

## **2019 Corporate Social Responsibility Report**



**Shandong Xinhua Pharmaceutical Company Limited**

**April 2020**

## CONTENTS

<b>CHAPTER I OPENING</b>	<b>3</b>
<b>Declaration</b>	<b>3</b>
<b>About This Report</b>	<b>3</b>
<b>Corporate Profile</b>	<b>4</b>
<b>Social Responsibility System</b>	<b>5</b>
<b>Enterprise Honors Obtained in the Year 2019</b>	<b>7</b>
<b>CHAPTER II CORPORATE OPERATION AND GOVERNANCE</b>	<b>9</b>
<b>Corporate Governance Structure</b>	<b>9</b>
<b>Concept System</b>	<b>10</b>
<b>Operating Results</b>	<b>11</b>
<b>Internal Control and Supervision</b>	<b>12</b>
<b>CHAPTER III SOCIAL PERFORMANCE</b>	<b>14</b>
<b>Safety Production</b>	<b>14</b>
Safety Management System	14
Safety Management Measures	15
Safety Culture Cultivation	16
Safety Inspection Activities	17
<b>Social Contribution</b>	<b>18</b>
Product Quality Assurance	18
Streamlined Terminal Sales Channels	19
Relationships with Investors, Customers and Suppliers	19
Science and Technological Innovation	23
Anti-corruption	24
<b>Protection of Employees' Interests</b>	<b>25</b>
Employment Opportunities	25
Employees statistics	26

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Laws and Regulations	27
Health of Employees	27
Career Training and Development	29
Cultural Life of Employees	30
<b>Social Welfare</b>	31
Social Donations	31
Community Activities	33
<b>CHAPTER IV ENVIRONMENTAL PROTECTION</b>	36
<b>Comprehensive Utilization of Resources</b>	36
<b>Environmental Protection Upgrades</b>	38
Treatment of Three Wastes	38
Adoption of Measures and Achievement of Results	40
Promotion for Environmental Protection	41
<b>Social Supervision and Social Demonstration</b>	42
<b>CHAPTER V FUTURE PROSPECTS</b>	43
<b>CHAPTER VI QUESTIONS AND FEEDBACK</b>	45
<b>GUIDELINES AND INDEX OF THIS REPORT</b>	46

## CHAPTER I OPENING

### I. Declaration

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

### II. About This Report

This report is the fourth 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 2019 (certain facts stated herein go beyond such occurred during the reporting period), which summarizes the achievements for the entire year of 2019 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 2019 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](http://www.cninfo.com.cn)) and the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) or the official website of the Company ([www.xhzy.com](http://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 13 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).

At present, the Company’s annual production capacity of chemical APIs is 35,000 tons, and the market share of six leading APIs, such as analgin, ibuprofen, aspirin, aminopyrine, levodopa and antipyrine, ranks first in the world, while eight APIs, such as pipemidic acid, isopropyl antipyrine, barbital, isopentobarbital, triphenyldiamine, irisquinone, ethoxybenzamide and stimhike, weigh heavily. The annual production capacity of the preparation is 7 billion tablets, 1 billion small volume injection, 10 million bottles of small infusion products and 1.5 billion capsules, which have strong influence in China.

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. As of the date of this report 15 products such as Theophylline and Ibuprofen have passed US FDA accreditation; 11 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. In 2019, 81 patents were applied, among which 22 patents were authorized. “Preparation-system Construction and Scale Development of Green Caffeine based on key Industrialization Technologies” won the second prize of science and technology progress of Shandong Province in 2018, “Continuous Heat Integrated Separation and Precise Control Technology of Multiple Azeotropes in API Production” won the second prize of Technological Invention of Shandong Province in 2019. The Company is appraised as a technological innovation demonstration enterprise in Shandong province, and successfully passed the evaluation of the State-Accredited Enterprise Technology Center.

With nearly 80 years of development history, the Company formed three major industrial plates, namely chemical APIs, pharmaceutical preparations and pharmaceutical intermediates, with five major industrial parks: headquarters, No. 1 Branch, No. 2 Branch, Shouguang (Xinhua) and Gaomi (Xinhua), which are conducive and complementary to each other. The Company has established a complete industrial chain from pharmaceutical intermediates to high-quality drugs, with strong product supporting capacity. 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.

## **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. The Company respectively completed First Phase Employee Stock Ownership Scheme 2017, and launched the Share Option Scheme in 2018, by improving the long-term incentive mechanism and thereby promoting the long-term development.

