Pharma
绿叶制药

Luye Pharma Group Ltd.
绿叶制药集团有限公司
(incorporated in Bermuda with limited liability)
Stock Code: 2186

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2019

CONTENTS

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About this Report

Basis for Preparation

This Environmental, Social and Governance Report (hereinafter the "ESG Report" or the "Report") aims to present the environmental, social and governance performance of Luye Pharma Group Ltd. (hereinafter the "Company") and its subsidiaries (collectively "Luye Pharma" or "we" or "us") during the year of 2019. The Report has been prepared by the Company in accordance with the Environmental, Social and Governance Reporting Guide (hereinafter the "ESG Guide") as contained in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited issued by The Stock Exchange of Hong Kong Limited, and with reference to the GRI Standards issued by the Global Reporting Initiative. The Report is our fourth ESG Report addressed to the public. Luye Pharma's approaches and strategies on environment and social management will be disclosed in the respective sections of the Report.

Scope of Report

The content of the Report mainly focuses on Luye Pharma's core business conducted in Mainland China, with an aim to report Luye Pharma's performance in environmental and social policies. Unless otherwise stated, the Report covers the period from 1 January 2019 to 31 December 2019 (hereinafter the "Year").

Endorsement and Approval

The board of directors of the Company is responsible for the assessment and identification of related ESG risks, and to ensure that appropriate and effective risk management and internal control systems are in place. At the same time, the board of directors accepts full responsibility for Luye Pharma's strategies and report on environmental, social and governance. The Report is prepared in accordance with the four reporting principles of the ESG Guide, including materiality, quantitative, balance and consistency. Luye Pharma has determined the key disclosures contents of the Report through materiality assessment, disclosed the quantifiable environmental and social performance, and applied the disclosure and statistical methodologies which are consistent to those of the ESG Report for the last year to collect the information in the preparation of the Report. Moreover, the Report has complied with all applicable "comply or explain" provisions under the ESG Guide.

Reader's Feedback

You are welcome to express your valuable opinions on our ESG report by contacting Luye Pharma through:

Investors Relation Department
+852-3523 0423.

About Luye Pharma

Luye Pharma is an international pharmaceutical company dedicated to the research and development (hereinafter "R&D"), manufacturing and sales of innovative medications. With three primary strategic focuses, which are global R&D, global manufacturing and global market, the Company focuses on central nervous system, oncology and other disease areas.

Luye Pharma strives to become "the most reputable leading pharmaceutical enterprise in the world". In order to materialize this vision, Luye Pharma holds on the concept that business objectives and social goals are equally important while pursuing globalized development. While adhering to the sustainable development model, we are committed to the R&D of innovative medications and the provision of high-quality products and services to patients by implementing the concepts of green operations and social responsibility into every detail of daily operations to maximize their commercial value and social value.

Corporate Culture

Management Principles of the Group

Customer First
Always put customer interests first and market-oriented.
Avoid narrow professional outlook and detachment from customer needs.

Results Oriented
Always strive for results, work with a "can-do" attitude and commit fully.
Avoid bureaucracy, excuses or procrastination.

Rational Decision-making
Always make decisions based on a structured and inclusive process.
Avoid subjectivity and isolation.

Team Player Mentality
Always prioritize the organization and keep a cross-boundary collaborative mindset.
Avoid siloed and domain-centric thinking.

Develop and Mentor Talents
Always prepare and encourage critical talent to be in place and care about our staff.
Avoid withholding opportunities and credit for only oneself,
and neglecting subordinates' needs, feelings and expectations.

Be Truthful and Fair
Always demonstrate fairness, equality, openness and transparency.
Avoid close-mindedness, subjectivity or biased judgements.

Self-Reflection
Always strive for continuous improvement through self-reflection.
Avoid conceit and reluctance to learn.

