东陽光药

YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
宜昌東陽光長江藥業股份有限公司

(A joint stock limited company incorporated in the People's Republic of China)

Stock Code : 1558

2019
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


CONTENTS

ABOUT THIS REPORT

This is the fifth Environmental, Social and Governance (the "ESG") Report released to the public by YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "Pharm HEC"). This report is an annual independent report for the period from 1 January 2019 to 31 December 2019 (the "Reporting Period") and aims at reflecting the development and practice in respect of environment, social and corporate governance in the year of 2019 of Pharm HEC, reporting to stakeholders such as the shareholders, employees, the government, customers and consumers, partners and the community about the corporate operation, and the performance of social responsibilities and environmental missions.

BASIS OF PREPARATION

This report has been prepared in strict compliance with the requirements of the Environmental, Social and Governance Reporting Guide as set out in the Appendix 27 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange" or "HKEX") (the "Listing Rules") with reference to the requirements in the Guidelines on Preparation of Corporate Social Responsibility Report for Corporations in China and the United Nations Sustainable Development Goals Corporate Action Guidelines (SDGs).

REPORTING PERIOD

The information contained in this report covers the period from 1 January 2019 to 31 December 2019, and the period covered for sections of the anti-epidemic is moderately extended.

PUBLICATION SCHEDULE

The report is published annually.

ABOUT THIS REPORT

REPORTING SCOPE

The scope of disclosure of the report is consistent with that of the 2019 Annual Report of YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

DATA SOURCE

The financial data involved in this report is in line with the 2019 Annual Report of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. Other information is sourced from official documents, statistical reports and relevant public information. All the information is reviewed by the board of directors of Pharm HEC (the "Board") to ensure the accuracy and reliability of the information.

REFERENCE DESCRIPTION

For the convenience of presentation and reading, YiChang HEC ChangJiang Pharmaceutical Co., Ltd. in this report is referred to, according to the context, as "the Company" or the "Pharm HEC", and YiChang HEC ChangJiang Pharmaceutical Co., Ltd. and its members included in the consolidated financial statements are together referred to as "the Group", "our Group" or "we".

ACCESS TO THE REPORT

This report is prepared in both traditional Chinese and English, and is published electronic version, which can be downloaded from the Company's website (http://www.hec-changjiang.com) and the Stock Exchange's website (http://www.hkexnews.hk). In case of any discrepancy between each version, the traditional Chinese version shall prevail.

MESSAGE FROM SENIOR MANAGEMENT

Message from Chairman

Improvement of the modern environmental governance system and implementation of the concept of ecological environmental protection has become the requirements of the era of corporate development. As a leading pharmaceutical enterprise in the industry, it is not only necessary to contribute to the social and economic development, but also to actively undertake the mission of social responsibility for people's health.

Tang Xinfa

Chairman of Pharm HEC

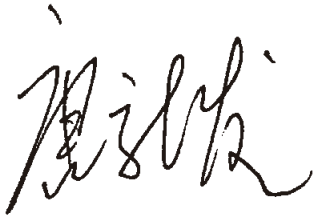
MESSAGE FROM SENIOR MANAGEMENT

Dear investors

The pharmaceutical industry is an important component of the national economy and is a collection of traditional and modern industries, which plays an important role in protecting and improving people's health, and promoting economic development and social progress. 2019 was a year filled with opportunities and challenges for pharmaceutical industry. On one hand, the Consistency Evaluation of generic drug was put in place in China on a regular basis, the scope of centralized procurement was gradually expanding while the control on medical insurance fee had entered a substantive stage, with an increasing downward price pressure on pharmaceutical products, the development of pharmaceutical enterprises is facing more challenges. On the other hand, the drug regulatory authorities would further encourage pharmaceutical enterprises to increase investment in research and development and deepen the development of high value-added industries by accelerating the review and approval process, promoting the launching process for innovative clinical-needed drug and encouraging drug innovation. Continuous purification of the overall environment was promoted for the pharmaceutical industry to bring new development opportunities for pharmaceutical companies.

In 2019, the Company actively responded to the development trend of the pharmaceutical industry, continuously strengthened research and development and product innovation, and strived to maintain high quality production. As a result, the overall business performance has achieved a historical breakthrough, recorded s revenue of RMB6,224.02 million, representing a year-on-year increase of 147.92%; and profits and total comprehensive income attributable to equity shareholders of RMB1,918.71 million, representing a year-on-year increase of 103.57%. In the past year, while achieving significant breakthroughs in business performance, the Group was committed to safeguarding the interests of shareholders and investors through effective decision-making of the Board, active voting at general meetings and timely disclosure of information; the Company protected the rights and interests of customers and consumers by enhancing the competitive advantages of core products and continuously enriching product porfolio; the strengthening of environmental management system and improvement of environmental protection equipment enhanced the Group's influence in environmental protection; through strict implementation of the energy conservation supervision and management system, the Company improved energy-saving and emission-reduction equipment to achieve efficient use of resources.

In the future, the Company will continue to adhere to the concept of "coordinated development of economy, environment and society", and driven by product innovation and supported by core technology to meet the requirements for high-quality development of products, With the mission of promoting the health of the public, the Company is committed to strengthening the management of environmental protection and energy-saving system, and effort is put to make Pharm HEC as a leading pharmaceutical enterprise in China with core competitiveness and social responsibility and sustainable development concept.



Chairman of Pharm HEC

Tang Xinfa

MESSAGE FROM SENIOR MANAGEMENT

Message from General Manager

The pharmaceutical industry has become a pillar industry for China's national economic development. In an era of advocating low-carbon economic development, we also strive to reinforce the environmental protection construction and internal system management to achieve coordinated development of economy, society and environment.

Jiang Juncai
General Manager of Pharm HEC

MESSAGE FROM SENIOR MANAGEMENT

Dear investors

On behalf of the Board, I would like to report on the Company's strategies and performance in environment, society and governance.

In terms of environment protection, the Company has always been committed to building an environmentally friendly enterprise, and strives to strengthening pollution prevention and control, improving pollution source monitoring system, and reducing the discharge of waste water, exhaust gas and solid waste from the source; upgrading and optimizing high-efficiency and energy-saving production equipment, increasing the effort on publicity promoting energy-saving awareness, and improving the efficiency of resource utilization to the greatest extent. In addition, the Group further strengthens the waste management system, implements classified management of production, domestic waste and hazardous waste, and promoted the effective treatment and recycling of various wastes.

In terms of society, the Company proactively fulfills its social responsibilities and achieves social value. Since its inception, the Group has been strictly complied with various national laws and regulations, strengthened compliance and legal operation, focused on product safety and quality, strictly controlled product supervision and inspection, and improved after-sales service, striving to provide consumers with safe and healthy products. The Company also improves the scientific and reasonable employment system to provide benefits to its employees in accordance with national regulations and standards; putting the "concept of talents" into practice and establishing a competitive remuneration system based on ability and performance to stimulate the working initiative of the employees. The Company has established a standardized supplier management system, strengthened the selection, evaluation and daily management of suppliers, and regularly inspected and evaluated the supply capacity of suppliers to ensure that the highest standards are met in each stage of product production.

In terms of governance, the Company has incorporated the modern enterprise system into our corporate governance structure to clarify and implement a fully compliance, highly efficient and well-ordered corporate governance model. The Company promotes the standardized operation of its various systems through the decision-making and leadership of the Board and the convening and resolutions of various committees. In order to strengthen the standardized operation and efficient governance, the Company has updated the production management and accountability system, strengthened the review of safety standards, and improved the internal integrity system, internal control, risk control and special audit system.

In the future, the Company will integrate the new development concept of the new era into all aspects of the Company's development, adhere to the "sustainable development" strategy, achieve efficient and recycling of resources, continue to develop more high-quality and effective products, care for the health of the public, deliver safe and effective pharmaceutical products to patients in need, and make more contribution to human health.

General Manager of Pharm HEC
Jiang Juncai

SIGNIFICANT EVENTS IN 2019

20 February

Oseltamivir phosphate capsule passed the Consistency Evaluation

Oseltamivir phosphate capsule (75mg) has been granted approval by the State Food and Drug Administration for passing the consistency of quality and efficacy evaluation for generic drugs. The passing of the Consistency Evaluation is the authoritative recognition of the Company's research and development capabilities, production and drug quality and drug efficacy and also enables the drug to gain advantages in future market expansion and medical insurance payment.

11 September

New drug application of yimitasvir phosphate had been accepted by the State Food and Drug Administration

The new drug application of yimitasvir phosphate, an innovative anti-Hepatitis C drug independently developed by the Company, has been accepted by the State Food and Drug Administration (Acceptance No.: CXHS1900030 Guo). The New Drug is the first national Class I new drug of the Company for which the NDA has been accepted, and is the first batch domestically developed direct-acting antiviral drugs to be commercialized in China. If the drug is successfully approved by the listing review in future, it will become one of the Company's main products in the field of anti-Hepatitis C treatment, further enriching the Company's product portfolio.

30 September

Uric acid-lowering drug Benzbromarone tablet passed the Consistency Evaluation

Benzbromarone tablet (50mg) has been granted approval by the State Food and Drug Administration for passing the consistency of quality and efficacy evaluation for generic drugs. The passing of the Consistency Evaluation is the authoritative recognition of the Company's research and development capabilities, production and drug quality and drug efficacy and also enables the drug to gain advantages in future market expansion and medical insurance payment.

4 November

Amlodipine besylate tablet passed the Consistency Evaluation

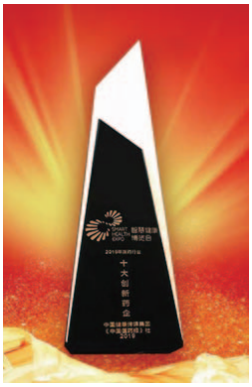
Amlodipine besylate tablet (5mg) has been granted approval by the State Food and Drug Administration for passing the consistency of quality and efficacy evaluation for generic drugs, which is the authoritative recognition of the Company's research and development capabilities, production and drug quality and drug efficacy and also enables the drug to gain advantages in future market expansion and medical insurance payment. Besides, the passing enables the Group to make its contribution to improving the development quality of the pharmaceutical industry, further promoting the internationalization of the PRC pharmaceutical industry and structural reform of pharmaceutical production, and achieving the domestic subsitution of the brand drugs.

HONORS

PHARM HEC'S HONORS IN 2019

Kewei®Oseltamivir won the Most Recommended Brand of Store Staff for two consecutive years

Kewei (granule) won the Award Nomination for Innovative Drug for Children with Most Clinical Value (Listed) on Dushu Lake Prize in 2019



Top 10 Innovative Pharmaceutical Enterprises in the Pharmaceutical Industry in 2019

Chinese Reputable Medicine Brands 2019

Top 100 Innovative Pharmaceutical Enterprises 2019

ABOUT US

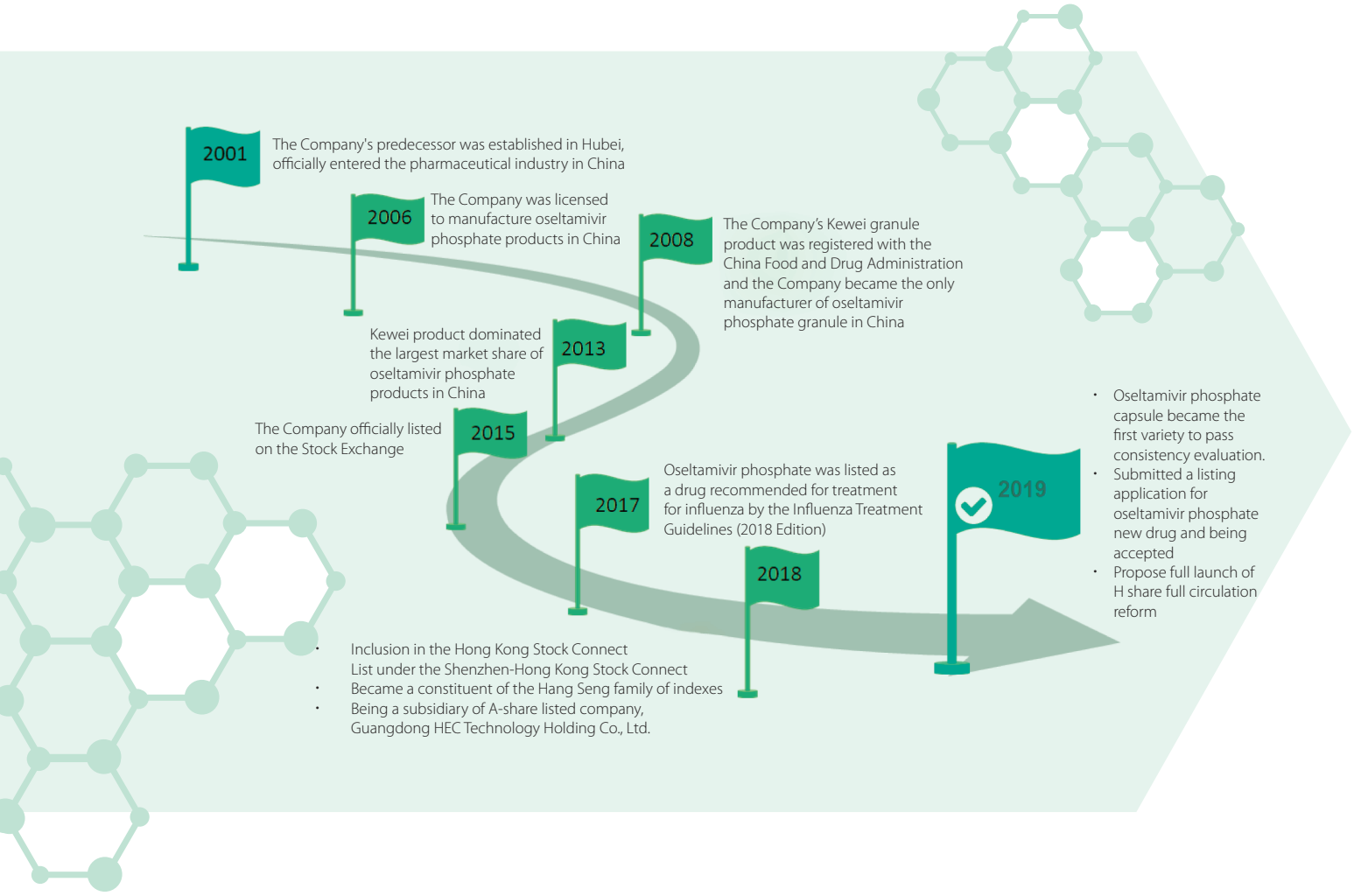
(I) CORPORATE PROFILE

The Company is a domestic pharmaceutical platform under Pharm HEC Group with a history of 19 years of operation since its establishment and is a pharmaceutical enterprise with strong research and development and innovation capabilities and great development potential in China. The Group has always believed in "serving the Chinese with a higher standard" since establishment, and attaches great importance to research and development, innovation and quality improvement of products.

The Company is a pharmaceutical manufacturing company focusing on the research and development, manufacturing and sale of pharmaceutical products in the therapeutic areas of antiviral, endocrine and metabolic diseases, as well as cardiovascular diseases. In 2015, the Company was converted into a joint stock company with limited liability and was successfully listed on the Main Board of the Stock Exchange on 29 December 2015 (Stock Code: 01558.HK). At present, the Company is the only manufacturer of oseltamivir phosphate granules in the PRC, and its core product, Kewei (oseltamivir phosphate), is a first-line product in China's anti-influenza market with the highest sales volume in China from 2013 to 2019, which successfully passed the consistency evaluation in respect of quality and efficacy of generic drugs in 2019. The successful passing of the Consistency Evaluation of the Drug is an authoritative reaffirmation of the Company's research and development capabilities, production and drug quality and drug efficacy.