## **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 2019

- 1、 National Model Enterprises With Harmonious Labor Relations (全國模範勞動關係和諧企業)
- 2、 Shandong Honest Lushang Brand Enterprise for 2018 (2018 年度山東省厚道魯商品牌企業)
- 3、“Modern Advantage Industry Cluster + Artificial Intelligence” Pilot Demonstration Enterprise (“現代優勢產業集群+人工智慧”試點示範企業)
- 4、“AAA” Credit Unit of Pharmaceutical Enterprises in Shandong Province (山東省醫藥企業“AAA 級”信用單位)
- 5、 Shandong Technology Innovation Demonstration Enterprise (山東省技術創新示範企業)
- 6、 Top 100 Enterprises of Advanced Enterprise Education Units of the PRC (中國企業教育先進單位百強企業)
- 7、 2019 China Chemical Pharmaceutical Industry Environmental-friendly and Green Pharmaceutical Special Award (2019 中國化學製藥行業環保、綠色製藥特設獎)
- 8、 2019 Outstanding Enterprise Brand of Exported Bulk Pharmaceuticals in the Chemical Pharmaceutical Industry of the PRC (2019 中國化學製藥行業原料藥出口型優秀企業品牌)
- 9、 2019 Outstanding Enterprise Brand of Exported Preparations in the Chemical Pharmaceutical Industry of the PRC (2019 中國化學製藥行業製劑出口型優秀企業品牌)
- 10、 2019 Excellent Brand of Endocrine and Hormone Products in China’s Chemical Pharmaceutical Industry (2019 中國化學製藥行業內分泌及激素類優秀產品品牌)
- 11、 Top 30 Enterprises with Comprehensive Strength of “Quality Shandong Pharmaceutical Brand” (“品質魯藥”綜合實力 30 強企業)
- 12、“Magnificent 70 Years, Striving for a New Era” the Backbone Enterprise of Pharmaceutical Industry in the 70th Anniversary of the Founding in the PRC (“壯麗 70 年，奮鬥新時代”新中國成立 70 周年醫藥產業脊梁企業)
- 13、 2019 PRC Medical Enterprise EHS Social Responsibility Award (2019 年中國醫藥企業 EHS 社會責任大獎)



14、2015-2019 Advanced Unit of Party Construction and Ideological and Cultural Construction in Pharmaceutical Enterprises of PRC (2015-2019 年度中國醫藥企業黨建與思想文化建設先進單位)

15、Top Ten Listed Company of PRC (中國上市公司百強企業)



## CHAPTER II CORPORATE OPERATION AND GOVERNANCE

### I. Corporate Governance Structure

In 2019, 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 current effective 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 the Rules of Procedure 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 Rules of Procedure 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 of Procedure for Shareholders’ Meeting, 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.

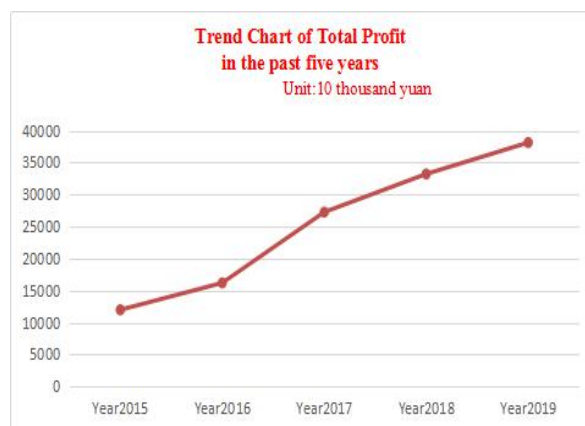
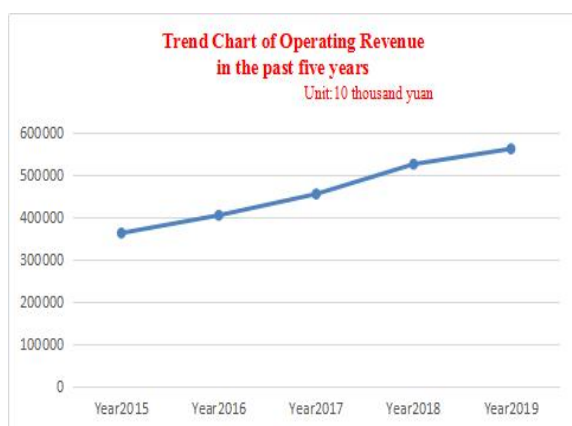
## II. Concept System

<b>Management concept</b>	performance-oriented and scientific management
<b>Operation concept</b>	eyes on the future to pursue win-win cooperation
<b>Development concept</b>	quality as the foundation of development, innovation as the motivation of development
<b>Innovation concept</b>	to keep moving on, to excel oneself and to explore a better self
<b>Quality concept</b>	product quality connects to the future of the Company and drug quality matters to the lives of people
<b>Safety concept</b>	Safety is the insurance of the happiness of employees; safety is the prerequisite for successful business performance of a company
<b>Environment concept</b>	environmental protection is the essence of the life and development of Xinhua
<b>Talent concept</b>	to choose talents with both morals and talents; everyone has different talents, with the potential to develop their best
<b>Study concept</b>	I learn, I improve

### III. Operating Results

In 2019, the Company and its subsidiaries (the “Group”) adhered to the target of “accelerating the transformation of new and old momentum and achieving upgrade of industrial chain”, so as to robustly explore the market, scientifically and stably organize production, speed up the implementation of preparations strategy and internationalization development strategy, strengthen technological advancement, and seize the foundational management. Along with continuous improvement on the trend of production, operation and development, various operating indicators, again, hit historical new high.

