out on them on a non-periodic basis, during which their staff, institutions, plant facilities and equipment, materials management, and production process and procedures are inspected and confirmed. Such audits are intended to result in a comprehensive evaluation of their quality assurance systems, which would ensure the quality of the products offered by such suppliers and reduce our quality risk originating from the sources. During the year 2018, on-site audits were carried out on twelve suppliers.

The Group imposes requirements relating to environmental protection and occupational health and safety on its major suppliers, and conducts EHS questionnaire-based surveys on its collaboration partners on a periodic basis for exerting a positive impact on the suppliers' ESG status, prompting them to meet the needs of sustainable development of both the environment and the society.

(b) Product Responsibility

Product Quality Management

The Group's products are primarily pharmaceutical products, and our principal responsibility is to ensure drug safety for each of their patient users.

The Group has published a number of documents on management principles of quality, including the "Protocol on Quality Risk Management" and the "Protocol on the Review, Analysis and Management of Product Quality", in strict compliance with such product and drug quality management regulations as the Pharmaceutical Administration Law of the PRC and the Good Manufacturing Practices for Pharmaceutical Products. According to the said documents, the Group performs comprehensive compliance management over such aspects as the receipt of raw materials, production process, the inspection and release from Customs custody of products, goods circulation and after-sales service. The Group has also taken out product liability insurance, which offers additional protection to both patients and the Group itself.

The Group has been continuously improving and building upon its quality systems, fostering their certification at the same time. Good Manufacturing Practices certifications have been granted by National Medical Products Administration (formerly known as China Food and Drug Administration) in respect of the production lines of our biological drugs such as gel threads, eye drops, topical solutions and freeze-dried preparations. In each of the years thereafter, we will continuously maintain the above certifications.

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Product Research and Development (“R&D”) and Innovation

Product R&D represents the driving force for the sustainable development of our corporate business. The Group has established an R&D management system, under which the Board is responsible for R&D planning, review and approval while the R&D Centre is responsible for the management of R&D projects. Besides, the Group has formed an internal review committee to perform evaluation and demonstrate the feasibility and phase-based R&D outcomes in respect of all the upcoming and ongoing R&D projects, which enables the Group to make timely decisions regarding incentives and adjustments.

The Group places great emphasis on the management of its intellectual property (“IP”) rights. It has created job positions for the management of such IP rights, performs management over the application for and the assignment and licensing of patents in accordance with the system relating to the Administrative Measures for Intellectual Property Certification, makes payment of application fees and annual fees as they fall due, keeps track of the legal status of patents in a timely manner, and updates the information on the patents of its competing products.

As of the end of 2018, the Group has obtained a total of fifteen patent certificates or authorisation letters: twelve invention patents and three utility model patents.

Consumer Services

The Group implements the “Protocol on the Management of User Consultation and Quality Complaints” and has established an after-sales service unit, through which it handles matters relating to users’ drug consultation and complaints in a conscientious and timely manner and effectively protects consumers’ legitimate interests.

In the case of a product complaint, the internal investigation and handling procedures are as follows:

Receipt of complaint by the business unit → Commencement of investigation and categorisation of the complaint by the quality assurance department (the determination results are also to be taken as the basis as to whether the complaint should be reported to the drug regulatory authorities) → Formulation of relevant corrective and preventive actions (where necessary) and performance of follow-up work → Notification of investigation and handling outcomes to the customer → Acceptance of the handling outcomes and termination of complaint by the customer, and the filing of relevant information

During the year 2018, the Group received seven complaints on the pharmaceutical products which were all related to the product packaging and adverse drug reactions. All complaints had been handled properly according to the above procedures and resolved.

Product Recall

In compliance with the stipulations of the Administrative Measures for Drug Recalls of the PRC, the Group has published an internal “Protocol on Drug Recall Management” to ensure that drugs can be effectively and rapidly recalled in the event of an emergency.

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The Group has established a mechanism for monitoring drug quality and adverse drug reactions, whereby quality feedback from pharmaceutical companies, hospitals, patients and from within the Group is collected in a timely manner. Based upon the information collected, the unit taking charge of quality matters would convene meetings for discussing and determining whether recall procedures should be activated. Where a drug recall procedure is activated, a leading group for the recall will be set up, the level of recall will be determined and the recall scheme will be formulated. The marketing centre will be immediately notified to ensure that each of the relevant drug-selling enterprises and drug users will receive notification within 24 hours (in the case of a Level 1 recall), 48 hours (in the case of a Level 2 recall) or 72 hours (in the case of a Level 3 recall) to the effect that the sale or use of the relevant batch of products shall be ceased. Any remaining products of such batch shall be sent back to the Group and the remaining inventory shall be subject to preservation and segregation treatment. In addition, the recall scheme and recall progress will be reported to Guangdong Food and Drug Administration within the stipulated time limit, and a recall report will be compiled upon completion of the recall.

During the year 2018, there was no product sold being subject to recalls for safety and health reasons.

Product Information Management

Adhering to the principles of honesty and integrity, the Group ensures that accurate information on its commodities is provided in order to safeguard each consumer's "right to know" and create a trustworthy service setting.

In compliance with the requirements of such regulations as the Measures for the Examination of Drug Advertisements and the Provisions on the Administration of Pharmaceutical Directions and Labels of the PRC, the Group implements stringent management and review and approval procedures in respect of the design and production of drug advertising materials such as labels, directions and packaging, and relevant documents shall be filed by the R&D Centre with the provincial food and drug administration for its review and approval.

During the reporting period, the Group has no material breach of the relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters in relation to its products and services provided.

(c) *Anti-corruption*

The Group is committed to reinforcing and enhancing the level of compliance of its operating activities with the relevant national and local laws and regulations regarding bribery, extortion, fraud and money laundering. The staff are required not to become involved in any impropriety, such as the giving or acceptance of bribes and corruption, in any circumstances, and are required to submit the related party transaction declaration form every year. In connection with any staff who are suspected to have committed an offence, the Group will lodge a report with the relevant judicial authorities in a timely manner in order to uphold a sound and orderly business environment.

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In order to prevent corruption, the Group needs to have a sound and effective internal control system in place. As such, the Group has established the internal control framework and maintains an independent internal audit function to provide independent assurance that the risk management, governance and internal control processes of the Group are operating effectively. The internal auditors assess the operating effectiveness of the risk management and internal control systems during their course of audits. Based on the results of the risk assessment and internal control issues identified, the Group will take remedial actions to address and resolve the identified issues.

The Group has also formulated and given effect to its “Whistleblowing Policy and Procedures”, and has set up a “General Manager’s Mailbox” which serves as a complaint and whistleblowing channel for the staff of the Group.

During the year 2018, there was no case involving any violation of laws that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering being brought against the Group or its staff.

3. *Community Investment*

A good external community setting represents an essential condition for the growth and development of an enterprise. While pursuing its business development, the Group has been proactively giving back to society so as to enable the harmonious development of the Group and the society.

The Group has established the Essex Charitable Fund (the “Fund”) to lend a helping hand to needy groups in the society. For instance, in February 2018, the Fund offered financial assistance to a staff of the Group whose family was facing hardship. In August 2018, the Fund donated RMB20,000 to the Zhuhai Pharmaceutical Association for the purpose of organising activities in relation to drug safety.

Besides, our staff joined the government officials to visit leprosy patients in Zhongshan and Zhuhai on the World Leprosy Day in January 2018. In addition, we encouraged our staff to participate in the Zhuhai Charity Walk in December 2018. More than 30 of our staff members registered for the event and all the registration fees were directly donated to the Zhuhai Charity Federation.