Message from our Employees

Xue Yun Li
President of the Group's Manufacturing Science

Globalization has been a strategic target since the founding of Luye Pharma

Over the years, Luye Pharma has not only globalized the layout of supply chain, but also actively met the advanced international standards in the design of industrial projects. The goal of Luye Pharma's supply chain layout is to create its own value and improve competitiveness. Luye Pharma planned to, in a decade, build special pharmaceutical factories and cooperate with strategic partners in major global markets to satisfy patients' demand with the shortest distance, highest speed and best quality.

Jiang Hua
Vice President of Strategic Development and Business Development

Providing female professional managers with ample room for development

Since I joined Luye Pharma in 1998, I have been working here for 20 years, and my biggest gain is the promotion of my career development: I grew up from an ignorant graduate to a corporate executive. Luye Pharma provided female professional managers with ample room for development. Luye Pharma has the characteristics of a typical learning organization, in which I benefited a lot from the study of cross industry knowledge.

Tim Maguire
Director of Business Development of the American R&D Centre

Luye Pharma is an open and inclusive global family

People with different skin colors and different cultural backgrounds have gathered here because of their passion for scientific research and concern for human health. Everyone trusts, understands and helps each other to vanquish the difficulties at work. Luye Pharma has a magic power that guides us to stride forward to the same goal hand in hand by overcoming the time differences, transcending races and breaking through the shackles of culture.

Awards of the Year

In April 2019, the 6th Global Investment and M&A Summit and the Fifth Golden Whistle Award Ceremony (第六屆全球投資併購峰會暨第五屆金哨獎頒獎典禮) was held in Shanghai. Luye Pharma received the honor of the Golden Whistle Award for 2018 Chinese Overseas Investment and M&A — Top 10 Chinese Buyers (2018中資海外投資併購金哨獎—中國十佳大買手) , being the only pharmaceutical enterprise to win the award.

In May 2019, the results of the selection of the 2019 Best Listed Companies in Greater China (2019年度大中華區最佳上市公司) organized by Gelonghui, a leading professional investment research platform in China, were announced, and Luye Pharma won the Award of Best Disclosure of Information of Hong Kong Listed Companies (港股上市公司最佳信息披露獎).

In June 2019, Luye Pharma won the Prize of Excellence in Contribution (卓越貢獻企業獎) from the China Chamber of Commerce for Import and Export of Medicine and Health Products.

In July 2019, the 8th China Finance Summit (第八屆中國財經峰會) with the theme of Big Era: Great Changes and New Power (新時代：大變局與新動力) was held in Beijing, and Luye Pharma won the Award of 2019 Enterprise Social Responsibility Model (2019企業社會責任典範獎).

In August 2019, New Era Creates the Future — Professional Information Empowers Chinese Pharmaceutical Enterprises to Innovate and Internationalize and Clarivate Analytics PharmaVision China 2019 (新時代創未來—專業信息賦能中國藥企創新和國際化暨科睿唯安第六屆中國製藥行業大會) was held in Beijing. Luye Pharma was successfully selected as one of the Top APAC Pharmaceutical Innovator (亞太地區最具創新力製藥企業).

In September 2019, the 2019 China Enterprise Elite Award Ceremony (2019中國企業精英頒獎禮) was held in Hong Kong. Luye Pharma was widely recognized by the capital market and won the Best Corporate Governance Award (最佳企業管治獎).

In October 2019, the 2019 China Healthcare Summit of Entrepreneurs, Scientists and Investors & Pharmaceutical Achievements Fair of the 70th Anniversary of Founding of the PRC (2019中國醫藥企業家科學家投資家大會暨新中國成立70週年醫藥產業發展成就展) was convened in Beijing. Luye Pharma won three major industry awards including Magnificent 70 Years, Striving for A New Era — Excellent Pharmaceutical Enterprise of the 70th Anniversary of Founding of the PRC (「壯麗70年，奮鬥新時代」新中國成立70週年醫藥產業驕子企業), 2019 Top 20 Competitive Listed Companies in China Pharmaceutical Industry (2019中國醫藥上市公司競爭力20強) and 2019 Top 100 Chinese Pharmaceutical Innovative Enterprises (2019中國醫藥創新企業100強).