In 2019, the operating income of the Group amounted to RMB5,606.02 million, representing a year-on-year increase of 6.89%; the total profit amounted to RMB381.39million, representing a year-on-year increase of 14.76%; the actual tax paid by the Company for the year amounted to RMB400.94million. 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 strictly implemented the “Comprehensive Risk Management Measures” and 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 2019, the Company, led by audit department, with a working group organized by relevant personnel of the production and operation and financial department from various subsidiaries, has organized multiple internal special inspections, including 5 comprehensive audits of the production and operation of subsidiaries and 2 economic responsibility audits. In addition, the Company also carried out internal control audits on equipment procurement of the parent company, special audit on marketing credit risk and “three gold” occupation management, and special audit on hospitality management. The inspection team made a reasonable and effective

evaluation on the internal control risks of the above businesses and matters, and urged the relevant departments for improvement and optimization.

In 2019, the bidding work of the Company and some subsidiaries were strictly supervised. The Company focused on strengthening investment management and control, and carried out follow-up audit on three major projects of international cooperation center, injection R&D platform and high-density veterinary drug preparation project. The Company also carried out whole process follow-up audit on process compliance, budget dynamic control, cost management and fund payment in the process of project construction, realized pre-control and in-process control of audit, and achieved full audit coverage of major projects combined with afterwards control of settlement audit.

The audit department reviewed the audit work of 2018 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. The audit department actively participates in the construction of internal control and organizes the evaluation of internal control. According to the requirements of comprehensive risk management, the audit department organizes the comprehensive risk identification and evaluation of the Company, and organizes relevant units to formulate corresponding management strategies and response plans in accordance with the evaluation.

### **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 2019”. 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 2019, 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 23 March 2020.



## 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. In April 2019, the Company successfully passed the second-level safety standardization review of Shandong province.

#### 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. At the beginning of the year, the Company carried out the defense work of safety policy objectives at the Company level and workshop level, respectively. By signing the Responsibility Document for Contracting Safety Objectives with the top leaders of each unit, the Company promoted the management and control of risks at different levels, so that management personnel at all levels could sort out the annual safety work ideas, clarify work objectives, refine work measures, and further deepen the development of “one post, two responsibilities” to promote the implementation of safety responsibilities of personnel at all levels.

The Company is committed to the working attitude of “safety without trifles”. In 2019, by strengthening the implementation of the main responsibility of safety production, improving the basic work for safety production, consolidating and improving the construction of the Company’s “double prevention system”, improving the safety level of the device, strengthening the staff emergency skill drill and other measures, the Company continuously improved the working environment of the staff, strengthened the construction of the emergency system, earnestly did a good job in safety check and rectified hidden dangers. The Company found out problems and eliminate hidden dangers 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 has been focusing on safety production investment. In 2019, RMB27.73 million was invested for production safety, of which approximately RMB17.3 million has invested by the parent company. The company focused on “two key points and one major”, information data management of safe production, improvement of working environment of employees, safety risk management and other aspects to increase continuously the investment in safety production. The Company improved the intrinsic safety level of the device, consummated the construction of major hazard source monitoring platform, realized the automation and intelligence of tank farm and storage, and strengthened the automation and safety chain transformation of the device. Personnel working environment were constantly improved.

### (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 safety production laws and regulations, consolidated the construction of risk classification management and control system, and strengthened the four-level hidden danger investigation, the process safety risk analysis and safety risk change management. As the benchmark unit of dual prevention system of Shandong pharmaceutical and chemical industry, the Company improved the construction of dual prevention system in 2019, with a total of 482 risk points evaluated, including 16 major risk points, 105 major risk points, 94



general risk points and 267 low risk points, so as to achieve hierarchical management and control of all risk points.

### 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”

As an open unit of Zibo public open day for work safety, the Company opened the production area to the public on the open day for work safety publicity, which was welcomed by the public. The Company organized various related mass activities such as micro-video competition, safety production month, fire-fighting sports competition, safety essay collection, etc. to improve effectively employees' awareness of safety production, and made use of platforms such as bulletin boards, WeChat platform, Xinhua Pharmaceutical News and safety briefings to properly promote the safety culture.



In the year, based on 6S work, the Company introduced external organizations to carry out 7S-CTPM work as the guidance, and took CTPM work as the starting point of 7S work. Firstly, it was carried out in each production unit of No.1 branch plant, from 6S management upgrade on site to semi-military management and construction in groups, to comprehensive equipment management, leading to continuous improvement on the Company's field management and equipment and facilities management level.

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”. In 2019, safety training in Company level was carried out 15 times, with more than 5,500 participants. The Company has carried out step-by-step training for key personnel, upgraded the previous year's youth competition to step-by-step training for youth emergency skills, and completed the theoretical and practical assessment for 526 employees in the year. Moreover, the Company trained 30 excellent young managers for HAZOP team leader, organized the establishment of safe production question bank, and developed self-learning system of mobile app to facilitate the independent learning and random check of employees.

The Company carried out the construction of independent management in teams innovatively. In 2019, the second batch of independent management in teams met the standards, the operation of the first batch of independent management in teams are supervised and inspected, and strengthened the grass-roots safety work by improving safety management construction of the teams. In February 2019, management system of workshop safety was audited for each production unit. In December, a third-party organization was hired to review the safety management system of five production subsidiaries, issuing a review report.