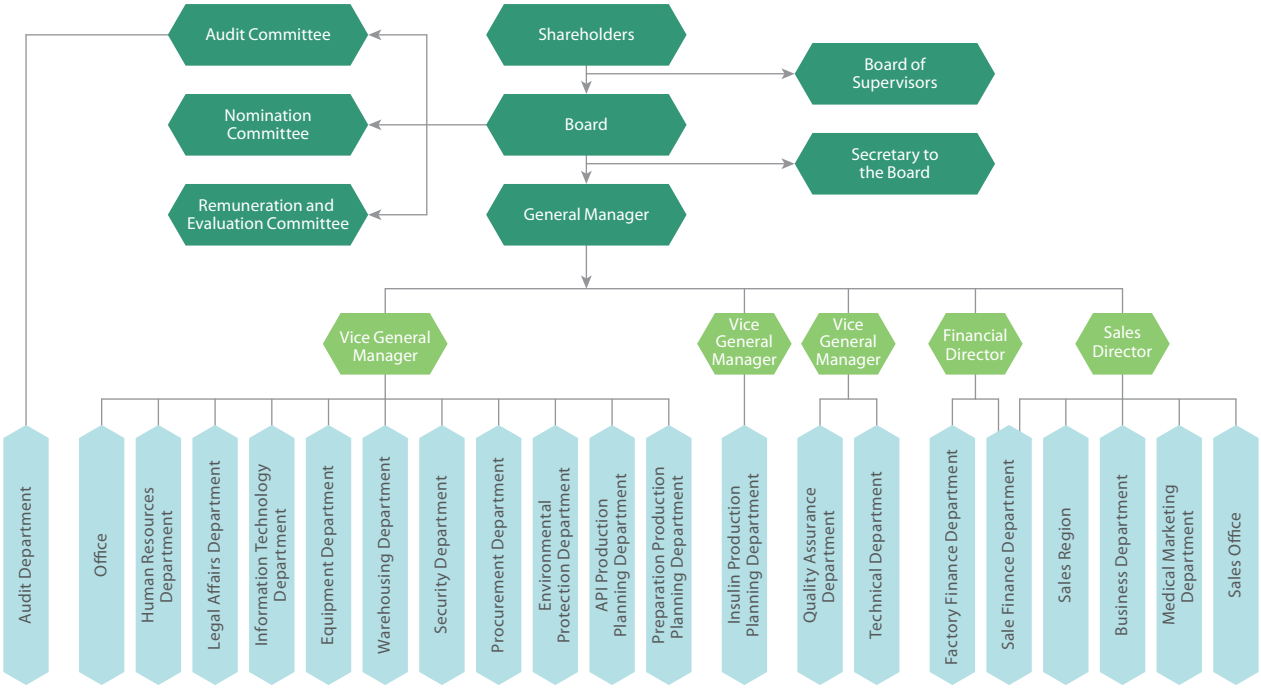
ABOUT US

Corporate Milestones



ABOUT US

Organizational Structure



Partnership Network

We established a joint venture with TaiGen Biopharmaceuticals Holdings Limited in Taiwan to conduct clinical trials of combination therapy with Yimitasvir Phosphate and Furaprevir

We entered into a strategic cooperation framework agreement with Alibaba Health Technology (China) Limited* (阿里健康科技（中國）有限公司) ("Alibaba Health (China)")

We entered into a strategic cooperation agreement and Ertongshu National Distribution Right Agreement with China National Accord Medicines Corporation Ltd.

We entered into an agreement of intention on the development of a novel treatment for chronic hepatitis C Virus (HCV) with TaiGen Biopharmaceuticals Co. (Beijing), Ltd. and TaiGen Biopharmaceuticals Holdings Limited

We entered into a strategic cooperation framework agreement with Guangdong Yihao Pharmaceutical Co., Ltd.* (廣東壹號藥業有限公司) ("Yihao Pharmaceutical") under 111, Inc.

We entered into a strategic cooperation framework agreement with Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司) (Jointown)

ABOUT US

(II) STRATEGY AND VISION

Cultural Vision

Pharm HEC strives to become a modern enterprise with a comprehensive research and development system, excellent product quality and perseverance. The Group has taken "For Everyone's Health" as its mission. The Group determines to improve the people's living standard and health with the support of scientific research. We fully understand our social responsibilities and regard caring for the earth and environment with heart and active participation in charitable services as our own duties.

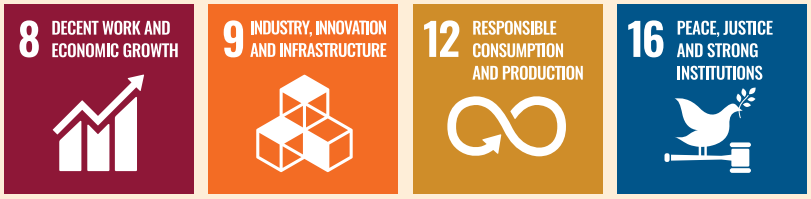
As a leading pharmaceutical enterprise in China with the mission of shouldering health responsibility, our long-term development is inseparable from social support, and we have the courage to take up social responsibility and actively give back to the society in order to better advance. In the future, the Group will accelerate the progress of product research and development, enrich product categories, drive high-quality product development through innovation, integrate high-quality resources, and better meet the health needs of the mass. Meanwhile, the Group will adhere to the principle of "contributing to the community, expressing gratitude to the community", increase investment in public welfare, vigorously support public welfare, and endeavor to promote the development of health undertakings and social welfare.

CHAPTER I RESPONSIBILITY GOVERNANCE

Pharm HEC adheres to the principle of "making more good drugs and giving back to the community". Internally, it has established the responsibility strategy and ESG management structure, and strengthened the construction of clean governance and risk control management. Externally, it actively maintains communication with all stakeholders and promptly responds to the concerns of stakeholders. Pharm HEC implements its responsibility of "compliance management, honest operation, healthy operation and environmental protection construction", continuously promotes technological innovation and industrial upgrading, and makes unremitting efforts to boost local economy and to drive the industry as well as to build up a pharmaceutical enterprise with strong practical strength, good environment and strong sense of social responsibility!

SUSTAINABILITY ISSUES ADDRESSED IN THIS CHAPTER

TOPICS OF SDGS ADDRESSED IN THIS CHAPTER



HKEX ESG INDICATORS COVERED IN THIS CHAPTER:

B7.1/B7.2

CHAPTER I RESPONSIBILITY GOVERNANCE

(I) RESPONSIBILITY STRATEGY

With the goal of "becoming a leading pharmaceutical enterprise in China", Pharm HEC has always regarded corporate social responsibility as its primary responsibility. It is committed to the development, production and sales of products in the therapeutic areas of antiviral, endocrine and metabolic diseases, as well as cardiovascular diseases. Many of its drug products have taken the leading position in the market in the sub-therapeutic areas, and rank high in terms of sales of single-product drugs in China, bringing the Chinese people with a reliable "Pharm HEC".

CHAPTER I RESPONSIBILITY GOVERNANCE

(II) CORPORATE GOVERNANCE

The sustainable development strategy of the Company is inseparable with its overall strategy. According to the its strategic plan, the Company formulates the short-term goal, medium-term goal and vision of the sustainable development strategy, and formulates the sustainable development strategy steps and approaches each year to continuously improve sustainable development management.

Strategic objectives of the Company:

SHORT-TERM GOAL	To further strengthen our market position in the anti-virus area and increase the awareness of our own advantageous
MEDIUM-TERM GOAL	To expand our product portfolio in the strategic selected areas and develop and purchase other new product lines
VISION	To improve domestic research development and production standards, strengthen the research and development ability of new drugs with the aim of becoming a leading pharmaceutical enterprise in China

In order to ensure the realization of the strategic objectives, the Group has established a complete ESG management structure (as shown below). The division of responsibilities among the levels is clear, which provides a strong guarantee for further improvement and implementation of the Company's management.

LEVEL 1

The ESG leading group composed of the Company's relevant directors and senior management is responsible for the overall control of the ESG management of Pharm HEC. It is mainly responsible for: setting ESG management objectives, strategic deployment of ESG medium and long-term planning, top-level design and regulations signing of ESG management system, ESG report approval, etc.

LEVEL 2

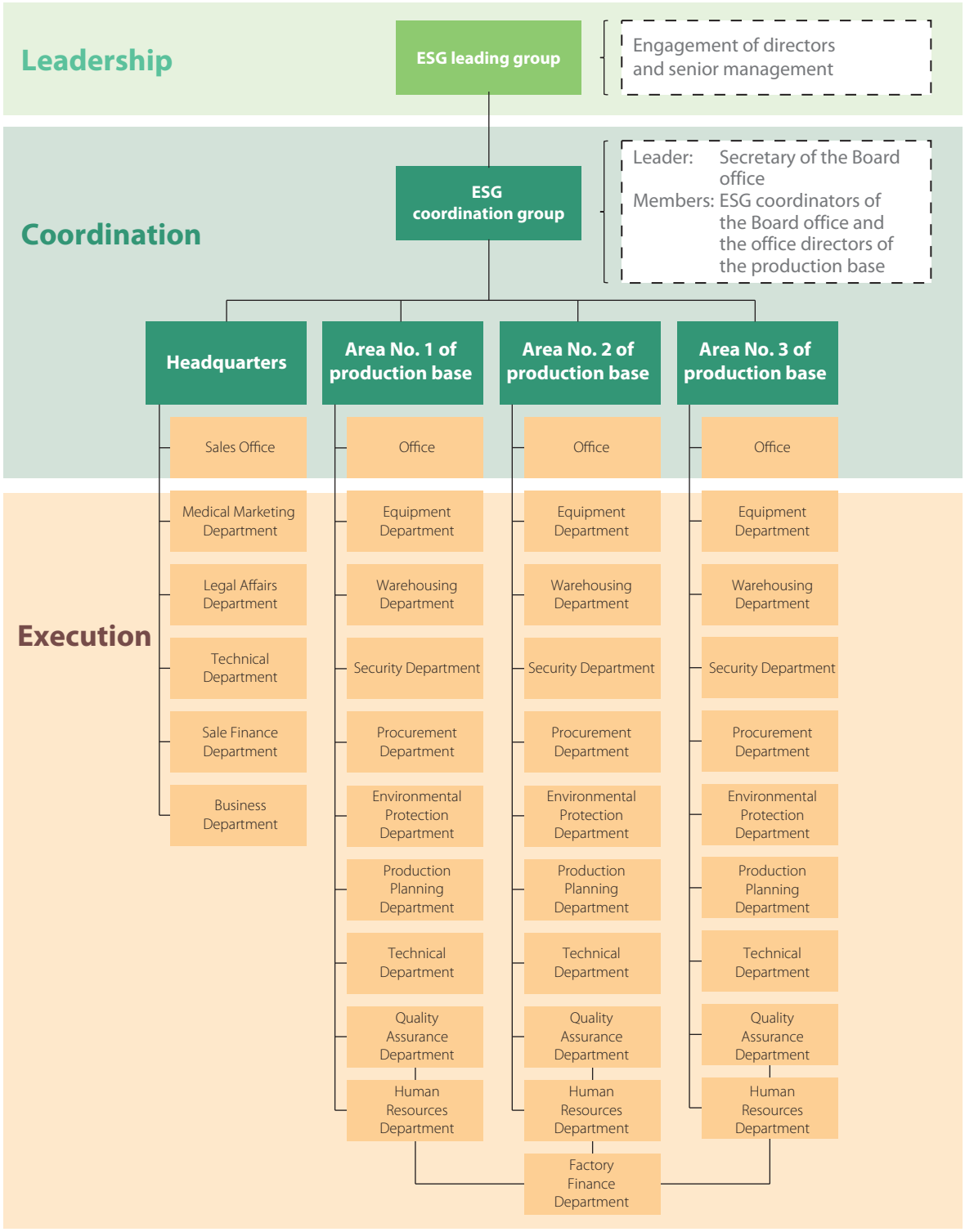
The ESG coordination group, led by the secretary of the Board office, is composed of the ESG coordinators of the Board office and the office directors of the production base in Yidu (Area No. 1, No. 2 and No. 3). It is mainly responsible for overall plan of ESG work arrangements and promoting and implementing the following matters: publicity on the ESG strategy of Pharm HEC, conveying the Board's major resolutions on ESG work, planning annual ESG work plan, drafting ESG related policies, improving ESG indicator system, ESG related training and communication, and preparing annual ESG report, regular feedback to the ESG leading group on work progress and results, proposing recommendations on improvement of ESG work, etc.

LEVEL 3

The ESG execution group includes the heads of relevant departments within the headquarters and the production base in Yidu and the ESG related functional departments. Each department sets up special personnel to be responsible for the practice of ESG management, the collection and submission of ESG information and data, and reporting the results of ESG practices, etc.

CHAPTER I RESPONSIBILITY GOVERNANCE

ESG MANAGEMENT STRUCTURE



CHAPTER I RESPONSIBILITY GOVERNANCE

1.2.1 Regulatory Governance

Internal Control System

The Group has established a thorough internal governance system. By standardizing and improving our corporate governance structure, among others, the Board, shareholders, board of supervisors and the managers supervise and restrict each other to maintain the quality of the Company's operation and development.

The Company has formulated the Internal Control System Manual and the Internal Control Evaluation Manual to guide the organization to commence the construction, operation and maintenance of the internal control system so as to ensure the standardized, orderly and efficient operation of the Company, help the Company understand and master the key points of internal control, discover problems and risks in a timely manner, and regard the same as important tasks to strengthen the internal control construction. At the same time, the Company actively nurtures an internal control culture that is in line with the actual situation of the Company, so that the awareness of internal control and the culture of internal control are deeply rooted in the thinking of each employee, making internal control a voluntary behavior of each employee. During the year, the Company conducted several audits to improve and revise the internal control system, so as to strengthen the business practice and the continuous supervision and inspection efforts.

SPECIAL AUDIT

In order to ensure that our operation is in compliance with laws and regulations, the Company has established the "Internal Audit System" and the "Internal Supervision Management System", and established formal and transparent policies and procedures to clearly define the supervisory authority, put forward management and control requirements and standardize the risk internal control procedures. During the year, the audit department conducted four special audits, mainly focusing on assets, procurement, fixed assets and human resources. Through identifying management loopholes and combining the actual situation, the Company has formulated detailed rectification plans to specify the time of rectification, responsible departments and responsible personnel, refine the rectification standards, clarify the implementation measures and actively track the situation of rectification. The Company's management pays attention to the reports and suggestions of internal control departments and regulatory authorities, and promptly takes various measures to correct the bias arising in internal control process, continuously improves corporate governance and improves the performance of management.

Litigation, Complaint or Case of Anti-corruption: 0

Special audit: 4 times

CHAPTER I RESPONSIBILITY GOVERNANCE

1.2.2 Risk Control

Risk control is the pre-condition and foundation for standardized operation of companies and is an effective guarantee for comprehensive risk management. In order to strengthen risk control, the Company has established a sound risk assessment and information disclosure system.

In terms of risk assessment, the Company continues to conduct risk analysis and clarify the risk assessment process. The internal control management department classifies risks and risk events. Under the guidance of the competent management, the relevant business departments analyze the causes of risks and formulate appropriate countermeasures and solutions to identify and respond to the changes that may be encountered by the Company, including operational risks, environmental risks and financial risks, which may have significant and full impact, and track the changing business environment and operating activities and conduct dynamic assessment. The Company divides risk analysis into irregular risk analysis and regular risk analysis. While pursuing profitability, the Company attaches importance to safety and liquidity, and attaches more importance to risk prevention and internal control construction while keeping pace with rapid business development.

In order to improve the internal risk identification and assessment system, we also carefully learn from the past experience of the industry and actively use modern technology to gradually establish a monitoring, evaluation and warning system covering all business risks.

In terms of information disclosure, the Company has established an information and communication system consisting of a series of management regulations such as the Information Disclosure Management System, the Investor Relationships Management System and the Information System Management Mechanism, which specifies the procedures for the collection, processing and transmission of internal control information, especially the reporting and handling of special, significant and important matters. Also, through the review by professional institutions and the strict review by the legal department, it is ensured that the information disclosed meets the regulatory requirements. At the same time, the Company has been in strict compliance with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Rules Governing the Listing of Securities of the Stock Exchange and the Administrative Measures for Information Disclosure of Listed Companies and has formulated strict internal approval procedures to regulate information disclosed to the public, and ensured that the information disclosed is true, misleading and meets the regulatory requirements through review by professional institutions and strict review by legal department.

CHAPTER I RESPONSIBILITY GOVERNANCE

1.2.3 Anti-corruption

The Company has always taken the anti-corruption as the focus of system establishment and has strictly complied with relevant national laws and regulations such as the Anti-Money Laundering Law of the People's Republic of China, Anti-unfair Competition Law of the People's Republic of China and Provisional Regulations on the Prohibition of Commercial Bribery, to standardize the discharge of duties by the Board and strengthen the integrity and compliance construction. The Company has also formulated anti-commercial bribery documents, such as Internal Control System Manual, Integrity and Self-discipline Commitment and Anti-commercial Bribery Agreement, including relevant chapters on anti-fraud, anti-commercial bribery, anti-monopoly and anti-money laundering, to regulate the business activities on all levels of employees of the Company and eliminate the occurrence of dishonesty and non-compliance incidents such as fraud, extortion, conspiracy and money laundering. At the same time, the Company has established a leading group for the governance of commercial bribery, set up an audit department as the regulatory department, strengthened the inspection of anti-commercial bribery, protected the legitimate rights and interests of the Company and its shareholders to the greatest extent, and ensured the sustainable, healthy and stable development of the Company.

In the implementation of anti-bribery work, the Company requires all key personnel to sign the "Integrity and Self-discipline Commitment", and all business parties of the Company to sign the "Anti-commercial Bribery Agreement", and publishes the reporting hotline and the reporting mailbox in the "Internal Control System Manual", "Integrity and Self-discipline Commitment" and "Anti-commercial Bribery Agreement". During the audit process, the Company pays visit to suppliers and actively communicates with suppliers on related issues, including anti-fraud, anti-commercial bribery and anti-monopoly, and gathers feedback from the suppliers. In addition, the sales department of the Company has set up a compliance supervision department to provide anti-commercial bribery training and supervision on business personnel, and facilitate the execution of "Anti-commercial Bribery Agreement" by business parties. In 2019, the Company did not receive any report on corruption, and no supplier reports that the procurement personnel of the Company had any action of bribery, and no violation was found.