In November 2019, the National Pharmaceutical Economic Information Conference and the Annual Meeting of MENET — China Social Pharmacy Alliance (全國醫藥經濟信息發佈會暨米房會年會) was held in Guangzhou. The anti-tumor product Lipusu® of Luye Pharma won the honor of the Landmark Achievement of Chinese Pharmaceutical Science and Technology (中國醫藥科技標志性成果). In addition, the other two core products of Luye Pharma, Xuezhikang® Capsules and Bei Xi® were named in the 2019 Chinese Medicine · Brand List (中國醫藥 · 品牌榜).

Award of 2019 Corporate Social Responsibility Model

Best Corporate Governance Award

Responsibility Management

Sustainable business operation model is gradually becoming a dominant trend. Luye Pharma gradually integrates the elements of sustainable development into its development strategy and operation process, and continues to optimize its operation management system. We identify our responsibilities in terms of environment, labor and operation through processes such as risk management and materiality assessment, and carry out systematic control measures to continuously improve relevant performance. The participation of stakeholders is of great significance to Luye Pharma as their voices represent the expectations and demands of various sectors in the society. The opinions of stakeholders are incorporated into our corporate development plan to jointly promote economic growth, environmental protection and social harmonious development.

Material issues included in this section

- Operational compliance

Risk Management

The followings are the major environmental, social, and governance risks and uncertainties identified by Luye Pharma. Save as stated below, there may be other risks and uncertainties which are not known to Luye Pharma or which may not be material at present but could turn out to be material in the future.

Operational Risks

Operational risks refer to the risk of loss resulting from the inadequacy or lack of internal procedures, personnel and system, or from external events. The responsibility of managing operational risks basically rests with every function at divisional and departmental levels. Key functions in Luye Pharma are guided by their standard operating procedures, authority and reporting framework. The management will identify and assess the key operational exposures regularly, so that appropriate risk management measures can be taken.

Risks of Supply and Retention of Personnel

Luye Pharma may be exposed to the risk of not being able to attract and retain key personnel and talents who have appropriate and required skills, experience and competence. Such personnel and talents are necessary to meet the business objectives of Luye Pharma. We will offer attractive remuneration package to suitable candidates and personnel.

Environmental, Health and Safety Risks

Environmental, health and safety risks refer to the potential loss resulting from inadequacy in environmental management and occupational health and safety management, or from accidents. Luye Pharma has developed an environmental, health and safety management system in these aspects. The management regularly identifies and assesses relevant risks, and implements appropriate risk response in the product life cycle.

Participation of Stakeholders

Luye Pharma gains understanding of stakeholders' evaluations and expectations through diverse communication channels and platforms, which helps Luye Pharma objectively review and resolve the problems identified in our sustainability work. After a series of rigorous identification processes, major stakeholders of Luye Pharma include government and regulators, investors, customers, employees, business partners/suppliers, peers, non-government organizations, media and the public.

Luye Pharma expects that the Report can serve as a communication channel among different stakeholders through reporting the annual performance of Luye Pharma in fulfilling each of its responsibilities in relation to sustainable development, so as to respond to the matters which various sectors of society are concerned with. During the Year, on the basis of maintaining good communication with various stakeholders and by combining stakeholders' opinions with Luye Pharma's operation, the board of directors reviewed the material issues identified in 2018 and assessed the applicability of each material issue in the Year to ensure that our sustainable development works are match the demands of stakeholders.

Materiality Assessment Procedures

1. *Identifying Major Stakeholders*

   Taking various perspectives into consideration, Luye Pharma assesses whether major stakeholders for the Year have changed in a comprehensive manner, taking into account:

   1) If there are material changes in Luye Pharma's main business and operating environment;
   2) If there are material changes to the influence of stakeholders on Luye Pharma; and
   3) If there are material changes to the influence of Luye Pharma on stakeholders.