7 emergency drills in company-level, 59 emergency drills in workshop level and 660 emergency drills in team level were carried out, including 182 night drills and 2,576 participants.

#### **4. Safety Inspection Activities**

The Company insisted on carrying out 6S comprehensive inspection and dynamic inspection. In 2019, the Company carried out comprehensive inspection once a quarter and dynamic sampling inspection twice a quarter to effectively ensure the site management level of each unit.

The Company adheres to effective implementation of the four-level hidden danger investigation, and carried out 31 company level safety inspections with a total of 1,272 hidden dangers found and the rectification rate of hidden dangers 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. During the year, the Company, entrusted by Shandong provincial emergency management department carried out the dual prevention system assessment in 66 pharmaceutical and chemical enterprises in the province, which was well completed and appreciated by the industry and the government.

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 2019, the Company successfully obtained the new ISO9001/14001 dual system certificate. In 2019, 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 and the Returned Products” (《顧客投訴及退回產品處理管理標準》), “Management Standards for Drug Recall” (《藥品召回管理標準》) 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 Drug Recall” (《藥品召回管理標準》).

### **(3) Effectiveness of quality management and control**

Throughout the year, four products of five specifications of oral solid preparations passed the generic drugs consistency evaluation of quality and efficacy. One product obtained the drug registration approval, one product obtained the clinical approval, five products obtained the approval number of veterinary drugs, and 12 products completed the DMF declaration of seven countries, passing various official inspections and foreign audits 166 times.

The Company continued to implement continuous, automatic and intelligent transformation, and completed 15 intelligent control transformation projects within the year, further improving the Company’s production automation level and greatly improving production efficiency.

## **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.

## **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 report summaries, 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 telephone counseling 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.

Based on the principle of being responsible for customers, the Company regularly carried out customer satisfaction evaluation, and constantly understood and masters customers' expectations and requirements, so as to find out the breakthrough and direction of improving management level, product quality and customer service, and take customer demand as the source of new product development, continuous innovation, continuous reform. Meeting customers' satisfaction is our goal.

The Company maintains good partnerships with a number of domestic and overseas famous enterprises such as Coca-Cola, Pfizer, Bayer, Perrigo, Roche. 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 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.

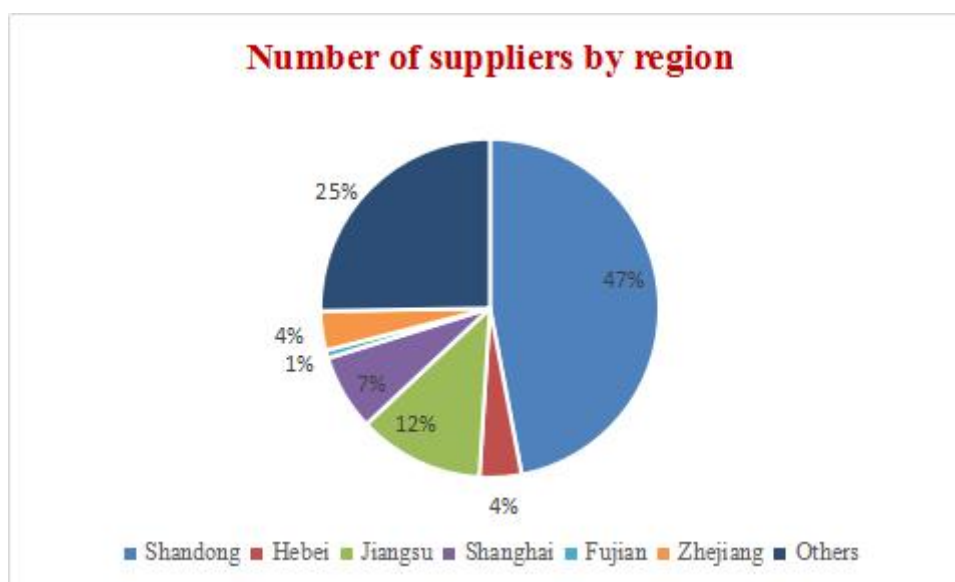
### **(3) Supplier Relationship Management**

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 has always been committed to science and technology first, vigorously implemented the development strategy of “innovation + internationalization”, established a perfect R&D innovation system, and took the lead in innovation ability. At present, the Company has six talent platforms: National Enterprise Technology Center, academician workstation, postdoctoral workstation, pharmaceutical master joint training point, Taishan scholar post and senior technician workstation. Throughout the year, the Company introduced 14 new masters, 1 new Taishan industrial leading talent, 1 academician, 1 young and middle-aged expert with outstanding contribution in Shandong province, 2 chief technicians in Qilu, 1 young and middle-aged expert with outstanding contribution in Zibo City, 1 chief technician in Zibo City and 1 outstanding tribute technician in Zibo City. The Company was rated as one of the top 100 enterprises in China’s advanced enterprise education, a national model enterprise with harmonious labor relations, and an advanced unit in talent work in Shandong province.