CHAPTER I RESPONSIBILITY GOVERNANCE

(III) RESPONSIBILITY COMMUNICATION

1.3.1 Communication with Stakeholders

Profile of the Group's Stakeholder Engagement in 2019			
Stakeholders	**Concerns of stakeholders**	**Participation channels**	**Measures taken by the Company**
Shareholders and investors	The Company's ability to continue as a going concern/protection of interests of shareholders and returns/truthfulness, accuracy and timeliness of information disclosure	General meetings of shareholders/ Investor information sessions and site visit/roadshow/information disclosure	Publishing the notice of general meeting of shareholders and resolutions and disclosing information pursuant to the requirements; conducting roadshow pursuant to the requirements to raise investors' recognition; announcement of the Group's contact points on the website and in the reports of Company to ensure effective and smooth communications
Management	The Company's operating strategies	Interviews and survey conducted by third party institution	Assessing the major scopes of ESG which may have impact on the Company, and implementing the relevant measures in the daily operation
Employees	Protection of fundamental interests/benefits and remuneration package/working environment/ room for career development/ occupational health and safety/ realization of self-value	Labour union/employees communication with the management/the Group's office platform/the Company's internal mailbox/employee representative meeting/suggestion box	Ensuring the rights to have equal opportunities of employment, to choose occupations, to be provided with a safe workplace and health protection, to be paid with remuneration and to rest in vacations; providing training and development opportunities for employees

CHAPTER I RESPONSIBILITY GOVERNANCE

Profile of the Group's Stakeholder Engagement in 2019			
Stakeholders	**Concerns of stakeholders**	**Participation channels**	**Measures taken by the Company**
Customers and consumers	Assurance of product quality and quantity/data confidentiality	Regular visits for communication/ consumer satisfaction survey/ consumer complaints and comments handling	Signing confidentiality agreement and enhancing quality management; ensuring stable production and delivery; signing long-term product sales agreement with customers
Suppliers	Public tender/long-term stable cooperation/on-time payment	Tender meeting/negotiation meeting/daily communication	Organizing public tender to select suppliers based on merit and fulfilling the obligations under the contract; strengthening daily communication and maintaining long-term relationship with high quality suppliers without default payment
Community and the public	Employment opportunities/ ecosystem/compensation and assistance	Jointly held community activities	Giving priority to local candidates in the recruitment to maintain the ecosystem in the district
Banks	On-time repayment/business conditions/operating risks/credit risk	Post-loan follow-up/daily communication	Making principal and interest payment as scheduled and cooperating in the process of loan review, approval and supervision
Industry peers	Fair competition/cooperative development/sharing of technology and experience/ industry development	Seminars/exchange visits/industry conferences	Facilitating fair competition, cooperating to achieve mutual benefits, sharing experience and promoting sustainable development of the industry
Market supervisory body	Compliance with governing regulations/compliant operation/ information disclosure and reporting	Consultation/information disclosure	Strictly complying with governing regulations and disclosing and reporting information in a truthful, accurate and timely manner

CHAPTER I RESPONSIBILITY GOVERNANCE

CASE

People from the community visited Pharm HEC

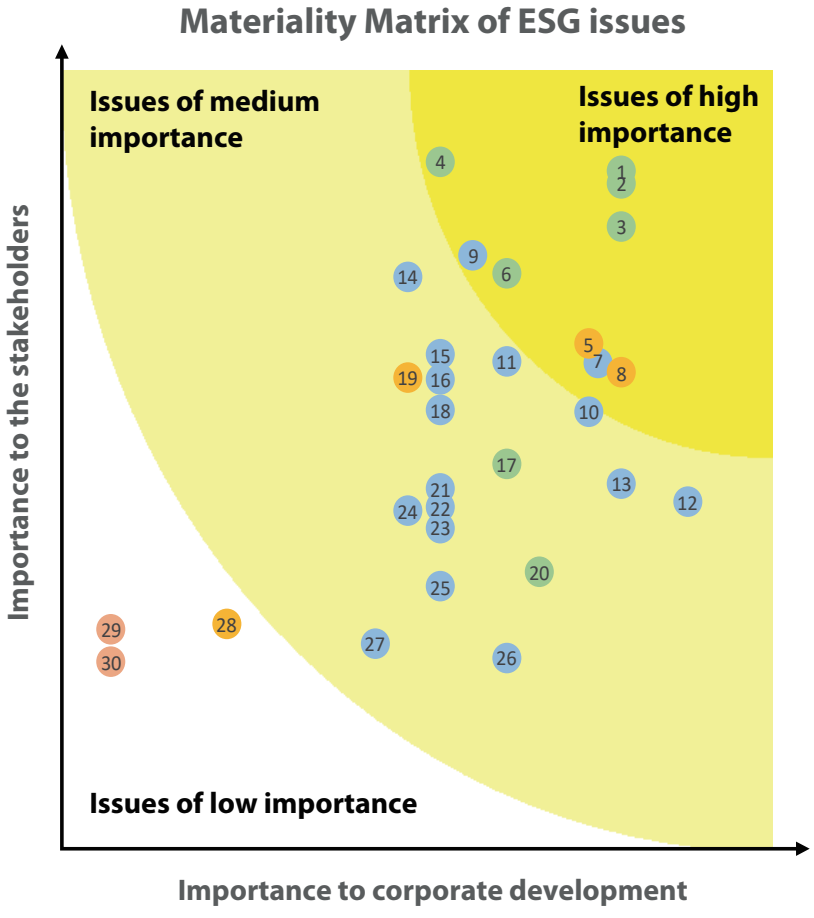
Every year, the Group invites people from all walks of life to visit the factory, workshop and staff's living quarters, etc. for the sake of openness, communication, mutual trust and supervision and comment, and is humbly to accept the suggestions, supervision and comments from them. On 19 October 2019, the 7th "People from All Walks of Life Visit Pharm HEC" activity was held. Participants included more than 50 people from all walks of life, including government departments, enterprises, communities, banks, hospitals, schools and individual households, through special invitation and online application. They visited the manufacturing area and staff's living quarters of the Group and developed understanding about the Group's "soft power", our corporate culture. Strong positive feedback was received as the participants stared with a fascination in high-quality industry after a close visit.

CHAPTER I RESPONSIBILITY GOVERNANCE

1.3.2.Identification of Material Issues

In the preparation of the Group's 2019 Environmental, Social and Governance Report ("ESG report"), we collected feedbacks from all stakeholders through various channels to understand their views on the Group's ESG report, which forms the important basis for disclosing information in this report and formulating future strategies.

In this regard, we engaged a third party institution to maintain thorough communications with a wider range of stakeholder groups by various means such as questionnaire and interview. Through 331 completed questionnaire and on-site interview with the stakeholders, we are in full understanding of the needs and expectations of the management and all stakeholders. Based on the analysis of the data collected from the questionnaire, a materiality matrix of ESG issues was developed and has identified key issues, which are the principal concerns of the stakeholders, for the inclusion and disclosure in the Group's 2019 ESG report.



CHAPTER I RESPONSIBILITY GOVERNANCE

List of ESG key issues		
Issues of high importance	1	Up-to-standard discharge of pollutants
	2	Treatment of solid waste
	3	Investment of resources to reduce pollutant emissions
	4	Impact of business activities on the environment and natural resources and actions taken
	5	Environmental tax payment
	6	Energy saving
	7	Product and service quality
	8	Environmental strategy and goal setting
	9	Focus on employees' safety and health
Issues of medium importance	10	Compliance with laws and regulations
	11	Staff training and promotion
	12	New product research and development and intellectual property protection
	13	Legal compliance of labour employment
	14	Transparency in information disclosure
	15	Information security
	16	Customer privacy protection
	17	Water conservation
	18	Drug recall procedures
	19	Accountability mechanism
	20	Data on resource consumption
	21	Customer complaints and responses
	22	Green supply chain
	23	Anti-corruption measures and whistle-blowing procedures
	24	Employment
	25	Access review of suppliers
	26	Remuneration and benefits and care for employees
	27	Relationship with the government
Issues of low importance	28	Party building
	29	Investment of more resources to support the development of surrounding communities
	30	Participation in charitable donations, disaster relief and other activities

CHAPTER II EXCELLENT QUALITY

The importance of product quality to enterprises goes without saying. It is not enough to only recognize the importance of quality, while quality improvement is also necessary with such pursuit to be deep inside the heart of each of our employees to form a solid awareness on quality. The Company always attaches great importance to quality management, focuses on research and development as well as innovation, and regards high standards and strict requirements as the basic principles, striving to provide excellent products and services to customers.

SUSTAINABILITY ISSUES ADDRESSED IN THIS CHAPTER

TOPICS OF SDGS ADDRESSED IN THIS CHAPTER

HKEX ESG INDICATORS COVERED IN THIS CHAPTER:

B6.2/B6.3/B6.4/B6.5

CHAPTER II EXCELLENT QUALITY

(I) CREATING EXCELLENT QUALITY

2.1.1 Quality Management

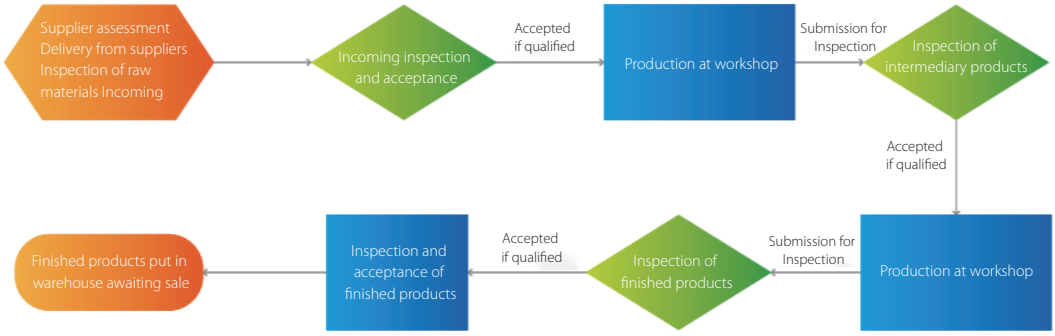
Product Responsibility Philosophy

The concept of product responsibility plays an important role in the development of an enterprise and the formation of a brand image as well as the accumulation of reputation. Being gripped by product responsibility and enhanced product quality is the only way to achieve long-term development. As a quality enterprise in the pharmaceutical industry, we have always adhered to the principle of being responsible to the Company and patients, sparing no effect to ensure zero defects regarding product quality and providing comprehensive after-sales services to protect the interests of customers and patients.

CHAPTER II EXCELLENT QUALITY

Product Quality Control

Pharm HEC strictly abides by the laws and regulations such as the Drug Administration Law of the People's Republic of China, the Regulations for the Implementation of the Drug Administration Law of the People's Republic of China, the Provisions on the Administration of Pharmaceutical Directions and Labels and the Good Practice for Quality Control of Pharmaceutical Production published by the authorities in the PRC and the Administrative Measures for Drug Recalls issued by the China Food and Drug Administration. Besides, we have established a quality management system in accordance with regulations such as the Pharmaceutical Industry Quality System and the Good Manufacture Practice of Drugs, and formulated the Quality Manual, which focuses on the quality control of products throughout the entire life cycle including inspection of raw and auxiliary materials, product research and development, technology transfer, production and manufacturing, product shipment and sales, monitoring and research of adverse reactions after launch. Specific quality control procedures has been clearly defined to ensure that the quality of drugs is controllable throughout the whole process of research and development, production, sales and recall, etc.



CHAPTER II EXCELLENT QUALITY

The basic procedures of quality control are as follows:

Product Purchase

Based on the needs of product production and the improvement of product quality, the Company has formulated procurement quality standards for materials used in product production (including raw materials, pharmaceutical materials and pharmaceutical packaging materials) which is more stringent than the national legal standards, and signed quality agreements, under which procurement quality standards are provided, with material suppliers, requesting inspection and delivery of materials according to the procurement quality standards after their arrivals. The Company has completed the determination of the procurement quality standards for 76 kinds of materials sourced, and will continue to promote the optimization process of procurement quality standards.

Product Recall

The Group has established the internal Administrative System for Drug Recalls in accordance with the Administrative Measures for Drug Recalls issued by the China Food and Drug Administration, established the recall management procedures for marketed products and clinical trial products with safety risks, continuously strengthened the communication with all customers related to products with safety risks, properly carried out the coordination with customers and necessary actions for recalling products, and taken standard measures to implement the recall, in order to safeguard the interests and health of consumers. At the end of 2019, the Group carried out recall drills, and proposed to activate the upcoming recall drills before the product launch in 2020, taking into consideration the complicated situation of marketing in the commercial production.

Product Investment

In order to ensure the comprehensiveness and effectiveness of product quality management, the Group has increased investment in both human and material aspects.

- In terms of human resources, we shall continue to enhance the introduction of talents and increase the numbers of quality control personnel and quality assurance personnel.
- In terms of material resources, the Group continued to increase the purchase of equipment, reagent and consumables to ensure that the inspection equipment, reagent and consumables fully meet the inspection needs.

CHAPTER II EXCELLENT QUALITY

Product Certification

The Group has always attached great importance to the standardized operation for production quality and management of pharmaceutical products, strictly complied with the national laws and regulations in respect of aspects such as procurement of active pharmaceutical ingredient, production, product packaging and transportation and quality control, and actively cooperated with the production inspection organized by the Food and Drug Inspection Center (食品藥品審核查驗中心) of the National Medical Products Administration. In 2019, the production of a number of our products passed the Certification of Good Manufacturing Practices.

CASE

Fudosteine tablet passed the consistency of quality and efficacy evaluation for generic drugs

In February 2019, the Company has accepted the evaluation, development and production site inspection for the consistency on quality and efficacy of Fudosteine tablet organized by the Food and Drug Inspection Center (食品藥品審核查驗中心) of the National Medical Products Administration. During the inspection period, the inspectors conducted key inspection on the development of Fudosteine tablets in terms of research, on-site production in the workshop and production quality, and a total of 14 defects were identified. The research and development and production processes of the varieties inspected and certified on-site have nothing wrong authentically. The quality management system of the Company was in compliance with the requirements of Certification of Good Manufacturing Practices. In response to the defects identified in the inspection, the Company has completed the rectification and submitted the rectification report as required. The quality and efficacy consistency evaluation of generic drugs was passed in October 2019 for the inspected varieties of Fudosteine tablets, and approval for supplement application of pharmaceutical products is obtained.

Freeze-dried powder injection has been granted Certification of Good Manufacturing Practices

In April 2019, for the Company's freeze-dried powder injection, the Good Manufacturing Practices re-certification on-site inspection organized by the Technical Review and Inspection Center (技術審評核查中心) of the Food and Drug Administration of Hubei Province was conducted. During the inspection period, the inspectors conducted a key inspection on the Company's freeze-dried powder injection workshop, quality control laboratory, warehouse, air purification system, preparation system for purified water, preparation system for water for injection and other places or systems, and a total of 6 defects were found. The quality management system of the Company is certified to be in compliance with GMP requirements on-site. In response to the defects identified in the inspection, the Company has completed the rectification and submitted the rectification report as required, and obtained the Certification of Good Manufacturing Practices in July 2019.

CHAPTER II EXCELLENT QUALITY

CASE

Telmisartan tablets has been granted Certification of Good Manufacturing Practices

In November 2019, the Company accepted the research and development/on-site inspection for consistency evaluation on the quality and efficacy of Telmisartan tablet organized by the Food and Drug Inspection Center (食品藥品審核查驗中心) of the National Medical Products Administration. During the inspection period, the inspectors conducted key inspection on the research and development, the production within workshops and production quality of the Telmisartan tablets. A total of 11 defects were identified. The research and development and production processes of the varieties inspected and certified on-site have nothing wrong authentically. The quality management system of the Company was in compliance with the requirements of Certification of Good Manufacturing Practices. In response to the defects identified in the inspection, the Company has completed the rectification and submitted the rectification report as required.

(II) FOCUS ON RESEARCH AND DEVELOPMENT AND INNOVATION

2.2.1 Research and Development Pipeline

In 2019, the Group made outstanding progress in the research and development of anti-virus, endocrine and metabolic diseases.

1. Anti-viral field

The Company's oseltamivir phosphate capsule (75mg) is the first generic drug in China that has passed the consistency evaluation and will continue to consolidate the Company's advantages in the therapeutic area of anti-influenza virus. The Company has also initiated the consistency evaluation of oseltamivir phosphate capsule, our proprietary, and the evaluation is expected to be passed in 2020.