   According to the above considerations, we identified our major stakeholders and assessed whether their expectations and demands for Luye Pharma have changed. During the Year, major stakeholders of Luye Pharma are the same as those of 2018:

   - Government and regulators
   - Investors
   - Customers
   - Employees
   - Business partners/suppliers
   - Peers
   - Non-government organizations
   - Media
   - The public

2. *Review and Examination of the Material Issues*

   Combining the expectations and demands of major stakeholders and the influence of different sustainable development issues on Luye Pharma, its board of directors reviewed and re-assessed the material issues identified in 2018 to establish the material issue for the Year. We reviewed based on various considerations:

   1) If there are material changes in stakeholders' concerns toward ESG;
   2) If there are material changes to the impact of ESG issues on stakeholders; and
   3) If there are material changes to the impact of ESG issues on Luye Pharma's operation.

3. *The Identification of Material Issues*

Based on the review of various ESG issues, Luye Pharma is of the opinion that material issues in 2019 have not changed significantly compared to those in 2018. Our material issues can be classified into three aspects, namely environmental responsibility, labor responsibility and operational responsibility. The materiality of issue under each aspect is ranked as follows:

List of Material Issues (from the most material to the least material)		
Environmental Responsibility	**Labor Responsibility**	**Operational Responsibility**
1. Pollutant discharge and management	1. Occupational and safety system	1. Drugs manufacturing and quality management system
2. Hazardous waste discharge and management	2. Employee salary and benefits	2. Product R&D and innovation
3. Non-hazardous waste discharge management	3. Employee training and occupational development	3. Operational compliance
4. Green manufacturing system governing product life circle	4. Employee recruitment policy	4. Production safety and emergency handling procedure
5. Use of water resources		5. Protection of intellectual property rights
6. Chemicals management		6. Selection and management of suppliers
7. Use of energy		
8. Greenhouse gas emission and management		

Daily Communication with Stakeholders

Stakeholders' participation plays an essential part in the sustainability work of Luye Pharma. We also maintain communication with different sectors of the society through diverse channels, to understand their opinions and demands from various perspectives. Integrating the materiality assessment, we have included the important issues into the sections of the Report in response towards the expectations of different people and organizations.

Major stakeholders	Major expectations on us	Our response channels	Respective sections
Government and regulators	• Compliance with the laws and regulations • Enhancement of technical R&D of pharmaceuticals	• Optimizing legal risk prevention and control system • Increased investments in drugs R&D	• Each section in the Report
Investors	• Sound corporate operation management to minimize operational risks • Good investment returns • Transparent information disclosure • R&D ethics	• Holding regular results announcement presentations and general meetings • Optimizing legal risk prevention and control system • Updating the Company's website on a regular basis to ensure investors have access to latest information on the Company	• Each section in the Report
Customers	• Provision of safe and quality drugs • Continuous R&D on new drugs • Protection of consumer interests	• Increased investments in drugs R&D • Optimizing drugs manufacturing management system • Conducting customer satisfaction survey	• R&D oriented • Quality first
Staff	• A pleasant working environment • Bright development prospects	• Offering good packages • Holding a variety of training programs • Organizing various employee activities • Providing a safe workplace	• Staff achievement
Business partners/ Suppliers	• Mutual benefits and reciprocity	• Actively seeking quality suppliers	• Sustainable supply chain
Peers	• Advancement of industry development	• Actively holding and participating in industry forums and exchange activities	• Responsibility management
Non-government organization	• Continuous R&D on new drugs	• Increased investments in drugs R&D	• R&D oriented
Media	• Transparent information disclosure	• Organizing press conference	• Each section in the Report
The public	• Serving the community • Public welfare and charity	• Taking an active part in community activities • Taking an active part in charitable activities	• Public welfare

Presentation of Communication Activities with Stakeholders

Case: Luye Pharma Held the Fourteenth China Pharmaceutical and Medtech Business Development Summit

In September 2019, Luye Pharma held the Fourteenth China Pharmaceutical and Medtech Business Development Summit, providing a platform for communication and cooperation among experts and guests from various fields such as pharmaceutical companies, industry associations and investment institutions. Luye Pharma, as the organizer of the summit, actively advocated strengthening industry cooperation and jointly creating world-class Chinese pharmaceutical companies.