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 2019, R&D expenses reached RMB235 million, representing a year-on-year increase of 25.90%. Positive progress has been made in the conformity assessment of generic drugs. As of the end of 2019, the Company had 4 products of 5 specifications passing the conformity assessment, including glimepiride tablets (1mg and 2mg), captopril tablets (25mg), cefradine capsules (0.25g) and cetirizine hydrochloride tablets (10mg). Moreover, 8 products were declared to CDE, 3 products were completed the pharmaceutical and clinical verification, and 1 product was passed the formal BE. 5 products were successfully applied for exemption from BE. Five products were entered the pre-BE or BE stage; 5 products were in mid-trial or trial production. In collaboration with Shenyang Pharmaceutical University, published an article in BBA-Molecular Basis of Disease of OAB-14, a major innovative drug against Alzheimer's disease, obtaining 1 authorized patent in the US, and is currently undergoing mid-trial amplification and pre-clinical pharmacological studies. The Company undertook the construction of key technology and continuous system of caffeine green, a provincial and ministerial scientific research project, and was rated as the development and construction fund project of Shandong Peninsula National Independent Innovation Demonstration Zone in 2019 by the Provincial Department of Science and Technology.

In 2019, 81 patents were applied, among which 22 patents were authorized.



## 5. Anti-Corruption

In 2019, the Company entered into the Responsibility Documents of Implementing All-round and Strict Party Governance with the Party members and leadership personnel, strengthened the implementation of “one post, two responsibilities” to promote the enhancement of establishing cadre team of the Company, set up positive atmosphere of the Company, adhere to strict Party governance in an all-round way, and stringently execute various requirements for integrity in the industry.

The Company grasped the key points of the integrity reminder, and strengthened the integrity and self-discipline requirements in festivals. Documents are specially printed and distributed before major festivals, such as New Year’s Day, Spring Festival, Labor Day, Mid-autumn Festival and National Day, reminding Party members and leading cadres at all levels to seriously study the recent press releases issued by the Central Commission for Discipline Inspection and the local commission for Discipline Inspection that publicly exposed spiritual problems in violation of the eight provisions of the Central Committee, as well as the relevant documents issued by Hualu Holdings Co., Ltd., strict management of public funds, unremittingly correct conduct and discipline, in order to ensure integrity and self-discipline.

The Company was alerted by cases, creating the ideological base line of resisting corruption and preventing change. The Theory Center Group of the Party committee of the Company concentrated on watching two warning and education films, i.e. the Disaster of “Circle” - Warning Record of Liu Shihe’s Serious Violation of Discipline and Law Case and the Cost of Wayward - Warning Record of Zhang Jianhua’s Serious Violation of Discipline and Law Case”. The Company organized a warning and education conference for cadres, and the leading cadres of the Party members collectively watched the special film “A Heavy Blow against Corruption Escort - Warning Record of a series of Corruption Cases of Rizhao Port Group”. Through viewing typical cases, we further strengthened the consciousness of discipline and rules, respected the law and fear discipline, resisted corruption and prevent change, and enhanced the integrity and self-discipline consciousness of Party members and cadres.

According to the requirements of the education on the theme “bearing in mind your original intention and your mission”, the Company collected and sorted out the typical case reports, and forwarded them to the party branches as learning materials for carrying out the warning education on the theme, demonstrating a good warning education role.

The Company continued to improve the “Four-in-One” reporting network of telephone reporting, visiting reporting, complaint reporting and online reporting, unblock reporting channels, handled complaint reporting cases in a timely manner, and carried out case-by-case anonymous reporting of specific tips, to answer for everything.

### 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 2019. 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 and a high-skilled talent team. The professional skill talent team contains 189 people with senior titles, 440 people with intermediate titles. The high-skilled talent team contains one National technical experts, 11 chief technicians in Shandong Province, 20 chief technicians in Zibo City, 640 senior technicians, 736 technicians, 629 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. Employees statistics

As at 31 December 2019, the number of staff of the Group was 6,399.

### (1) By Job Category:

Job Category	Production Personnel	Sales Personnel	Engineering and Product Developers	Quality Supervision and Inspection Personnel	Other Personnel	Total
Number	3,679	1,046	792	455	427	6,399
Percentage	57.49%	16.35%	12.38%	7.11%	6.67%	100.00%

### (2) By Age Range:

Age Range	Under 35	35-55 (inclusive)	Over 55	Total
Number	3,062	3,250	87	6,399
Percentage	47.85%	50.79%	1.36%	100.00%

### (3) By Region:

Regional Distribution	Domestically	Overseas,	Total
Number	6,388	11	6,399
Percentage	99.83%	0.17%	100.00%

### (4) Number and proportion of staff turnover by age:

Age Range	Under 35	35-55(inclusive)	Over 55	Total	Region
Number	157	74	0	231	overseas
Percentage	2.46%	1.16%	0.00%	3.62%	overseas

### 3. 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%.

### 4. 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**

The Company has always purchased labor protection supplies in accordance with national and industry standards, and allocated corresponding labor protection supplies in accordance with the characteristics of different positions. The Company 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.

Since the outbreak of COVID-19, the Company has, on the one hand, made every effort to ensure the production of drugs, and on the other hand, strictly implemented the requirements of the prevention and control of epidemic situations at higher levels, actively protected its employees, and issued them with epidemic prevention manuals, from the epidemic prevention and control registration, travel to and from work, dining management and other aspects of response measures, the introduction of abnormal situation emergency response plan to protect the health of employees.