Prevention and Control of Influenza Drugs — the production workshop of oseltamivir phosphate (Kewei)

CHAPTER II EXCELLENT QUALITY

The Company has submitted an application for the listing of a new drug, Yimitasvir Phosphate, a Class 1 innovative drug in the PRC, and the application is approved. Yimitasvir phosphate is an anti-hepatitis C oral antiviral drug, non-structural protein ("NS") 5A inhibitor. The drug is effective in treating liver cirrhosis-free genotype 1 Hepatitis C patients with SVR12 (sustained virological response in 12 weeks) at 99.8%, while maintaining favourable safety and tolerance properties. Yimitasvir phosphate is expected to be launched in the second half of 2020, and to be one of the first batch of new anti-hepatitis C oral direct-acting antiviral drugs which is researched and developed by domestic enterprise in the PRC and launched into market successfully. The Phase III clinical trial for NS3/4A protease inhibitor furaprevir jointly developed with TaiGen Biopharmaceuticals Co. (Beijing), Ltd. ("TaiGen") in combination with yimitasvir phosphate has commenced and such new drug application is expected to be submitted in 2020.

Drugs (Products)	Current stage	Planned launch time
Oseltamivir phosphate granule	Conducted consistency evaluation	Launched
Oseltamivir phosphate capsule	Completed consistency evaluation	Launched
Furaprevir	Phase III clinical trial	2021

2. Endocrine and metabolic diseases area

During the Reporting Period, the latest progress of the insulin series is as follows:

Key endocrine and metabolic varieties	Current stage	Planned launch time
Recombinant Human Insulin Injection	Submitted application for product launch	2020
Isophane Protamine Recombinant Human Insulin Injection (Pre-mixed 30R)	Phase III clinical trial	2021
Insulin Glargine Injection	Phase III clinical trial	2021
Insulin Aspart Injection	Phase I clinical trial	2022
Insulin Aspart 30 Injection	Phase III clinical trial	2022

The Group has established a complete research and development system for the series of insulin products, which is developed in accordance with standards on biosimilar drugs adopted in Europe and the United States with the quality equivalent to originator drugs. The results of clinical trials show that the statistics of recombinant human insulin injection developed by the Group compared with the originator biologics are highly consistent in terms of efficacy, safety and stability. The Group also has a comprehensive product line, which covers both the second and the third generations of insulin, and meets the clinical medication needs of doctors and patients. Moreover, the product line adopts a yeast expression system which is advanced in technology and easy for large scale production.

CHAPTER II EXCELLENT QUALITY

3. Progress of the generic drug portfolio acquired from Sunshine Lake Pharma

	Name of product	Indications	Drugs Registration Classification	Domestic progress	Estimated approval date	Number of filed manufacturers	Number of approved domestic generic manufacturers
Cardiovascular drugs	Ticagrelor Tablet	Antithrombus	Class 4 chemical drug	Filed	2020	Over 30	7
	Apixaban Tablets	Antithrombus	Class 4 chemical drug	Filed	2020	Over 30	3
	Atorvastatin Calcium Tablets	Hyperlipidemia	Class 4 chemical drug	Filed	2021	Over 30	5
	Rosuvastatin Calcium Tablets	Hyperlipidemia	Class 4 chemical drug	Filed	2020	Over 30	7
	Amlodipine Tablets	Hypertension	Class 6 chemical drug	Filed	2021	Over 30	Over 30
	Metoprolol Succinate Sustained — release Tablets	Hypertension	Class 3 chemical drug	Filed	2021	14	9
	Clopidogrel Tablets	Antithrombus	Class 4 chemical drug	Filed	2021	Over 30	3
	Rivaroxaban Tablets	Antithrombus	Class 4 chemical drug	Filed	2021	Over 30	2
Anti-viral/ anti-infective drugs	Entecavir Tablets	HBV	Class 4 chemical drug	Filed	2020	Over 30	5
	Tenofovir Alafenemide Tablets	HBV/HIV	Class 4 chemical drug	Filed	2021	2	0
	Azithromycin Tablets	Anti-infection	Class 4 chemical drug	Filed	2021	Over 30	Over 30
Nervous system drugs	Olanzapine Tablets	Schizophrenia	Class 4 chemical drug	Filed	2020	Over 30	3
	Olanzapine Orally Disintegrating Tablets	Schizophrenia	Class 4 chemical drug	Filed	2020	21	1
	Entacapone Tablets	Parkinson's Disease	Class 4 chemical drug	Filed	2020	6	0
	Aripiprazole Tablets	Schizophrenia	Class 4 chemical drug	Filed	2021	26	4
	Aripiprazole Orally Disintegrating Tablets	Schizophrenia	Class 3 chemical drug	Filed	2021	10	1
	Duloxetine Enteric Capsules	Depression	Class 4 chemical drug	Filed	2020	Over 30	1
	Escitalopram Tablets	Depression	Class 4 chemical drug	Filed	2020	Over 30	13
Endocrine/ metabolic drugs	Sitagliptin Metformin Hydrochloride Tablets	Type 2 Diabetes	Class 4 chemical drug	Filed	2020	3	1
	Linagliptin Tablets	Type 2 Diabetes	Class 4 chemical drug	Filed	2020	13	0
	Sitagliptin Tablets	Type 2 Diabetes	Class 4 chemical drug	Filed	2021	14	1
	Linagliptin and Metformin Hydrochloride Tablets	Type 2 Diabetes	Class 4 chemical drug	Filed	2020	3	0
	Alogliptin Tablets	Type 2 Diabetes	Class 4 chemical drug	Filed	2020	Over 30	2
	Febuxostat Tablets	Hyperuricemia	Class 3 chemical drug	Filed	2021	Over 30	3
Urinary system drugs	Sildenafil Tablets	ED, PAH	Class 4 chemical drug	Filed	2021	Over 30	5
	Tadalafil Tablets	ED, PAH	Class 4 chemical drug	Filed	2020	Over 30	4
	Solifenacin Tablets	Bladder Hyperactivity Disorder	Class 4 chemical drug	Ready to file	2022	26	3

CHAPTER II EXCELLENT QUALITY

2.2.2 Protection on Intellectual Property Rights

Intellectual property rights is an important symbol of innovation capability and core competitiveness of an enterprise, and the number and quality of patents reflect the capability and scientific research level of an enterprise. The Group has always attached great importance to the application and protection of intellectual property rights by setting up specific functional departments for management, and continuously and increasing investment in scientific research to focus on patent innovation. In 2019, we were awarded three national invention patents, including Enhanced solid compositions of oseltamivir phosphate and its preparation method, Synthetic method for Lafutidine oxide impurities and Preparation and testing method of quick-dissolving Mitiglinide calcium product.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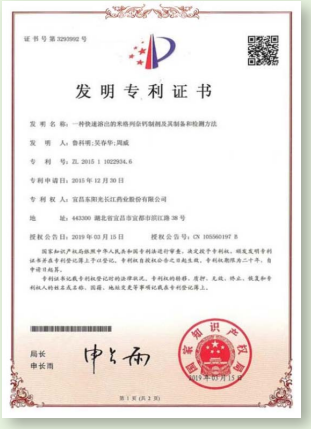
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CHAPTER II EXCELLENT QUALITY

(III) SATISFYING CUSTOMERS

2.3.1 Expansion of Pharmaceutical Distribution Channels

Sales Review

During the Reporting Period, the sales of the Group's core products were as follows:

Well-known Product Name	Common name	Therapeutic Areas	Revenue (RMB million)	% of total revenue (%)
Kewei (granule)	Oseltamivir phosphate	Anti-influenza medicine	4,272.65	68.65
Kewei (capsule)	Oseltamivir phosphate	Anti-influenza medicine	1,660.52	26.68
Ertongshu	Benzbromarone	Medicine for treatment of excess level of uric acid and gout	102.82	1.65
Oumeining	Telmisartan	Medicine for treatment and prevention of hypertension	52.46	0.84
Linluoxing	Moxifloxacin	Medicine for treatment of respiratory infection	44.81	0.72

The total revenue of the above five drugs, being the core products of the Group, accounted for 98.54% of the total revenue.

CHAPTER II EXCELLENT QUALITY

Oseltamivir phosphate, the Company's core product, is the first-line drug for treatment of influenza (the "Flu") in the PRC, which can be used in the treatment and prevention of Flu A and Flu B and is listed in the Influenza Treatment Guidance (2019 version). As rapid diagnosis becomes one of the diagnostic basis for confirmed cases of Flu, and the number of medical institutions providing services of rapid diagnosis of the etiology has increased significantly, the number of reported Flu cases has markedly increased as compared with previous years, the clinical application of the Company's products will then be further expanded.

In order to bring more medicine resources to hospitals, primary medical institutions and pharmacies, Pharm HEC continued adopting its comprehensive marketing strategy by four sale teams, i.e. a self-operated sales team responsible for the academic promotion of core drugs in Class II or above hospitals, a self-operated sales team handling all drugs in general practitioner-based medical institutions (Class I hospitals and clinics), a self-operated sales team responsible for all drugs in OTC pharmacies and a distribution-based team responsible for generic drugs in hospitals ranked Class II and above. Meanwhile, we built a multi-level marketing network and deeply explored the value of our products, and continued to cultivate in the professional fields including emergency treatment, outpatient, pediatrics, endocrine and metabolics, and strengthened the marketing ability with professionalised academic promotion as the main focus. As of 31 December 2019, the Group has a total of 4,316 staffs in its sales teams and has established relationship with 678 third-party distributors. The Company's main products covered 10,390 Class II or above medical institutions, representing a year on year increase of 12%. The number of the Company's main products covered primary medical institutions and OTC pharmacies were 99,000 and 350,000 respectively, representing a year on year increase of 56% and 250% respectively.

By taking class hospitals, primary medical institutions and OTC pharmacies as its footholds, the Company expanded its online pharmacy market to achieve full coverage of medical ends, and cooperated with a number of well-known online channel operators to benefit a wider population and improve the availability and accessibility of pharmaceutical products.

In addition to ensuring the supply of medical products, promoting the affordable pharmaceutical products is also an important measure to enhance the inclusiveness of drugs, improve public health and secure social stability. We focus on the research and development, supply, and reasonable pricing of pharmaceutical products to provide the public with necessary, sufficient, reasonable and transparent pharmaceutical products. We set product prices strictly in accordance with the pharmacoeconomics, primarily maintaining stable prices for products on sale, while the pricing of products to be launched will be also in line with the market regulations, so as to provide choices of drugs with high quality and competitive prices. As of the end of 2019, we have produced more than 40 products, of which 17 products have been included in the National Reimbursement Drug List.

CHAPTER II EXCELLENT QUALITY

2.3.2 Safeguarding the Rights and Interests of Customers

The Group adheres to the philosophy of dedicated service, strictly abides by the Law of the People's Republic of China on Protection of Consumer Rights and Interests and other laws and regulations, and has formulated relevant internal policies to safeguard customers' rights and interests and promote sustainable consumption.

- For customer information, the Group has set up dedicated full-time personnel to manage customer information, and the personal information shall be collected and disclosed only when necessary or with the informed consent of consumers. In 2019, the Group did not receive any complaints on infringement of customers' privacy or loss of customer information, complaints from the regulatory authorities, or complaints from external individuals or organizations regarding customers' privacy;

- In respect of product marketing, the Group undertakes not to provide any false, misleading, unclear or ambiguous marketing information, or omit key information, such as product ingredients and product side effects, etc.;

- In respect of product education, the Group has set up an enquiry hotline to timely respond to consumers' questions on products, so that consumers can make rational purchase decisions based on their needs.

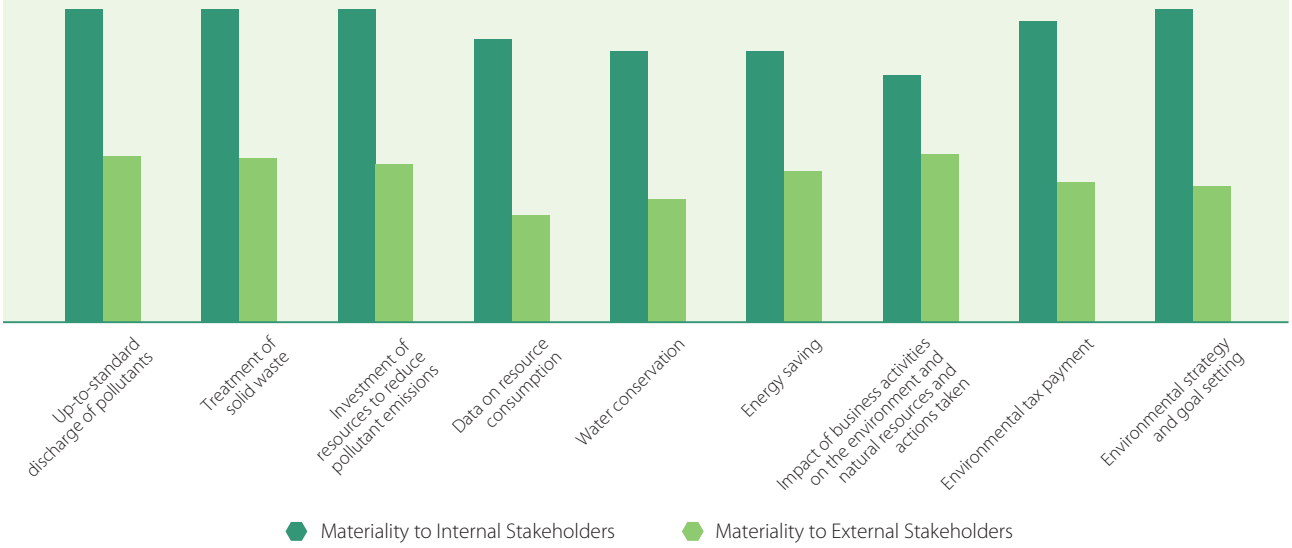
2.3.3 Active Response to Customers' Complaints

In order to improve the health and safety of products and services and provide better services for customers, the Group has established systems and procedures such as the User Service, Handling of User Complaints , Management of Product Returns, Drug Recalls, and Regular GMP Self Inspection. The sales department is responsible for after-sales services, collecting information about customers' satisfaction and relevant information and notifying the quality department. The quality department is responsible for handling relevant issues (including user complaints, user service information, etc.), encouraging the adoption of advice given by customers which are beneficial to improving the Group's management system, and product returns or recalls. Consumers can make complaints through online and offline channels such as hotlines and store visits. During the Reporting Period, the Group has not had any behaviours in violation of laws and regulations related to product liability or experienced any complaint about product quality.

CHAPTER III GREEN DEVELOPMENT

The Group attaches great importance to environmental protection and earnestly implements advanced environmental protection concept, "Environmental protection originates from design. Production processes must help reduce pollution sources, cleanup and recycling of three kinds of waste as well as clean and green production". The Group constantly applies new technologies, new processes and new methods to comprehensively improve its governance capabilities and standards, and has achieved energy conservation and consumption reduction of ultra-low emissions and circular economy that perform better than national standards.

SUSTAINABILITY ISSUES ADDRESSED IN THIS CHAPTER



TOPICS OF SDGS ADDRESSED IN THIS CHAPTER

HKEX ESG INDICATORS COVERED IN THIS CHAPTER:

A1.1/A1.2/A1.3/A1.4/A1.5/A1.6/
A2.1/A2.2/A2.3/A2.4/A2.5/A3.1

CHAPTER III GREEN DEVELOPMENT

Total Investment in Environment Management and Environmental Protection
RMB5,295,300

Coverage of Environmental Protection Training:
100%

Number of Environmental Pollution Cases:
0

(I) ENVIRONMENT MANAGEMENT STRATEGY

3.1.1 Environment Management

The Group strictly abides by the laws and regulations related to environmental protection, such as the Environmental Protection Law of the People's Republic of China, the Atmospheric Pollution Prevention Law of the People's Republic of China, the Law of the People's Republic of China on Environmental Impact Assessment, the Law of Prevention and Treatment of Water Pollution of the People's Republic of China, the Environmental Protection Tax Law of People's Republic of China, the Energy Conservation Law of the People's Republic of China and the Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise, develops and implements internal systems including the Environmental Management System and Management Regulations for Environmental Objectives, Indicators and Management Plan, and pays the environmental tax in a timely manner and actively undertakes corporate environmental responsibility.

For environmental protection work of construction projects, the Company also strictly implements the Regulations on Environmental Protection Management of Construction Projects, carries out the environmental impact assessment of construction projects, strictly complies with the "Three Simultaneity" system throughout the design, construction and use of projects, increases necessary pollution prevention and control measures for new projects, and strictly manages and controls the construction of projects.