Photo: the Fourteenth China Pharmaceutical and Medtech Business Development Summit

Case: 2019 Pharmaceutical Innovation and Development International Conference was Successfully Convened

In November 2019, the 2019 Pharmaceutical Innovation and Development International Conference with the theme of Innovation, Development, Cooperation and Win-Win was held in Yantai.

During the conference, Luye Pharma successfully hosted the Pharmaceutical R&D and High-Quality Development Sub-Forum, which built a professional learning and communication platform for the industry, sharing the experience in global development of Luye Pharma, and facilitating the innovation and high-quality development of the pharmaceutical industry.

Photo: 2019 Pharmaceutical Innovation and Development International Conference

Operating with Integrity

Insisting in operating with integrity and upholding the principle of fair market, Luye Pharma strictly abides by the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), Law Against Improper Competition of the People's Republic of China (《中華人民共和國反不正當競爭法》) and other laws and regulations, and has implemented the Code of Conduct for Employees (《員工行為準則》), Anti-Corruption Compliance Policy (《反腐敗合規政策》) and Policy on Hotline, E-mail Box and Whistleblowing Handling of Luye (《绿叶熱線、電子郵箱及員工舉報處理政策》) and other internal policies. An anti-fraud supervisory committee has been set up by Luye Pharma to strictly prohibit and monitor illegal act such as bribery, extortion, fraud and money laundering.

Luye Pharma is committed to establishing a compliance culture through training and policy implementation, and manages the professional ethics of all directors, employees, partners and other relevant personnel acting on behalf of Luye Pharma. Luye Pharma states clearly: employees are prohibited from providing, giving, obtaining or accepting any type of improper payments, gifts or inducement directly or indirectly and to extort or rebate to/from anybody or any organization by abusing authority.

In order to ensure effective supervision and prevention of bribery and fraud, Luye Pharma encourages reports of malpractice and provides internal reporting channels, such as hotline and e-mail box. For employees who reports corruption and fraud, we will take strict confidentiality measures for their personal data to ensure that their legal rights and interests are not violated. Employees who violate relevant anti-corruption laws and regulations would be subject to significant penalties, such as internal punishment including demotion, suspension or dismissal. Luye Pharma will also report the relevant cases to the relevant regulators or law enforcement authorities. During the Year, Luye Pharma has complied with the applicable laws and regulations that are significant to the Group in relation to bribery, extortion, fraud and money laundering, and has not been involved in any corruption-related litigation.

Luye Pharma's Legal Department provided compliance training to the Economic Management Committee

Meet the Needs of Patients

To better meet the needs of patients has always been the core objective for a pharmaceutical enterprise. Luye Pharma has carried out global collaboration centered on strategies such as global R&D, global manufacturing and global market, with its business covering over 80 countries and regions worldwide. We have a number of innovative drugs and innovative preparations that have made a significant progress in many countries and regions in respect of our pipeline portfolio under R&D stage. Luye Pharma has also established a pharmaceutical quality management system that is in line with international standards, and is committed to providing high-quality innovative drugs to patients worldwide through a globalized supply chain system.

Through its strategic planning of pharmaceuticals in life cycle, Luye Pharma expects to provide high quality products to patients from different countries and regions. In the meantime, our cost on the areas of purchase, manufacturing and transportation will gradually decease as a result of continuous optimization of supply chain, which enables patients to purchase high quality pharmaceuticals under unified and quality standard at a lower price. We expect to make contribution to the well-being of patients worldwide by rendering our pharmaceuticals more affordable and accessible.