## **(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 has created a healthy working environment for employees, carried out comprehensive management and control to occupational disease hazardous factors on the production site, and has carried on the control especially to dust, high temperature and other aspects. In 2019, efforts were made to control theophylline dust in workshop 105 and active Carbon Dust in workshop 103, and the ventilation systems in workshop 103, workshop 204 and workshop 380 were modified, effectively improving the working environment of the employees.

The Company and its subsidiaries at each level established a sound system for employees' annual health check-up, preliminarily established an occupational health record system for employees, focused on passing the hazard of monitoring and prevention of occupational disease, and enhanced labor protection measures as well as regular and irregular inspection system. In 2019, the Company and subsidiaries organized occupational health check-up for 3,915 people, including organization and institution personnel, personnel prone to occupational hazards (pre-job, on-job and off-job), pharmaceutical practitioners, personnel of preservation and special types of work, to establish occupational health monitoring filing for 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.

## **5. 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 2019", 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 2019, the Company has completed 60 corporate level education training projects, and has trained 3,950 staffers in aggregate. The Company sent 264 staffers in aggregate to attend training for staff. The Company successively organized training programs for mid-level and senior management in relation to business concepts, business strategies, enterprise Party building, compliance of laws and regulations, and education on anti-corruption alert for Party members and leading cadres, comprehensive management capabilities training for department heads of the Company, professional training on safety quality and environmental protection equipment, medicine basic theory training for youth backbone staff, safety skills upgrading training for youth staff and high-skilled talents training, etc. 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.



## 6. 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 2019, 110 “connected dining tables” were donated to the Danian town of Juancheng, Heze, and 53 “connected dining tables” were donated to Shouguang Jitai Second Middle School in Weifang. The Company supported Hualu province to send the first secretary of poverty alleviation village work, donations of RMB50,000 for the “digging wells”, “village memory hall” and other construction; actively responded to the activity of “joint construction by pairs” of the general urban and rural trade union of the city, and worked in Pairs with the Agriculture of Boshan flower trail to help vegetable farmers sell 36,840 catties of vegetables, amounting to RMB57,424.8; visit and console the old party members and poor households in Wangcai yuan village, Dayan town, Juancheng, with RMB2,000 in materials; and sent winter cabbage and spring onions to the elderly over 60 years old in Qiaopo village, Zili town, Zichuan district, Zibo, worth RMB2,990.



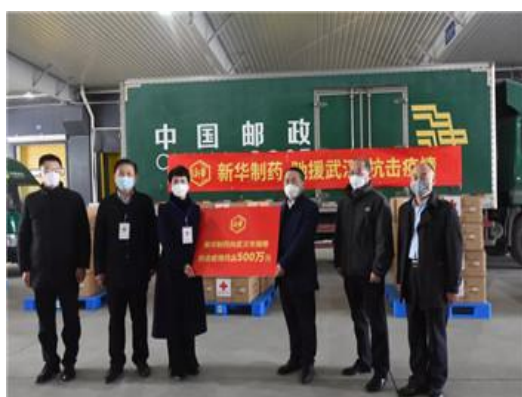


The Party committee of the Company called on all Xinhua members to actively participate in the “Donation Day” activity to carry forward the traditional virtue of helping the poor and philanthropy and the spirit of dedication to philanthropy. During the year, around 5,107 members from 44 primary units made donations and a total of 159,029 yuan was donated, 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 RMB1,234,647.8 in aggregate for 312 employees throughout the year, among which RMB9,000 was distributed to 3 model workers in need, and RMB366,515.6 was distributed to 5 employees with difficulty in filing. The Company donated RMB278,332.2 for the initiative of workers with Leukemia in the workshop. The Company subsidized 22 students and distributed student grants amounting to RMB83,000 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.



Since the outbreak of COVID-19, the Company, as the largest production base of antipyretic and analgesic drugs in China, has actively fulfilled the original mission and responsibility of the Red Medicine Enterprise, donated RMB5 million of epidemic-related drugs to the Wuhan Red Cross Society to help combat the epidemic.

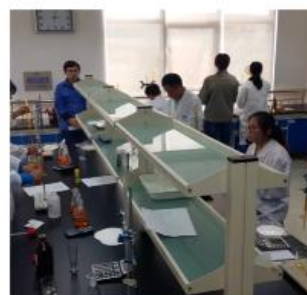


## 2. Community Activities

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 2019. By carrying out small index labor competition for operating experts aiming at “two increases and two reductions, cost reduction and efficiency enhancement”, during which 697 operating experts were selected with a reward of RMB216,070, thereby further stimulating employees’ initiative and motivating their enthusiasm of participation.

(2) Organized the Technical Contest of the Company in 2019. Over 3,000 employees had take part in the contest, during which the top six of ten specialties received informed recognition, selecting ten technical experts.





The Company held diversified recreational and sports activities in 2019, mainly including “March 8” relay race, long-distance running in Spring Festival, badminton competition, gas volleyball competition, “Book 38” reading essay selection, exhibition tour for excellent work of photography, calligraphy and painting, editing and publishing staff photography works collection. The abovementioned activities greatly enriched employees’ community life, showing positive image of the Company.