CHAPTER III GREEN DEVELOPMENT

ENVIRONMENT MANAGEMENT DUTIES AND RESPONSIBILITIES

1	General Manager	Person responsible for environmental protection management, who shall assume full responsibility for the environmental protection work within the plant
2	Deputy General Manger	Reporting to the person responsible for environmental protection management and assist such person to directly lead the environmental protection management department
3	Environmental Protection Department	Carrying out centralized supervision and administration for environmental protection work within the plant
4	Other Departments and Workshops	Responsible for environmental protection work within their respective purview, managing environmental protection facilities, submitting Monthly Report for the Operation of Environmental Protection Facilities, Monthly Report for Hazardous Waste, statistical statements for related environmental protection work and operation record of environmental protection facilities before the fifth day of each month

ENVIRONMENTAL PROTECTION OBJECTIVES

The Company formulated system documents, such as Management Regulations for Environmental Objectives, Indicators and Management Plan, Management Regulations for Environmental Monitoring and Measurement and Management Regulations for Environmental Protection Operation. The Company conducts environmental risk analysis on important environmental factors and important risk sources according to actual conditions every year and formulates corresponding risk control measures. Led and organized by the Environmental Protection Department, comprehensive environmental protection inspection is carried out at least once a month and each workshop carries out environment inspection at least once a week. Based on the results of daily inspection and evaluation, the general manager is responsible for the assessment of environmental protection work, and the assessment results are linked with the performance of environmental protection personnel and incentives. The environmental protection management assessment mainly includes daily environmental monitoring results, daily environmental protection inspection and the implementation of the "Three Simultaneity" system.

As of the end of 2019, the Group had no environmental pollution accidents; the collection, standardized storage and disposal rate of industrial waste reached 100%; the legal and standardized disposal rate of hazardous waste reached 100%; 100% rate in the pollutant emission compliance in respect of waste water, waste gas, powder and noise was achieved; the total amount of pollutants discharged and the extent of pollutants discharged met the requirements; six departments including the oral solid dosage workshop completed environmental protection knowledge training with a completion rate of 100%.

CHAPTER III GREEN DEVELOPMENT

Target 1

Pollutant emission indicators (permitted maximum concentration level and emission intensity rate) meet the relevant requirements of national laws and regulations and local regulations

Target 2

Ensure both industrial wastewater and domestic wastewater meet the discharge standards

Target 3

Emissions and dust exhausted through exhaust pipes and fugitive exhaust gas meet the emission standard

Target 4

Safe disposal rate of solid waste reached 100% for effective control

Target 5

Noise generated in working environment and plant meets national standard

CHAPTER III GREEN DEVELOPMENT

CASE

Exchange of opinions on environmental protection

The responsible persons of the Group communicated with the representatives of the public in respect of national environmental protection standards, current industrial status, treatment process of three wastes, environmental protection operation and environmental protection technology upgrade, etc.

Wastewater Treatment Tank

3.1.2 Accident Handling

In accordance with the national laws and regulations and taking into account the actual situation of the Company, the Environmental Protection Department prepares the Emergency Plan for Environmental Emergencies and organizes trainings and drills regularly in accordance with the Emergency Plan for Environmental Emergencies. In case of environmental pollution accidents, it shall be dealt with in a timely and standardized manner in accordance with the relevant provisions of the Emergency Plan for Environmental Accidents and the principle of "Four Must" ("Must find the reason for the accident", "Must punish the person responsible", "Must implement measures", "Must provide training to relevant staff").

The Company also actively carries out environmental protection training for employees to enhance their knowledge of safety and environmental protection, improve their ability in safe and environmental-friendly production and respond to environmental emergencies. Pharm HEC has required employees' induction training and daily training to include environmental protection related contents. The environmental protection trainings in 2019 are as follows:

CHAPTER III GREEN DEVELOPMENT

Month of training	Training topics
Feb	Safety, Environment and Health Management
March	Safety and Environmental Protection Knowledge Training
June	Safety, Environmental Protection and Other Related Knowledge Training
Aug	Safety and Environmental Protection Knowledge Training

3.1.3 Investment in Environmental Protection

In order to promote the implementation of environmental protection objectives and ensure the effective implementation of environmental protection management and measures, the Group gradually increased the investment in environmental protection funds, manpower and equipment according to the actual business situation, and improved the Company's environmental protection performance in all aspects. In 2019, the Group's total investment in environmental governance and protection amounted to RMB5,295,300. Some details are as follows:

- Wastewater treatment project: RMB502,500
- Hazardous waste treatment fee: RMB388,900
- Equipment: Newly added a large-scale shredder of RMB47,000
- Environmental protection personnel: RMB1,175,300 for salaries and responsibility bonuses of environmental protection-related personnel

CHAPTER III GREEN DEVELOPMENT

3.1.4 Ecological Protection

Ecological environmental protection is an important guarantee for the sustainable and healthy development of economy and society, and also the foundation for the long-term development of enterprises. Located at the riverside of Qing Jiang, the Group actively took actions in protecting the ecological environment along Yangtze River, earnestly implemented the development plan of Yangtze River Economic Belt, adhered to the principle of priority in ecology and green development, and effectively handled various sewage discharge.

In respect of sewage discharge along Yangtze River, the Group conducts strict filtration and purification for all sewage discharged, and has set up a specific online monitoring system at the sewage discharge port to conduct internet monitoring for all sewage discharged. In case of any non-compliance found, serious punishment will be imposed in order to ensure that the sewage discharge meets the national and local quality standards and effectively protect the ecological environment along the Yangtze River.

CHAPTER III GREEN DEVELOPMENT

(II) EMISSION MANAGEMENT

3.2.1 Management of Wastewater

The Group is strictly complied with standards such as the Discharge Standard of Water Pollutants for Chemosynthesis Pharmaceutical Industry, the Emission Standard for Pharmaceutical Industrial Water Pollutants from Mixing and Formulation Category and the Emission Standard for Pharmaceutical Industrial Water Pollutants from Biological Engineering Category. The Group manages the discharge of wastewater in accordance with the requirements of rain and dirty water discharge, separation of clean and dirty water discharge and separation of different kinds of dirty water discharge. All departments and workshops are required to strictly control the leakage points and pollution sources, prevent leakage and dripping, and strictly prohibit leakage or direct discharge of sewage. In order to strengthen the control and management of the Company's sewage and reduce the adverse impact on the regional environment and human health, the Group has formulated a special "Wastewater Management Rules", which mainly includes:

- In terms of wastewater management responsibilities, the Environmental Protection Department is responsible for wastewater management and the operation of sewage treatment stations within the plant; the Equipment Department is responsible for the maintenance of the sewage pipe network, pumps and sewage treatment equipment; each department is responsible for the management of sewage within its respective purview.

- In terms of rainwater management, in order to ensure the separation of rainwater pipe network and sewage pipe network, it is strictly forbidden to discharge other waste water other than rainwater into rainwater pipe network, and ensure that rainwater is directly discharged without chemical pollution, oil pollution and solid waste. Rainwater is collected and discharged into the sewage pipe network first, and can only be discharged after treatment which makes it up to standard.

- For the management of domestic wastewater, the fermented exhaust gas washing water is discharged into the sewage treatment system; industrial wastewater, steam condensate water, equipment and ground cleaning wastewater are collected on site and then entered the sewage pipe network; the fire-fighting water in the event of an accident is discharged into the emergency water basin and pumped into the sewage treatment system, and can only be discharged after treatment which makes it up to standard. At the end of the Group's sewage pipe network is a sewage regulating basin. All sewage is collected in the regulating basin, and part of the sewage is treated in sewage treatment station while part of the sewage is pumped to the sewage treatment plant of the Company. All the sewage is treated up to the standards before discharge.

CHAPTER III GREEN DEVELOPMENT

In 2019, the wastewater generated from the production process of the Company is in compliance with the standard.

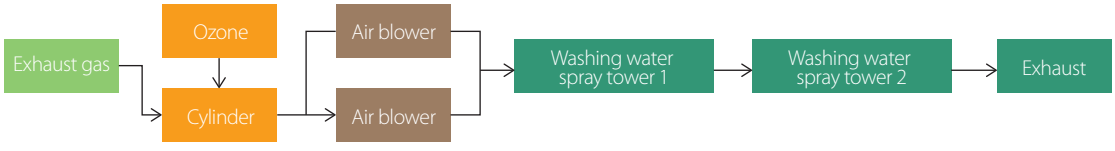
Wastewater discharge of Pharm HEC			
		Wastewater Discharge in 2018	**Wastewater Discharge in 2019**
Industrial wastewater	Tonnes	33,600.18	**103,373.00**
COD_{cr}	Tonnes	1.23	**1.96**

3.2.2 Management of Exhaust Gas

In strict compliance with the Integrated Emission Standard of Air Pollutants and other relevant standards, the Group has formulated the Exhaust Gas Management Rules to clarify the operation and management mechanism of the exhaust gas treatment system, and set up a standard process of exhaust gas management, which requires the collection of exhaust gas generated during the production process. The collected exhaust gas is treated with oxidation, absorption, neutralization, washing, incineration and other processes, and meets the emission standards, so as to reduce the impact of uncontrolled emission on the environment.

- Exhaust gas treatment system operation and management mechanism: During normal production, the environmental protection department regularly inspects the exhaust gas treatment system on a daily basis to ensure the uninterrupted operation of the ozone generator for 24 hours, and to keep the production of fermentation workshop synchronously with the exhaust gas treatment system. Upon completion of the inspection, we will fill in the Operation Record of the Exhaust Gas Treatment System truthfully, and report any abnormality in a timely manner and contact the equipment department for maintenance; if deterioration of water quality of the spray is identified during the inspection process, the waste water will be discharged in a timely manner and replenished with clean water.

- Exhaust gas treatment process: We collect the fermented exhaust gas and bacteria residue exhaust gas through the pipelines before such gases enters the exhaust gas treatment system. The system adopts the ozone oxidation +2 level water washing and spraying process. The process flow is as follows:



CHAPTER III GREEN DEVELOPMENT

Greenhouse Gas Emissions of Pharm HEC			
		Greenhouse Gas Emissions in 2018	**Greenhouse Gas Emissions in 2019**
Greenhouse Gas Emissions	tCO_2e	26,537.25	**34,560.49**
Total Scope 1 greenhouse gas emissions	Tonnes	1.64	**3.29**
Total Scope 2 greenhouse gas emissions	Tonnes	26,535.60	**34,557.20**
Greenhouse gas emission intensity	tCO_2e/ RMB million	10.57	**5.55**

3.2.3 Management of Solid Waste

The Group strictly abides by the Law on the Prevention and Control of Solid Waste Pollution, Regulation on the Safety Administration of Hazardous Chemicals and other regulations on solid waste management, identifies and separates general solid waste and hazardous waste, and formulates corresponding internal systems such as the Responsibility System for the Prevention and Control of Environmental Pollution by Hazardous Waste, the Hazardous Waste Management System and the Solid Waste Management Regulations. The Environmental Protection Department is responsible for supervising and managing the disposal of solid waste on site. The Procurement Department is responsible for signing disposal agreements with solid waste disposal entities, and the workshops of each department are responsible for the collection, storage and disposal of fixed waste within their respective purview. The Company also separates the disposal and entry areas for general solid waste within the plant, and requires the Environmental Protection Department to supervise strict registration by security guards of the plant, so as to ensure that the Company can effectively control and properly dispose of all kinds of waste generated during the production, activities and service process, and prevent and reduce environmental pollution and work injuries.

For hazardous chemicals, the Company has set strict storage and usage management standards to ensure that the stored raw materials and products would not pollute the environment, and requires centralized collection and disposal of the leaked raw materials and products in transit to prevent pollution to the production area and surrounding environment.

For general solid waste, the relevant record is made by the generating department and supervised by the environmental department. Paper, metal and plastic are collected by the environmental hygiene organization of the headquarter for recycling; the Operation Procedure for Transfer of Bacteria Residue is implemented; the domestic garbage and general chemical reagent packages are cleaned and stored in garbage bins, which are collected and disposed of by the environmental hygiene department.

CHAPTER III GREEN DEVELOPMENT

The Group is committed to realizing the harmless, reduced and resourceful management of waste disposal, The addition of a medical waste shredder can make the shredded dust reach a higher environmental protection standard and increase the environmental recycling rate. On the other hand, the Company strictly controls the use of chemicals in the pharmaceutical process. Hazardous waste is collected and delivered to hazardous waste management companies for proper disposal. For general solid waste, such as packaging materials of raw materials in bulk, are collected by the warehouse personnels and the procurement department will contact the suppliers for recycling.

In 2019, the Group generated a total of 101.32 tonnes of dangerous and hazardous waste, the details of which are as follows:

Hazardous waste generation in 2019	
Pharmaceutical waste (tonnes)	47.95
Other hazardous waste (tonnes)	53.37

The non-hazardous wastes generated were mainly general industrial wastes and domestic wastes, totaling 2,965.77 tonnes.

CHAPTER III GREEN DEVELOPMENT

(III) ENERGY CONSERVATION AND CONSUMPTION REDUCTION

In strict compliance with national and local environmental policies, regulations and standards, the Group has established a top-down environmental management system, set up a leading group and management department for energy conservation and emission reduction, signed responsibility letters at all levels, carried out environmental management system certification, clean production review and green factory certification, strengthened the target management, process control and performance assessment of environmental protection work, supplemented with sufficient manpower, materials and financial support, to ensure the effective operation and continuous improvement of the system, and strive to achieve standardization, formalization and refinement of environmental protection management.

In terms of equipment procurement management regulations, the Company has been maximizing production and economic efficiency with limited investment in equipment. The Company follows the below principles in equipment procurement:

- Production: It refers to the production efficiency of equipment. When selecting equipment, we seek to select the equipment with the lowest energy input and maximum production output, i.e. highly efficient equipment.

- Process: It refers to whether the performance of the equipment meets the requirements of production process. The equipment shall meet not only the technical requirements of production process, but also the requirements of Certification of Good Manufacturing Practices.

- Energy and material saving: i.e. saving in raw material consumption and energy consumption. For example, environmental protection facilities must be operated and maintained simultaneously with the main production facilities and it is ensured that the simultaneous operation rate of environmental protection facilities and production facilities shall be above 95%.

CHAPTER III GREEN DEVELOPMENT

(IV) MAKING THE BEST USE OF RESOURCES

3.4.1 Improving Water Efficiency

As water is one of the major resources that are vital to the pharmaceutical industry, the Group implements clean production strategies, enhances water management policies, improves the technical treatment of production water, and reduces water consumption and improve the efficiency of all factories through implementing a number of measures, including:

- changing the production process, or adopting a more water-saving process, and reasonably carrying out industrial or production layout to reduce the demand for water by industrial production;
- changing the way of using water in production (such as changing current use of fresh water to recycled water), increasing the recycled utilization rate and reuse rate of water;
- carrying out water balance test to calculate the amount of water required by each production unit and then setting up inspection measures to control water consumption;
- shortening hot water pipes to minimize water pressure;
- regularly inspecting hidden water pipes, checking internal water supply system, repairing default water tanks, faucets and other water supply facilities;
- promoting water-saving technologies including reuse of condensed steam, recycled use of indirect condensed water and reuse of treated sewage;
- actively promoting water-saving sanitary ware and water reuse technologies to improve water reuse rate in public buildings.

CHAPTER III GREEN DEVELOPMENT

CASE

Transformation of cooling water pipes for lowering temperature of the freeze-dried water system

The purified water and the water for injection used in the workshop of freeze-dried powder injection need to be controlled at around 26°C. Therefore, it is necessary to reduce the temperature of the water. In summer, the tap water is of large consumption because of its poor cooling effect when it is used for cooling. After the transformation by staff of equipment department, the Company added chilled water pipelines into the cooling pipelines, which resulted in significant reduction in tap water consumption by making use of the cooling water generators to reduce temperature, reducing charges of approximately RMB40,000 for the year.

In 2019, the total water consumption was 529,377 tonnes, and there was no dispute or complaint about obtaining industrial production water.

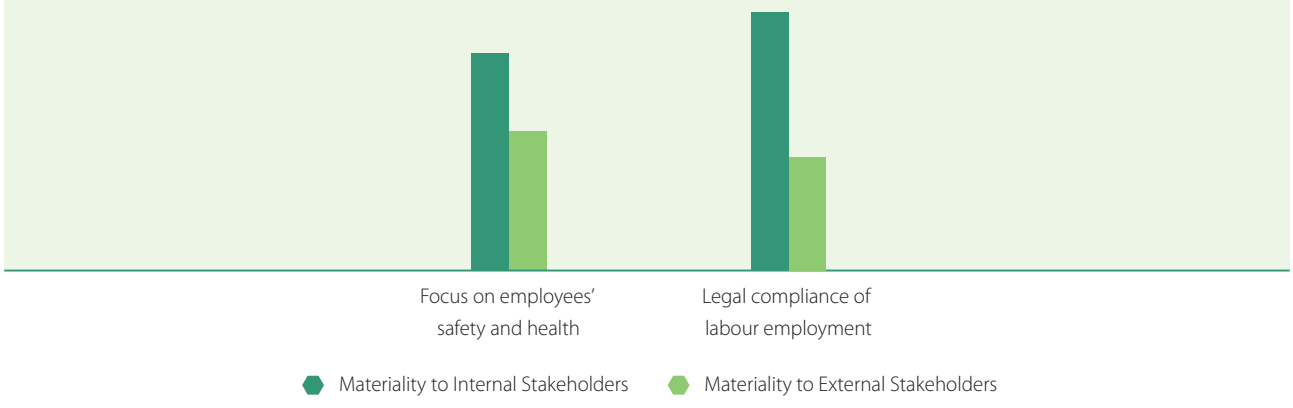
3.4.2 Green Packaging

In 2019, the Group continues to optimize product packaging design, advocates the use of green materials, and reduces the use of packaging materials to meet market and production needs. Our requirements for raw material suppliers are those among top three in the industry. For the procurement of product packaging materials, the Group has developed a group-level procurement management plan. Meanwhile, the Group has also developed a supplier evaluation and control procedure which is applied for regulating and controlling the implementation of supplier evaluation processes and procurement operations. The Group's paper packaging materials are all purchased from FSC certified manufacturers. In 2019, the total amount of packaging materials used for finished products by the Group amounted to 4,110.73 tonnes.

CHAPTER IV SAFE PRODUCTION

Safe production and safeguarding employees' occupational health are the basic requirements for an enterprise, and also the standards of conduct which an enterprise must comply with. The Group always regards safe production as the core of production management, attaches great importance to labour protection and production safety management, pays attention to the health and safety of employees, advocates safety culture, and forms a good situation in which all staff in the factory concern about safety and pay attention to safety in everything.

SUSTAINABILITY ISSUES ADDRESSED IN THIS CHAPTER



TOPICS OF SDGS ADDRESSED IN THIS CHAPTER

HKEX ESG INDICATORS COVERED IN THIS CHAPTER:

B2.1/B2.2/B2.3

CHAPTER IV SAFE PRODUCTION

Rectification rate of potential safety hazards: 100%

Safety Training Coverage: 100%

Work-related death: 0 case

(I) ENHANCING SAFETY MANAGEMENT AND CONTROL

The Company continuously elevates the safety production management standard, strictly regulates the operation process with accordance with the Good Manufacturing Practice of Medical Products, establishes a high-standard safety production monitoring mechanism, regularly carries out safety inspections, identifies potential risks, and classifies and analyzes each of the identified risks, and requires timely rectification of unsafe conditions and behaviors identified and includes them in the safety assessment. In 2019, the Company's safety rectification rate reached 100%, providing employees with a safe production environment and production safety is effectively guaranteed.

The Company also launched the risk classification and control and potential hazard inspection and treatment to achieve regular management, and engaged qualified third-party professional consultants to conduct acceptance and case training on the construction of the "system for risk classification and control and potential hazard inspection and treatment" of the Company and evaluate the production process equipment, site selection and general layout, public works, safety management and external safety conditions, and compile the Comprehensive Analysis of Safety Conditions to serve as a reference for the Company's safety management improvement. In 2019, upon review by a professional third party, the Company has established a sound system for risk classification and control and potential hazard inspection and treatment.

Specific safety measures include:

- Adopting industry-leading production equipment
- Training on production operations is strengthened and workers are required to follow the established production procedures
- Conducting occupational health examinations for employees, focusing on the prevention and control of occupational diseases
- Continuously improving its occupational disease prevention equipment, reasonably preparing equipment and providing regulations for workers to put on protective equipment
- Conducting site inspection and monitoring regularly to improve the working environment

CHAPTER IV SAFE PRODUCTION

CASE

Inspection and examination of automation of packaging equipment of pharmaceutical preparations

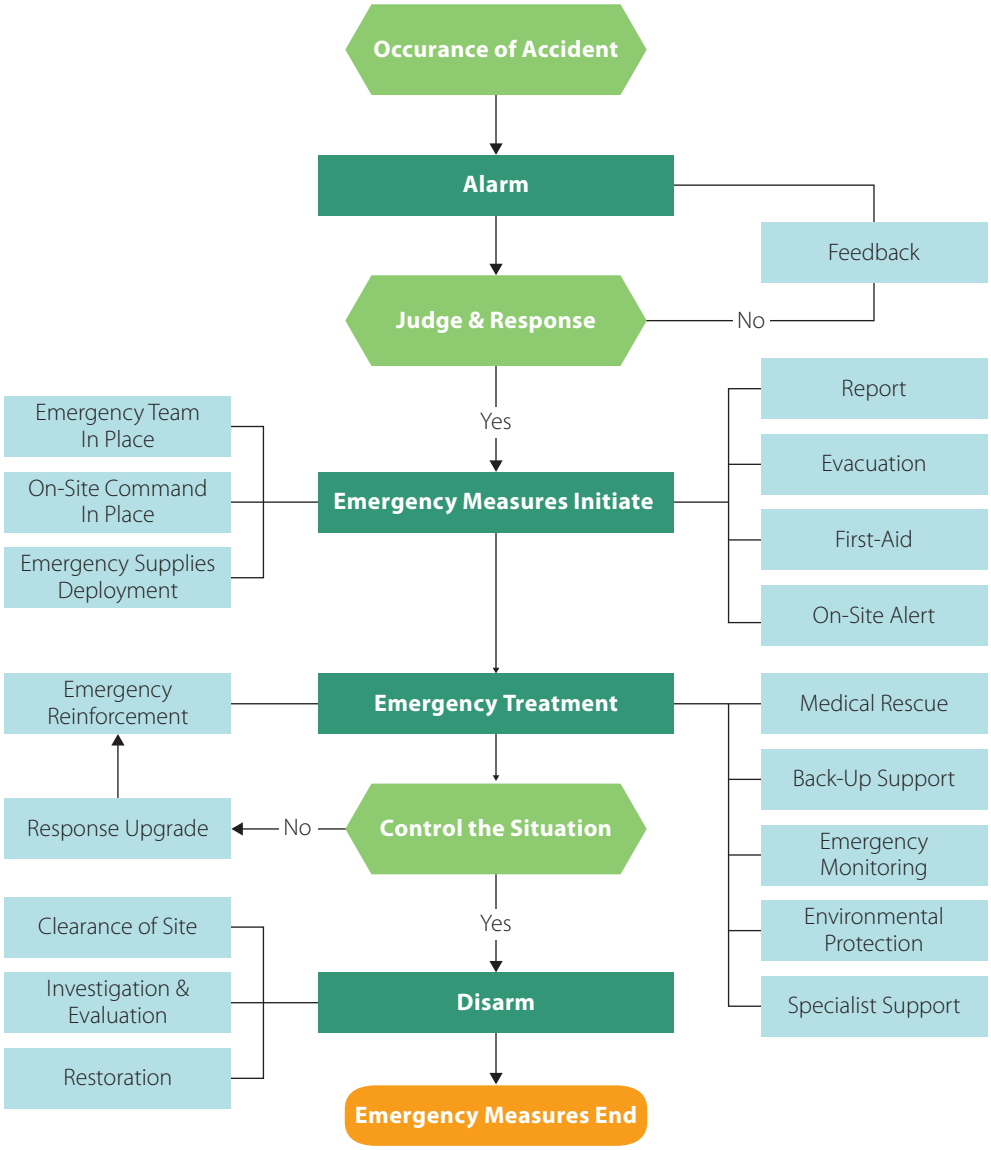
The Company's packaging of pharmaceutical products was originally operated manually. Information such as production batch number was printed manually before packing. After packing, the cover was manually folded, sealed, and packed, and the sealing process was noisy. Employees were exposed to risk of hand injury when operating the strapping machine and the position of strapping was not in uniformity. Therefore, the Company subsequently changed the production line with full automatic printing, sealing and strapping. The cartons after packing are placed on the conveyor belt by the employees, and the finished product will be sent out through the exit after the equipment completes the process of automatic printing, folding cover, sealing with transparent plastic tapes and strapping. Employees no longer need to be in contact with the strapping machine and can directly take the packed pharmaceutical products, which saves personnel, reduces the manual labour of employees, and is safer as well.

(II) ADHERING TO SAFE PRODUCTION CULTURE

The Company implements the National Safety Law and other laws and regulations, formulates the Safe Production Responsibility Management System, Management System on Safe Operation, Related Party EHS Management System, Relevant Provisions on the Preparation of Emergency Response Plan, Training, Drills and Assessment, the Emergency Rescue Plan for Insulin Plant Accident and other documents, sets up Emergency Command Disivion headed by the General Manager, formulates annual drill plan, safety training plan and various safety activities to improve employees' ability to respond to emergencies such as fire and escape and self-rescue. In 2019, there was no death, extraordinary, material and ordinary accident, and the staff training was completed on schedule with a passing rate of 100%.

CHAPTER IV SAFE PRODUCTION

YICHANG HEC CHANGJIANG PHARMACEUTICAL CO., LTD. EMERGENCY PLAN FOR ENVIRONMENTAL EMERGENCIES



CHAPTER IV SAFE PRODUCTION

CASE

On 28 May 2019, the insulin plant of Area No. 3 conducted emergency drills in response to leakage of hazardous chemicals.

CHAPTER IV SAFE PRODUCTION

CASE

New safety risk identification of the safety division of Area No. 3

Based on the results of risk assessment, the Company informs internal employees and relevant parties of the risk control measures. Training on the results of risk analysis and control measures for employees within the Company is conducted so that employees can have a grasp on the risk points of the job positions including risk level of hazardous sources, necessary control measures, responsible departments, responsible personnel and other information. Trainings for related parties include risk points, risk level and control measures.

Announcement and Advertisement of Safety Risks

(III) EMPLOYEES' HEALTH AND SAFETY

The Company strictly abides by the relevant laws and regulations such as the Production Safety Law and the Regulations on the Reporting, Investigation and Handling of Production Safety Accidents, and has formulated the Management System on Incident Reporting and Investigation and established a safety accident investigation procedure to strictly record and investigate all health and safety accidents and problems to ensure thorough investigation. In 2019, the Company had a total of 2 accidents of work-related injury. The number of lost days due to work injury was 126 days. There was no major safety incident in relation to work-related fatalities, and there was no cases or suspected cases of occupational disease.

CASE

Report on investigation and handling of an accident of insulin factory due to illegal operations

On 26 August 2019, a fall accident occurred at the construction site of the Company's insulin phase II project, causing one person to be injured. After the incident, the Company immediately carried out investigation. Following the submission of preliminary investigation report by the factory, the Site Safety Department has supplemented the accident investigation report based on the materials provided by the accident investigation team of the factory and finally formulated the accident investigation report.

CHAPTER V PEOPLE-ORIENTED

Employees are an important driving force for the development of enterprises, and have irreplaceable significance to the improvement of comprehensive strength of enterprises. The Group has always adhered to the people-oriented management concept. After years of development, the Group has established a sound and diversified employment system. The Group respects and protects the fundamental of each employee, provides employees with abundant training resources, actively organizes various employee care activities, continuously improves the competitiveness and cohesion of the Company's talents, and promotes the joint development of the Company and its employees.

SUSTAINABILITY ISSUES ADDRESSED IN THIS CHAPTER

TOPICS OF SDGS ADDRESSED IN THIS CHAPTER

HKEX ESG INDICATORS COVERED IN THIS CHAPTER:

B1.1/B1.2/B3.1/B3.2/B4.1/B4.2

CHAPTER V PEOPLE-ORIENTED

Total training hours:
260,529 hours

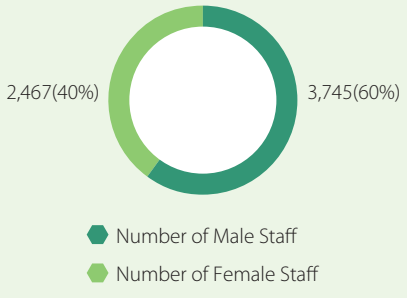
Average training hours:
41.9 hours per person

(1) EQUAL EMPLOYMENT

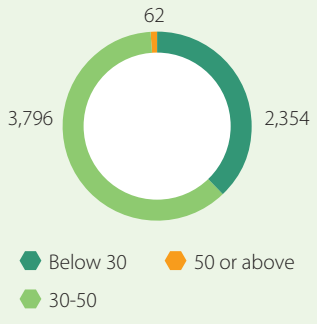
The Company strictly complies with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Minors, the Provisions on Prohibition of the Use of Child Labour and other laws and regulations. The Company has formulated the Human Resources System and Prevention and Handling of Labour Disputes to carefully review job seekers' information during the recruitment process to avoid employment of underage applicants due to the use of false certificates. In case of child labour or forced labour, we will strictly follow the relevant procedures and deal with the personnel in charge seriously. During the Reporting Period, the Group did not use child labour or forced labour.

For recruitment channel management, we adopt a combination of internal and external recruitment. For internal recruitment, we select appropriate employees from our own human resources pool to fill any vacancies or new positions through promotions and the re-hire of former employees; while for external recruitment, we hire outstanding candidates from the society through a comprehensive evaluation system in an open, fair and equal manner through recruitment advertisements, employment agencies, internet recruitment and campus recruitment.

BY GENDER



BY AGE



CHAPTER V PEOPLE-ORIENTED

(II) PROTECTION OF RIGHTS AND INTERESTS

The Company standardizes labour contract management, understands, respects and protects employees' traditions, religions and privacy, and resists any form of unfair treatment in the workplace. The Company sets out the standards and procedures of labour discipline and attendance, employees' paid annual leave and statutory public holidays in the Employee Handbook to protect the rights to leave and rest of employees. It also stipulates overtime wages for employees in accordance with the system and procedures. For lactating female employees, we have also established the "Lactation Period System" to provide maternity protection for female employees. At the same time, the Company has provided online anonymous complaint channels in the Employee Handbook, which is managed by dedicated personnel to strictly protect the information of the complainants, so that employees are not concerned about the retaliation. The Company also requires the complaint manager to respond in a timely manner, properly investigate the complaint, promptly respond to the investigation results and reach a mutually agreed solution through negotiations. In 2019, the Company did not violate any laws in respect of dismissal, recruitment and promotion, working hours and anti-discrimination.

In order to inspire potential, build a development platform and attract excellent administrative and technical personnel, the Company, in compliance with the Social Insurance Law and other relevant laws and regulations, pays premium for various social insurance and housing provident fund for employees in accordance with the law. Based on the Articles of Association and the internal control system, combined with the overall remuneration level of the industry and the actual cost of living in the place of work, the Company has formulated the remuneration policy and incentive system for scientific and technological progress, such as the Pension System, Housing Benefits and Children's Benefits, which aim to retain outstanding talents and motivate employees by means of performance, and provides basic income, five statutory social insurances and one statutory fund, and multi-level welfare system, with particulars as follows:

- Incentive bonus: performance appraisal production bonus, year-end bonus (based on different levels and performance of employees), education subsidy for the children of our employees
- Insurance: collective accident commercial insurance
- Public welfare facilities: kindergarten, medical room, staff dormitory, shuttle bus, staff canteen
- Others: assist in arranging education for the children of our employees

The Company has also established a labour union as an important organization for the protection of employees' rights and interests, as well as care and services for employees. The Company encourages employees to actively participate in labour unions, safeguards the freedom of association of workers, and effectively recognizes the right to collective bargaining. In 2019, the Company did not receive any complaints regarding forced labour and discrimination.

CHAPTER V PEOPLE-ORIENTED

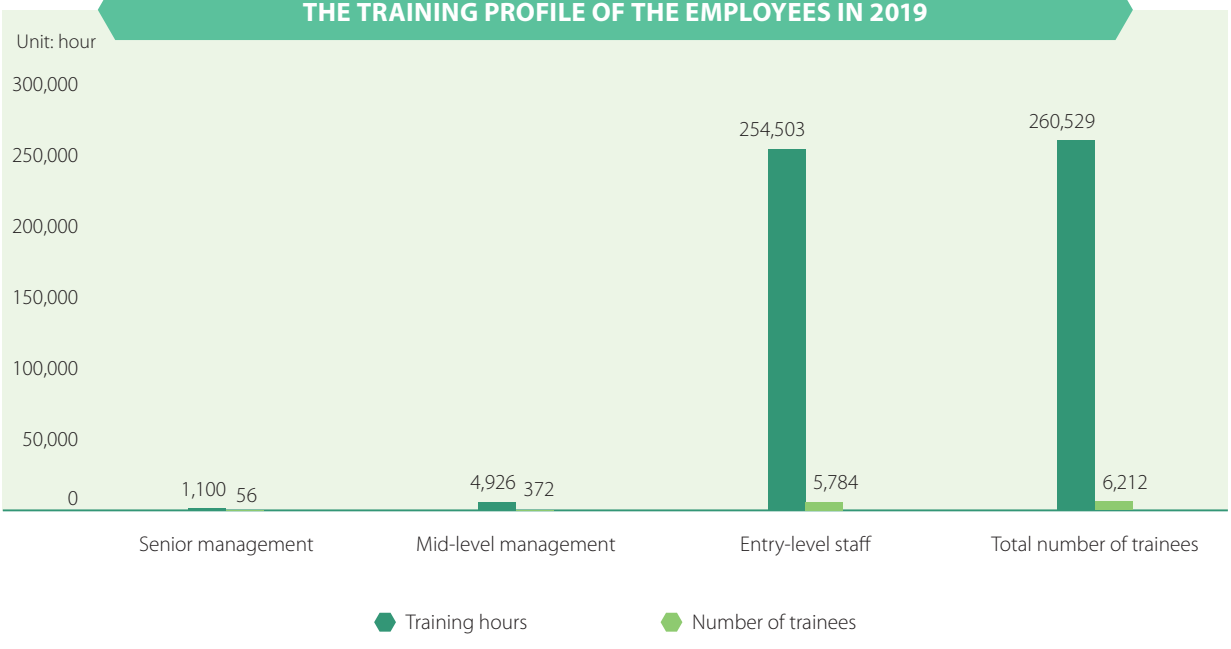
(III) TRAINING AND DEVELOPMENT

Employee training is an important part of human resources management of an enterprise, an effective way to strengthen its competitiveness and an important measure to encourage staff to work in a positive manner. The Company always emphasizes on employee training and capability development, and has established and implemented an effective training and management system and formulated annual training plans according to the job nature and requirements of each employee (with ad-hoc training as and when necessary). This helps to give full play to the positive effect of training for the Company, promotes the personal development of the employees to achieve advancement and growth and deeply integrates the personal growth of employees with the development goals of the enterprise.