In 2019, Xinhua Pharmaceutical actively participated in a series of health poverty alleviation activities jointly sponsored by the Shandong Poverty Alleviation Development Foundation and the Shandong Stroke Association. The campaign, based on the reality of our province, was of far-reaching significance to the implementation of General Secretary Xi Jinping’s strategy of precision poverty alleviation, improvement of the level of primary medical and health services, promotion and popularization of knowledge of healthy drug use, and improvement on the People’s health literacy. Xinhua Pharmaceutical held more than 50 events including “standardized diagnosis and treatment of cardiovascular and cerebrovascular diseases” and “Health Lecture Hall” in Zibo, Yantai, Binzhou, Dongying, Jiangxi and Gansu, a total of 16 volunteer experts and more than 150 person-times enterprise volunteers participated, benefiting over 1,600 patients, and a total of more than 500 primary-level doctors were trained in standard

treatment courses. Through a series of activities, the knowledge level of cerebrovascular disease prevention and control at the grass-roots level was greatly improved, and the actual effect of poverty alleviation was enhanced.



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 environmental management 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聲污染防治法》), 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. The company runs the Environmental Management System efficiently, 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 strictly complied with the requirements of energy-related laws and regulations, such as the “Measures for the Assessment and Examination of Energy Conservation of Fixed Assets Investment Projects in Zibo” and the “Regulations of Zibo City on Energy Conservation”, 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 development, recycling development and low-carbon development” for the enterprise. In 2019, “Injection GMP Transformation Project” and “RTO Waste Gas Treatment



Technology Transformation Project” conducted the energy-saving evaluation of the project, and was approved by the Zibo high-tech zone.

According to the Company’s “Energy Conservation Plan for the 13th Five-Year Plan Period” to carry out energy-saving management, the Company actively implemented energy-saving target responsibility management, planning and implementation of energy-saving technical transformation, improved energy efficiency, and reduced the main product energy consumption costs. In 2019, the Company’s energy use target was to reduce the overall cost of energy use by RMB7 million. In order to ensure the completion of the target, the Company decomposed the target into major production units, signed an energy-saving target responsibility statement, revised the assessment method for energy specialty, provided statistics and accounting analysis on the completion target of use of production unit energy every month, adopted feasible measures to improve the existing problems, and conducted assessment on economic reward and punishment with regard the completion progress of energy-saving indicators.

In 2019, the Company persisted in technological transformation and achieved remarkable results in energy conservation and consumption reduction, mainly including:

1. The comprehensive energy-saving reform of deep condensation recovery of petroleum ether with ibuprofen sodium salt resulted that more than 90% of gaseous petroleum ether in tail gas could be condensed and liquefied after transformation, and achieved annual saving spray water 4,960 cubic meters and carbon absorption unit steam consumption reduction of approximately 90%.
2. Analgin included comprehensive recovery and transformation of ethanol-containing tail gas, and the recovery rate of ethanol increased from 50% to approximately 80%, with absorbed water reduction of approximately 5,170 cubic meters saving 1,480 tons of consumption of concentrated distillation steam of absorption solution.
3. Salicylic acid carboxylic acid tank body insulation. After the insulation was completed, the surface temperature of the tank did not exceed 15°C as compared with the ambient temperature, and the annual loss of steam heat is reduced by approximately 1,481 tons.
4. Implementation of water recovery and renovation in the second branch plant. The Company realized recovery of precipitation in the park, relatively good drainage of each workshop and backwash water from the sewage discharge of the cooling water system, after the multistage filtration, flocculation and sedimentation treatment, to make up the water in the public cooling water system with annual fresh water saving of 36,000 cubic meters.

Set out below is the data for resources consumption in 2019:

Resources	Unit	Consumption in 2019
Power consumption	100 million kWh	1.89
Tap water	10 thousand m <sup>3</sup>	301.25
Steam	10 thousand tonnes	53.55
Packaging materials used for finished products	tonne	8,487
Power consumption (energy consumption per RMB10,000 output value)	kWh	439.59
Gasoline consumption (energy consumption per RMB10,000 output value)	tonne	1.25
Water consumption (energy consumption per RMB10,000 output value)	m <sup>3</sup>	7.01

**Results for comprehensive use of resources:** An increase in the comprehensive energy consumption per RMB10,000 industrial output value in 2019 was recorded as compared to the previous year: power consumption per RMB10,000 output value represented a year-on-year increase of 42.64 kWh; gasoline consumption per RMB10,000 output value represented a year-on-year decrease of 0.14 tonne; and water consumption per RMB10,000 output value represented a year-on-year decrease of 0.71 m<sup>3</sup>. Energy costs were reduced to approximately RMB10.0315 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 ISO, 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

The Company sets up the hazardous waste management plan and puts it on record every year. The amount of hazardous waste generated and disposed of is less than the planned total amount, and the total amount of waste water and exhaust gas discharged is less than the total amount permitted by the discharge permit.