Our training programs consist of factory training, onboard training, continuous education and training (comprising planned training and ad-hoc training), and outsourced training. Our training methods include intensive classes, discussions, audio-visual and practical training. Evaluation of the effectiveness of our training comprises of written examinations (open-book and closed-book), practical tests and instant tests. In 2019, 6,212 employees of the Group were trained with an average of 41.9 training hours. In 2019, we also invited experts from Lannett in the United States to provide training on process improvement and quality system improvement for our employees, and organized training on biological product laws and regulations of the FDA of the United States.

The Company adheres to the principles of openness, fairness and impartiality in talent selection. The assessment content is rated according to unified standards. The key personnel must meet the Company's requirements. The Company would rather select a few qualified personnel than a lot of unqualified personnel.

THE TRAINING PROFILE OF THE EMPLOYEES IN 2019



CHAPTER V PEOPLE-ORIENTED

(IV) CARE FOR EMPLOYEES

The Company has set up a charitable foundation, formulated the Articles of Association of the Charitable Foundation. There are members of the charity foundation in each production base to better understand the needs of employees, assist employees in need to submit a subsidy application for review, and report to the office as well as collaborating with organizations in order to continuously support employees in need. We also organize diversified cultural and sports activities to enrich the lives of employees, gather the strength of employees, improve the quality of employees, establish stable and harmonious labour relations, and promote the sound, positive and effective development of the entire enterprise.

CASE

May 4th Young Singer Contest

To commemorate the 100th anniversary of the May 4th Movement with the theme of inheriting the spirit of the May 4th Movement, on the evening of 28 April 2019, the finals of the 15th Youth Singer Contest "百年傳薪火放歌頌青春" was held in Yidu Theatre by Yidu HEC. The professional judging panel, comprised of judges from the Municipal Bureau of Culture and Tourism (市文化和旅遊局), the Municipal Musicians Association (市音樂家協會) and the Municipal Singers Association (市曲藝家協會), together with 40 public judges recommended by each factory served as judges for this singing contest. 12 contestants talented with unique singing styles and skills were selected from an open audition. The annual Young Singer Contest provides a grand stage for the Company's young people to show their talents. It was a great evening for us to celebrate our youth and friendship with melodious songs.

CHAPTER V PEOPLE-ORIENTED

CASE

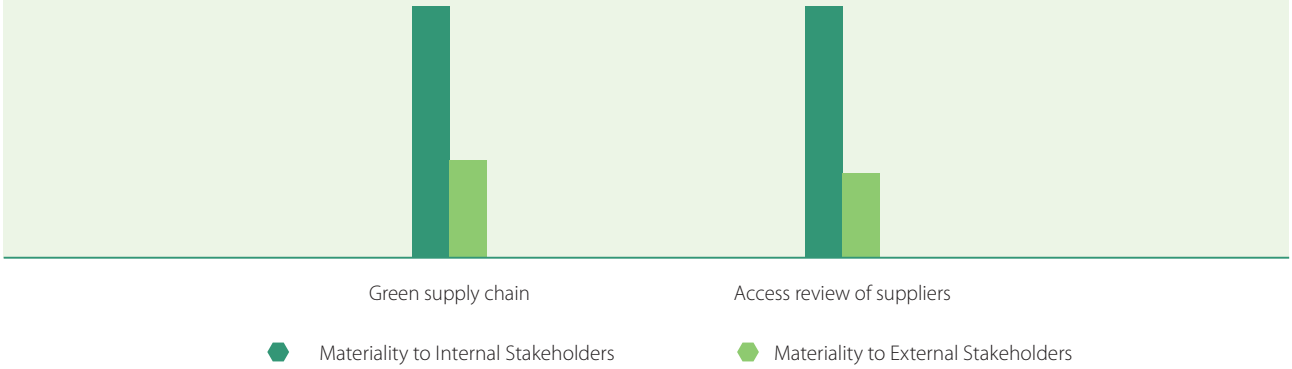
Investigation and research of the Hubei Provincial Federation of Trade Unions

On 12 June 2019, Mr Liu Xiaolin, members and Vice Chairman of the Party Committee of the Hubei Provincial Federation of Trade Unions, accompanied by the relevant person in charge of the Company, visited the outsourcing workshop of oseltamivir phosphate (Kewei) , the national first-line drug for influenza prevention and control, to understand the key points and difficulties of the Company's work, and the ideological and living conditions of employees, and carry out discussion and exchange on the current development of the Company.

CHAPTER VI WIN-WIN COOPERATION

Today, the Group's success depends on the support of a wide range of products and services provided by an extensive supply chain network. While maintaining long-term mutual trust and mutually beneficial cooperation with suppliers, we are also committed to working with them to take up corporate social responsibility, promoting the sustainable development of the Group and suppliers with our own practical actions, and striving to build a better social and business environment.

SUSTAINABILITY ISSUES ADDRESSED IN THIS CHAPTER



TOPICS OF SDGS ADDRESSED IN THIS CHAPTER

HKEX ESG INDICATORS COVERED IN THIS CHAPTER:

B5.1/B5.2

CHAPTER VI WIN-WIN COOPERATION

(I) BUILDING A RESPONSIBLE SUPPLY CHAIN

6.1.1 Responsible Procurement

The Group has established a comprehensive and effective procurement system through the internal control system to further refine the responsibilities of relevant departments. We have also entered into the Agreement on Anti-Commercial Bribery between the Suppliers and Purchasers to strictly control corruption. At the same time, through establishing a file for each supplier and signing a quality assurance agreement with key suppliers, the Group strictly monitors the performance of suppliers in all aspects, including product quality and service quality, business ethics and social evaluation. The Group also assesses the performance of suppliers through dynamic information management, periodic assessment and annual review to safeguard the interests of the Group and customers. Currently, the Group has established cooperation relationship with 607 suppliers.

Supplier Selection and Management Process:

1 INITIAL INVESTIGATION OF SUPPLIERS

Understand the basic information of the suppliers and the distribution in the market, and carry out on-site inspection and online credit investigation to understand the suppliers quality, credit, market ranking and whether the product is a monopolistic product; whether the varieties, specifications and quality of suppliers' products meet the needs; and whether the suppliers capabilities, standard, production process as well as production management and control meet the standards etc.;

2 PRICE VERIFICATION AND COMPARISON

By understanding the cost components of products, the Group conducts more accurate price analysis and price comparison, in order to accurately determine the quality of the supplier's products;

3 SELECTION AND DETERMINATION OF SUPPLIERS

The Group chooses over three suppliers as candidates, and proactively implements the replacement of suppliers. The suppliers with poor reliability and high price shall be replaced in time. Meanwhile, the Group proactively introduces new suppliers to reduce the risk of exclusive and long-term supply;

4 MANAGEMENT OF SELECTED SUPPLIERS

The Group has established supplier quality management related policies and complaint handling procedures to disqualify non-compliant suppliers and claim for compensation when necessary. Subsequently, if the supplier's qualification is resumed, the supplier's qualification will be re-assessed specifically on the spot and the relevant information such as its qualification and capabilities will be evaluated.

CHAPTER VI WIN-WIN COOPERATION

6.1.2 Green Procurement

The Group has always attached great importance to environmental protection and social responsibility of suppliers. In the selection and management of suppliers, the Group not only judges the quality and qualification of suppliers, but also carries out evaluations in respect of environmental protection and social responsibility, so that all aspects of suppliers meet our environmental protection standards and social responsibility requirements.

(II) PROMOTION OF INDUSTRY DEVELOPMENT

The Group actively participates in communications within the industry to learn the industry trend and gain excellent practices from peers, while sharing the Groups leading technologies and products with all sectors of society. Oseltamivir phosphate, the Group's core product, is a very important product for the prevention and treatment of sudden and mass diseases caused by influenza virus. After several outbreaks of influenza, the product has received attention from various national departments. On 20 February 2019, the Company's oseltamivir phosphate capsule (75mg) has been approved by the National Medical Products Administration for passing the consistency of quality and efficacy evaluation for generic drugs. The Company's product Kewei is the single brand with the largest market share of oseltamivir phosphate in the China market. The successful passing of the consistency evaluation of the drug is an authoritative reaffirmation of the Company's research and development capabilities, production and drug quality and drug efficacy, and allows the Drug to gain advantage in aspects such as market expansion and medical insurance payment in the future.

CASE

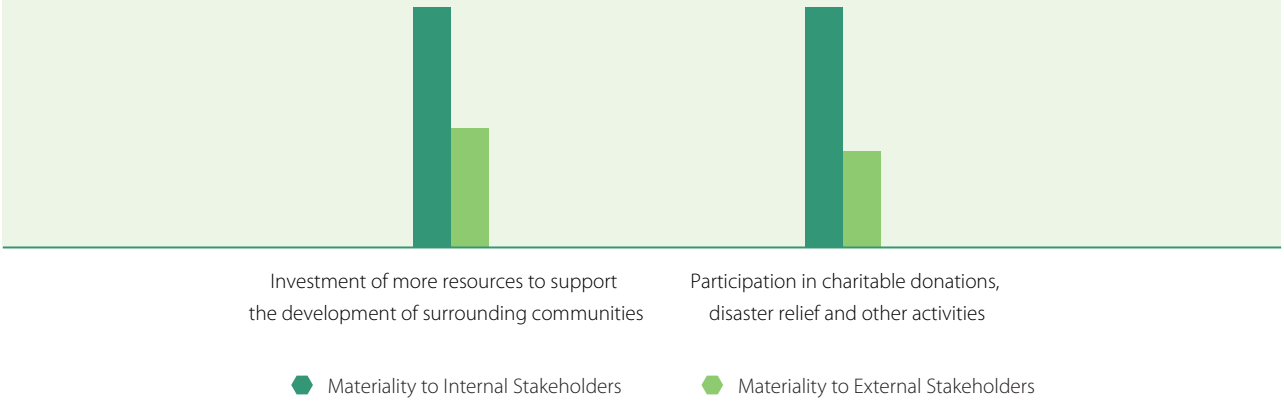
4th Influenza Forum

In order to promote the enhancement of China's influenza prevention and control system, the 4th Influenza Forum organized by Pharm HEC with the theme of "Prevention and Control of Influenza, What you can do" was successfully held in Chengdu on 19 October 2019. Over 500 experts and scholars were invited, including Wang Chen , an academician of the Chinese Academy of Engineering, and Fred Hayden, honorary professor of clinical virology and honorary professor of medicine of the School of Medicine of University of Virginia , as well as top primary medical practitioners, to the forum and took part in in-depth interactions and investigations on world influenza prevention and control work experience and public healthcare, and provided strong support for the mutual communication within the academia of influenza prevention and control.

CHAPTER VII CONTRIBUTING TO THE SOCIETY

As a listed pharmaceutical company with social responsibility, the Group always adheres to the service tenet of "benefiting the country, the people and the society". In addition to providing quality products and services to the society, the Group actively solves social health problems, actively participates in social welfare and takes various initiatives to contribute to national public welfare.

SUSTAINABILITY ISSUES ADDRESSED IN THIS CHAPTER



TOPICS OF SDGS ADDRESSED IN THIS CHAPTER

HKEX ESG INDICATORS COVERED IN THIS CHAPTER:

B8.1/B8.2

CHAPTER VII CONTRIBUTING TO THE SOCIETY

(I) CARING THE COMMUNITY

The Company actively maintains good two-way communication with the community, listens to the needs of the community, carries out community care activities, and encourages employees to actively participate in voluntary service activities to achieve a relationship of mutual trust and mutual benefit with the community.

CASE

Voluntary blood donation

From 18 to 22 March 2019, the Group organized a voluntary blood donation event. There were a total of 181 blood donors and a total of 59,300 ml of blood was donated. Blood is limited but love is unlimited. Blood donation is like the growing flower in our hearts. With love, Pharm HEC's employees connect and brighten people's lives. A bit of fragrance clings to the hand that gives roses. Together let's continue with voluntary blood donation.

CHAPTER VII CONTRIBUTING TO THE SOCIETY

(II) COMBATING THE EPIDEMIC

Pharm HEC actively coordinated the production of oseltamivir phosphate to help combating the epidemic

In the beginning of 2020, the entire nation works together on the prevention and control of the new coronavirus to combat the epidemic. As a privately-owned enterprise based in Yichang for many years, Pharm HEC actively takes action to bear corporate social responsibility and helps combat the epidemic by various means. At the same time, the Company is the production base of oseltamivir phosphate (Kewei) ,the only anti-influenza drug in the country. During the epidemic , the Company has actively coordinated the production of oseltamivir phosphate and ensured that the market demand for anti- influenza medicine can be satisfied .

CHAPTER VII CONTRIBUTING TO THE SOCIETY

Pharm HEC donated RMB1,000,000 to Wuhan Charity Federation

On 26 January 2020, Pharm HEC donated RMB1,000,000 to Wuhan Charity Federation to support Wuhan to combat the new coronavirus epidemic. The donated amount will be used in the procurement of materials urgently needed for epidemic prevention and control, including medical equipment, clinical equipment, reagent, pharmaceutical products, protection equipment, cleaning equipment and consumables.

Yidu HEC donated 15,000 medical N95 masks in Yichang City

On 6 February 2020, the Company overcame various difficulties to obtain masks from various channels and sources and donated 15,000 medical N95 masks to Yichang Red Cross and the First People's Hospital of Yidu. Such medical masks were in great need, and our donation helped prevent and control the new coronavirus epidemic in Yichang City. On that day, the Company also donated 500 kg of alcohol for medical use to the office of Lucheng Street, the community where the Company is located at, for disinfection during the prevention and control period.

OUTLOOK FOR 2020

The Company has established comprehensive short, middle and long-term strategies for the sustainable long-term development. In the near future, the Company will continue to expand the sales of oseltamivir phosphate (Kewei) and further solidify its leading position in the anti-influenza area in China by expanding business channels and strengthening academic promotion. Meanwhile, the Company is committed to expanding its product lines in various fields such as anti-virus, endocrine and metabolic diseases and developing new scope of business, and is expected to launch therapeutic drugs including 5 anti-virus and anti-infectives drugs, 12 endocrine and metabolic drugs and 19 cardiovascular and nervous system drugs in or before 2020, forming a diversified product portfolio with Kewei as the core product (一核多星).

Looking forward, the Company will continue to enrich its product portfolio and improve its income structure by way of in-house research and development and external collaborations. The Company will proactively integrate the resources of internal and external research and development, production and sales channels of the Group, and will expand its scope of business, strive to be a leading brand in the pharmaceutical manufacturing industry as well as an influential pharmaceutical corporate in China in therapeutic areas including anti-viral, endocrine and metabolic diseases.

While focusing on the Company's performance growth, we will continue to implement the environmental protection mission and social responsibility concept in all aspects of the Company's development. On one hand, we will continue to improve the environmental management system, promote the efficient use and recycling of resources, and increase the intensive discharge of waste water, waste gas, and solid waste. On the other hand, we will further our caring for employees by creating a greener and safer working and living environment, and adopting a more effective system to protect employees' rights and interests; in terms of product research and development and production, we will pay more attention to product quality and safety. By constantly adapting to market needs and developing more effective medical products for people's health, the Company is committed to making more contributions to the health industry.

OVERVIEW OF SUSTAINABLE DEVELOPMENT

LIST OF POLICIES

Topics	Laws and regulations complied with	Internal policies
Aspect A1: Emissions **Aspect A2: Use of Resources** **Aspect A3: The Environment and Natural Resources**	Environmental Protection Law of the People's Republic of China Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste Water Pollution Prevention and Control Law of the People's Republic of China Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise Integrated Emission Standard of Air Pollutants Emission Standard of Air Pollutants from Boilers Integrated Emission Standard of Sewage Water Quality Standards on Sewage Discharged to Urban Sewers Emission Standard for Industrial Enterprise Noise at Boundary Discharge Standards of Water Pollutants for Chemosynthesis Pharmaceutical Industry Emission Standard for Pharmaceutical Industrial Water Pollutants from Mixing and Formulation Category Emission Standard for Pharmaceutical Industrial Water Pollutants from Biological Engineering Category	Environmental Management System Regulations on the Prevention and Control of Environmental Pollution by Hazardous Wastes Hazardous Waste Management System Solid Waste Management Regulations Wastewater Management Regulations Exhaust Gas Management Regulations Management Regulations for Environmental Objectives, Indicators and Management Plan Management Regulations for Environmental Monitoring and Measurement Management Regulations for Environmental Protection Operation
Aspect B1: Employment	Labour Law of the People's Republic of China Labour Contract Law of the People's Republic of China Employment Promotion Law of the People's Republic of China Social Insurance Law of the People's Republic of China	Human Resources System Employee Handbook Articles of Association of the Charitable Foundation
Aspect B2: Health and Safety	Law on the Prevention and Treatment of Occupational Diseases of the People's Republic of China Safe Production Law of the People's Republic of China Industrial Injury Insurance Regulations of the People's Republic of China Regulations on the Labour Protection of Female Staff and Workers of the People's Republic of China Production Safety Accident Report and Investigation	Management System on Safe Operation Safe Production Responsibility Management System Safe Production System Regulations on Determination, Training, Drill and Assessment of Emergency Rescue Plan Emergency Rescue Plan for Insulin Plant Accident Related Party EHS Management System Management System on Incident Reporting and Investigation
Aspect B4: Labour Standards	Labour Law of the People's Republic of China Provision on Prohibition of Child Labour of the People's Republic of China Law of the People's Republic of China on Protection of Minors	Prevention and Handling of Labour Disputes
Aspect B5: Supply Chain Management	Company Law of the People's Republic of China Contract Law of the People's Republic of China	Material Supplier Management Incoming Material Procurement Management Material Procurement Quality Standard Qualified Supplier List

OVERVIEW OF SUSTAINABLE DEVELOPMENT

Topics	Laws and regulations complied with	Internal policies
Aspect B6: Product Responsibility	Drug Administration Law of the People's Republic of China Regulations for the Implementation of the Drug Administration Law of the People's Republic of China Measures for the Reporting and Monitoring of Adverse Drug Reactions Measures for Administration of Drug Registration Provisions on the Administration of Pharmaceutical Directions and Labels Measures for Production Supervision and Management of Drugs Good Manufacture Practice of Medical Products (GMP) Good Supply Practice for Pharmaceutical Products (GSP) Measures for Administration of Pharmaceutical Distribution Certificates Measures for Administration of Drug Import Measures for Administration of Drug Recall Regulations on Protection of Traditional Chinese Medicines Measures for Administration of Drug Information Service over the Internet Interim Measures for Administration of Internet Advertising Advertising Law of the People's Republic of China Law of the People's Republic of China on Protection of the Rights and Interests of Consumers Trademark Law of the People's Republic of China Copyright Law of the People's Republic of China Patent Law of the People's Republic of China Intellectual Property Law of the People's Republic of China Pharmacopoeia of the People's Republic of China	Services for Customers Customers Complaints Handling Product Return Management Drug Recall
Aspect B7: Anti-corruption	Criminal Law of the People's Republic of China Anti-Money Laundering Law of the People's Republic of China Drug Administration Law of the People's Republic of China Regulations for the Implementation of the Drug Administration Law of the People's Republic of China Anti-unfair Competition Law of the People's Republic of China Provisional Regulations on the Prohibition of Commercial Bribery	Integrity and Self-discipline Commitment Internal Control System Agreement of Anti-commercial Bribery Agreement on Anti-commercial Bribery between the Suppliers and Purchasers Agreement on Anti-commercial Bribery of Sales Cooperation Parties
Aspect B8: Community Investment		–

KEY PERFORMANCE TABLE

List of environmental data				
Aspect A1: Emissions				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
A1.1	**Types of emissions and respective emissions data**			
	Industrial wastewater	Tonnes	33,600.18	**103,373.00**
	Chemical oxygen demand COD_{cr}	Tonnes	1.23	**1.96**
	Ammonia nitrogen	Tonnes	0.08	**0.09**
A1.2	**Total greenhouse gas emissions and intensity**			
	Greenhouse gas emissions	tonnes CO2e	26,537.25	**34,560.49**
	Scope 1 Total greenhouse gas emissions	Tonnes	1.64	**3.29**
	Scope 2 Total greenhouse gas emissions	Tonnes	26,535.60	**34,557.20**
	Intensity of greenhouse gas emissions	Tonnes CO2e/ revenue (million RMB)	10.57	**5.55**
A1.3	**Total hazardous waste generated**			
	Pharmaceutical waste	Tonnes	23.68	**47.95**
	Other hazardous wastes	Tonnes	54.65	**53.37**
	Intensity of hazardous wastes	Tonnes/revenue (million RMB)	0.03	**0.02**
A1.4	**Total non-hazardous waste generated**			
	General industrial waste and domestic waste	Tonnes	553.99	**2,965.77**
	Intensity of non-hazardous wastes	Tonnes/revenue (million RMB)	0.22	**0.48**

OVERVIEW OF SUSTAINABLE DEVELOPMENT

List of environmental data				
Aspect A2: Use of Resources				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
A2.1	**Total energy consumption and intensity**			
	Externally purchased power: Central China Grid	kWh	28,817,444	**33,231,342**
	Externally purchased steam	Tonnes	38,599.60	**58,294.48**
	Diesel	Litres	630	**1,260**
	Total energy consumption	Tonnes of standard coal	8,506.33	**11,582.33**
	Total energy consumption intensity	Tonnes of standard coal/revenue (million RMB)	3.39	**1.86**
A2.2	**Total water consumption and intensity**			
	Freshwater consumption	Tonnes	356,236.00	**529,377.00**
A2.5	**Total packaging material used for finished goods**			
	Packaging materials used	Tonnes	1,833.01	**3,116.70**
Guidelines on Environmental Information Disclosure by Companies Listed on Shanghai Stock Exchange				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
Other 1	**Consumption of main raw materials**			
	Dichloromethane	Tonnes	312.35	**429.86**
	Methanol	Tonnes	97	**90.6**
	Ethanol	Tonnes	19	**525.88**
Other 2	**Resources investment in environmental governance**			
	Investment in environmental governance and protection	RMB	5,247,622	**5,295,373**
Other 3	**Administrative penalties against pollutants**			
	Number of administrative penalty	Times	0	**0**
	Amount of penalty	RMB	0	**0**

OVERVIEW OF SUSTAINABLE DEVELOPMENT

List of social data				
Aspect B1: Employment				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
B1.1	**Total workforce by gender, age group, geographical region and education**			
	Total number of employees	Person	4,024	**6,212**
	By gender			
	Male employees	Person	2,453	**3,745**
	Female employees	Person	1,571	**2,467**
	By age group			
	Below 30	Person	1,696	**2,354**
	30–50	Person	2,299	**3,796**
	50 or above	Person	29	**62**
	By region			
	Hubei province	Person	1,319	**1,997**
	Other regions in the PRC	Person	2,696	**4,213**
	Overseas	Person	9	**2**
	By education			
	Master or above	Person	116	**108**
	Bachelor	Person	1,401	**1,938**
	Associate	Person	1,624	**2,954**
	Vocational or below	Person	883	**1,212**

OVERVIEW OF SUSTAINABLE DEVELOPMENT

List of social data				
Aspect B1: Employment				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
B1.2	**Number of employee turnover and employee turnover rate by gender, age group and geographical region**			
	Total number of employee turnover	Person	571	**225**
	Employee turnover rate	%	14.20	**3.60**
	By gender			
	Number of male employees turnover	Person	379	**124**
	Number of female employees turnover	Person	192	**101**
	By age group			
	Number of employees aged below 30 turnover	Person	259	**140**
	Number of employees aged 30–50 turnover	Person	310	**83**
	Number of employees aged 50 or above turnover	Person	2	**2**
	By geographical region			
	Number of employee turnover in Central China	Person	462	**217**
	Number of employees turnover in other regions in the PRC	Person	109	**8**
	Overseas turnover	Person	0	**0**
Aspect B2: Health and Safety				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
B2.1	**Number of work-related fatalities**			
	Number of work related fatalities	Person	0	**0**
	Rate of work-related fatalities	%	0	**0**
B2.2	**Lost days due to work injury**			
	Number of work injuries	Times	1	**2**
	Lost days due to work injury	Days	11	**126**

OVERVIEW OF SUSTAINABLE DEVELOPMENT

List of social data				
Aspect B3: Development and Training				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
B3.1	**Trained employees by gender and type of employees**			
	Total number of employees trained	Person	4,024	**6,212**
	By gender of employees			
	Number of male employees trained	Person	–	**3,062**
	Number of female employees trained	Person	–	**3,150**
	By type of employees			
	Senior management	Person	43	**56**
	Mid-level management	Person	393	**372**
	Entry-level employees	Person	3,588	**5,784**
B3.2	**Training hours for employees by type of employees**			
	Total training hours for all employees	Hours	168,765	**260,529**
	Average training hours for all employees	Hours	41.94	**41.90**
	By type of employees			
	Total training hours for senior management	Hours	845	**1,100**
	Total training hours for mid-level management	Hours	5,204	**4,926**
	Total training hours for entry-level employees	Hours	162,716	**254,503**
Aspect B5: Supplier Management				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
B5.1	**Number of suppliers by geographical region**			
	Number of major suppliers	Suppliers	1,175	**607**
	Geographical distribution of major suppliers			
	Hubei province	Suppliers	258	**205**
	Other regions in the PRC	Suppliers	895	**402**
	Overseas	Suppliers	22	**0**

OVERVIEW OF SUSTAINABLE DEVELOPMENT

List of social data				
Aspect B6: Product Liability				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
B6.1	**Percentage of total products sold or shipped subject to recalls for safety and health reasons**			
	Amount of products recalled due to health and safety reasons	Cartons	0	**0**
	Percentage of products recalled due to health and safety reasons	%	0	**0**
B6.2	**Number of products and service related complaints received**			
	Complaints related to product quality	Times	0	**0**
	Other complaints	Times	7	**13**
Aspect B7: Anti-corruption				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
B7.1	**Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period**			
	Number of pending or concluded legal cases regarding corrupt practices	Cases	0	**0**
Aspect B8: Community Investment				
Indicator number	**Indicator required**	**Unit**	**2018**	**2019**
B8.2	**Resources contributed to the focus area**			
	Amount contributed for charity	Ten thousand (RMB)	–	**30**

Notes:

1. Unless otherwise specified, the indicators of A1 environmental category are statistical data generated or used by the production base of the Company (Yichang City, Hubei Province);
2. Carbon emissions refer only to carbon dioxide emissions and do not include methane, nitrous oxide and other greenhouse gases emitted by other sources;
3. Indicator A1.2 Greenhouse gases (Scope 1) include direct emissions from gasoline, diesel, liquefied petroleum gas, etc.;
4. Indicator A1.2 Greenhouse gases (Scope 2) include indirect emissions from outsourced electricity;
5. This annual report is calculated based on the calculation criteria specified in How to prepare an ESG Report issued by the Stock Exchange in March 2020, and some data including greenhouse gas in 2018 have been adjusted accordingly to maintain data consistency. Carbon dioxide is accounted according to Accounting Method and Reporting Guide for Greenhouse Gas Emissions from Industry and Other Sectors (for Trial Implementation) issued by the National Development and Reform Commission, where the emission factor of the outsourced power refers to the Central China Regional Power Grid (based on the Baseline Emission Factors for Regional Power Grids in China issued annually);
6. Due to the increase in the Company's product output in 2019, the overall data in 2019, including electricity consumption, water consumption, packaging material usage, number of employees and other data have increased compared with previous years;
7. Due to the increase in construction of the Company's No. 3 production base in 2019, the carbon emissions and construction waste in 2019 have increased compared with previous years;
8. Ethanol: The caliber of ethanol statistics in 2018 only included the account statistics of warehouse No. 3. In 2019, we extended the scope of ethanol statistics and the data statistics included the account statistics included the account statistics of warehouses No. 1, 2 and 3. The ethanol categories include liquid ethanol of Area No. 1, anhydrous ethanol of Area No. 2, acetonitrile and ethanol of Area No. 3. Due to changes in the statistics, the ethanol consumption in 2019 has increased compared with previous years;
9. Other complaints: The statistics include issues related to departmental verification and sales service consultation received by the Company. In 2019, the 13 other complaints received by Pharm HEC were issues related to verification by the market supervision department and the request for certification of enterprise qualifications. After receiving the request for verification, the Company has responded in a timely manner and all of them were accepted by the other party.

INDEX

This index states the compliance of the Company with each of the "comply or explain" indicators of the Environmental, Social and Governance Reporting Guide and its disclosure of the "Recommended Disclosure" indicator during the Reporting Period.

Aspects	Key Performance Index	Disclosure
General Disclosure	**Policies relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste**	Chapter III Green Development
A1.1	Types of emissions and respective emissions data	Key Performance Table/ Emission Management
A1.2	Total greenhouse gas emissions and intensity	Key Performance Table
A1.3	Total hazardous wastes generated and intensity	Key Performance Table
A1.4	Total non-hazardous wastes generated and intensity	Key Performance Table
A1.5	Description of measures to mitigate emissions and results achieved	Emission Management
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Emission Management
General Disclosure	**Policies on the efficient use of resources, including energy, water and other raw materials**	Chapter III Green Development
A2.1	Total energy consumption and intensity	Key Performance Table
A2.2	Total water consumption and intensity	Key Performance Table
A2.3	Description of energy use efficiency initiatives and results achieved	Make the Best Use of Resources
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Make the Best Use of Resources
A2.5	The total amount of packaging materials used for finished products and the amount per unit of production	Key Performance Table/ Make the Best Use of Resources
General Disclosure	**Policies on minimising the issuer's significant impact on the environment and natural resources**	Chapter III Green Development
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Make the Best Use of Resources

OVERVIEW OF SUSTAINABLE DEVELOPMENT

Aspects	Key Performance Index	Disclosure
General Disclosure	**Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare**	Chapter V People-oriented
B1.1	Total workforce by gender, employment type, age group and geographical region	Key Performance Table
B1.2	Employment turnover rate by gender, age group and geographical region	Key Performance Table
General Disclosure	**Information on the policies and compliance with laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards**	Chapter IV Safe Production
B2.1	Number and rate of work-related fatalities	Key Performance Table
B2.2	Lost days due to work injury	Key Performance Table
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Employees' Health and Safety
General Disclosure	**Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities**	Chapter V People-oriented
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, mid-level management etc.).	Key Performance Table
B3.2	Average training hours completed per employee by gender and employee category	Key Performance Table
General Disclosure	**Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour**	Chapter V People-oriented
B4.1	Description of measures to review employment practices to avoid child and forced labour	Equal Employment
B4.2	B4.2 Description of steps taken to eliminate such practices when discovered	Equal Employment
General Disclosure	**Policies on managing environmental and social risks of the supply chain**	Chapter VI Win-win Cooperation
B5.1	Number of suppliers by geographical region	Key Performance Table
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Building a Responsible Supply Chain

OVERVIEW OF SUSTAINABLE DEVELOPMENT

Aspects	Key Performance Index	Disclosure
General Disclosure	**Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress**	Chapter II Excellent Quality
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Key Performance Table
B6.2	Number of products and service related complaints received and how they are dealt with	Key Performance Table/ Satisfying Customers
B6.3	Description of practices relating to observing and protecting intellectual property rights	Focus on Research and Development and Innovation
B6.4	Description of quality assurance process and recall procedures	Satisfying Customers
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Satisfying Customers
General Disclosure	**Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering**	Chapter I Responsible Governance
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases	Key Performance Table/ Corporate Governance
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Key Performance Table/ Corporate Governance
General Disclosure	**Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests**	Chapter VII Contributing to the Society
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Key Performance Table/Caring the Community
B8.2	Resources contributed (e.g. money or time) to the focus area	Key Performance Table

READERS' FEEDBACK

Dear Readers,

Thank you for reading this report! It would be very much appreciated if you could appraise the report and give us your sincere comments to help us to continuously improve the report.

Environmental, Social and Governance Report 2019 of Yichang HEC ChangJiang Pharmaceutical Co., Ltd.

Feedback Form

Name:

Work unit:

Position:

Tel:

Email:

Questionnaire for feedback:

1. Have you obtained any information that you need to know from this report?

2. Do you think the report has fully reflected the economic responsibilities of Yichang HEC ChangJiang Pharmaceutical Co., Ltd.?

3. Do you think the report has fully reflected the environmental, health and safety responsibilities of Yichang HEC ChangJiang Pharmaceutical Co., Ltd.?

4. Do you think the report has fully reflected the social responsibilities of Yichang HEC ChangJiang Pharmaceutical Co., Ltd.?

5. Do you think the report has fully reflected the products and services responsibilities of Yichang HEC ChangJiang Pharmaceutical Co., Ltd.?

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东陽光药

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