## (1) Solid Waste Treatment

According to the “National Catalog of Hazardous Wastes”, the Company recognized seventeen 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

Name	Transfer and Disposal in 2019
General industrial waste (tonne)	100
General industrial waste density (kg/RMB10,000 output value)	0.23
Total hazardous waste (tonne)	5,068
Hazardous waste density (tonne/ RMB10,000 output value)	0.012
Amount of household waste discharge (tonne)	1,500
Density of household waste discharge (kg/ RMB10,000 output value)	3.49

## (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, RTO, 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 2019 (tonne)
Sulfur dioxide	7
Nitrogen oxides	13
Particulates	3.8
Greenhouse gas	264,170tCO <sub>2</sub>



### (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 CWO. 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 2019 (tonne)
Waste water	2,813,727
COD	805.326
Ammonia nitrogen	57

## 2. Adoption of Measures and Achievement of Results

The Company entrusted the colleges and universities such as 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 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. The Company introduced advanced technologies and facilities such as MVR, CWO and membrane treatment to pretreat the high-concentration production wastewater, so as to ensure the stable operation of the Company's sewage treatment system and discharge to the standards.

In 2019, total investment in environmental protection was RMB195 million, among which the environmental protection investment of the parent company amounted to RMB120 million, mainly including the operation costs of wastewater treatment and supporting facilities

amounting to RMB66.00 million, and the investment in environmental protection measures amounting to RMB54.00 million. During the year, the Company completed a factory sewage treatment plant, 105 workshop CWO project key ring measures, completed 11 sets of FID VOCs online monitoring, 3 sets of CEMS monitoring on-line monitoring and 9 sets of monitoring and early warning system of construction and installation commissioning operations. RMB30 million was invested in factory branch one and factory branch two to build two sets of RTO project, and RMB10 million was invested in rhodobacter and anaerobic ammonia oxidation project, which were under implementation.

The technology of absorption of organic solvent by carbon fiber, recycled inorganic salts from high salinity wastewater by means of MVR, 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 two CWO disposal facilities in 2020, 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.

### **3. Promotion for Environmental Protection**

The Company vigorously promoted environmental protection to enhance environmental protection awareness of all employees. The Company organized a number of promotion and education activities on environmental protection to improve employees' understanding in low-carbon production and life, cultivated the awareness of energy saving and environmental protection, train employees with new environmental protection laws, and standardized environmental protection through the regulations of the Company and process control.

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

2020 is the target year for the PRC to comprehensively develop the well-off society. The Company will continue to focus on optimization of product structure and industrial chain upgrade, and on the basis of strengthening and improving the quality of raw materials and drugs, promote new breakthroughs in scientific and technological innovation, project construction, large preparation strategy, international operation, and new model cultivation, working towards the completion of 13th Five-Year Plan.

On the basis of well-organized production of several international processed drugs and timely delivery of orders with good quality and quantity, the Company further strengthened close contact with internationally renowned companies and strived to introduce more international cooperation projects, building a more competitive international structure. In 2020, 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.
<b>A. Environment</b>		
<b>Aspect A1</b>	<b>Emissions</b>	
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.	36
KPI A1.1	Types of emissions and related emission data	39、40
KPI A1.2	Total emissions and (if applicable) density of greenhouse gas	39
KPI A1.3	Total amount and (if applicable) density of hazardous waste generated.	39
KPI A1.4	Total amount and (if applicable) density of non-hazardous waste generated.	39
KPI A1.5	To describe measures to reduce emissions and results achieved.	39-41
KPI A1.6	To describe the methods of handling hazardous and non-hazardous wastes, measures of reducing the quantity of production and results achieved.	39-41
<b>Aspect A2</b>	<b>Use of Resources</b>	
General disclosures	The policies of using effectively resources (including energy, water and other raw materials).	36
KPI A2.1	Total direct and/or indirect energy consumption and density by types.	38
KPI A2.2	Total water consumption and density.	38
KPI A2.3	To describe the energy use efficiency initiatives and results achieved.	36-38
KPI A2.4	Description of any problems in obtaining the applicable water supply and enhancement of the water consumption efficiency initiatives and results achieved.	36-38
KPI A2.5	Total amount of package materials used in the finished product and (if applicable) the amount per unit of	38

	production.	
<b>Aspect A3</b>	<b>The Environment and Natural Resources</b>	
General disclosures	The policies of reducing significant impact of issuer on environment and natural resources.	36
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.	36-38
<b>B. Society</b>		
<b>Aspect B1</b>	<b>Employment</b>	
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.	27
<b>Aspect B2</b>	<b>Health and Safety</b>	
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.	14、 27
<b>Aspect B3 Development and Training</b>	<b>Aspect B3 Development and Training</b>	
General disclosures	Policies on knowledge and skills to enhance employees' performance of duties with description of training activities.	29、 30
<b>Aspect B4</b>	<b>Labour Standards</b>	
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.	27
<b>Aspect B5</b>	<b>Supply Chain Management</b>	
General disclosures	Environmental and social risk policies to manage the supply chain.	21、 22
<b>Aspect B6</b>	<b>Product Responsibility</b>	
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.	18、 19
<b>Aspect B7</b>	<b>Anti-corruption</b>	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant impact on issuer, in respect of prevention of bribery, extortion, fraud and money laundering.	24

<b>Aspect B8</b>	<b>Community Investment</b>	
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.	33-35