Material topics included in this section

- Product R&D
- Protection of intellectual property rights
- Drugs manufacturing and quality management system

R&D Orientation

Luye Pharma is dedicated to the R&D, production and marketing of innovative drugs with an aim to improve human health with professional technique service and address patients' need. We have over 30 key listed products covering the therapeutic areas including oncology, central nervous system, cardiovascular system, and alimentary tract and metabolism. We have businesses in major global pharmaceutical markets and emerging markets in the People's Republic of China (the "PRC"), the United States (the "U.S."), Europe, Australia, Japan, and South Korea. Luye Pharma has established a number of R&D bases around the world, investing considerable resources to promote the R&D of drugs, while systematically managing intellectual property to protect its scientific research achievements.

Innovative R&D System

During the Year, the R&D activities of Luye Pharma comprised four platforms in chemical drug sector, namely the long-acting and extended release technology, liposome and targeted drug delivery, transdermal drug delivery system, and new compounds. We have established a worldwide R&D system and professional team with a fund of approximately 9% of our sales invested in the process of R&D.

During the Year, Luye Pharma had a pipeline of 42 candidate products in the PRC under various stages of development. Furthermore, Luye Pharma had a pipeline of 15 candidate products in the U.S., Europe and Japan under various stages of development.

R&D Center in the PRC	Global R&D platform R&D Center in the U.S.	R&D Center in Europe
		
Main R&D approach: Long-acting and extended release technology Liposome and targeting drug delivery system technology Own the first national key laboratory of long-acting and targeting drug delivery system in the PRC	**Main R&D approach:** Technological exploration in advanced innovative pharmaceutical area International R&D coordination	**Main R&D approach:** Transdermal drug delivery technology

As of the end of the Year, the R&D team of Luye Pharma consisted of 748 employees, including 80 holding Ph.D. degree, and 338 holding Master's degree in medical, pharmaceutical, and other related areas.

R&D expenditures (including capitalization expenses) during the Year:
RMB807,479,000

Total number of research staff of Luye Pharma as of the end of the Year:
748

Case: Drugs for schizophrenia research project

The New Drug Application ("NDA") for Risperidone Extended-release Microspheres for injection (LY03004), an innovative preparation independently developed by Luye Pharma, has been included in the priority review process by China Center For Drug Evaluation of National Medical Products Administration ("CDE, NMPA"), and it is expected to launch in the PRC domestic market very soon. This drug is also at an advanced stage of NDA review in the U.S., where its production base has passed the Pre-market Approval Inspection ("PAI") conducted by the US Food and Drug Administration (FDA).

LY03004 is used for the treatment of schizophrenia, where it has obvious therapeutic advantages, and has been included in the priority review process by CDE, NMPA.

R&D Ethics

Protection of the rights and interests of clinical trial participants

In clinical trials, Luye Pharma puts the safety of trial participants as the top priority. We advise each participant the expected benefits and potential risks of participating in a clinical trial and what to do in case of risks, in form of an informed consent agreement. Every participant must sign the informed consent agreement before participating in the trial. Participants may withdraw from the clinical trial unconditionally at any time, and we continue to ensure that participants to receive fair and equitable treatment.

Right to know	• We fully explain the background, methodology and purpose of the study to participants to ensure that they have a clear understanding of the content and risks of the clinical trial. • Participants will be promptly notified and be allowed to decide whether to continue the participation of the study when new information about the drug safety becomes available during the course of the study. • Participants have the right to ask question about the clinical trial at any time, which will be answered by research physician or staff.
Right to choose with freedom	• At the first visit, the study physician shall explain the study in detail to the participants, who are required to sign an informed consent agreement to decide whether to participate in the study. • We let the participants understand that study participation is not the only option, and the study physician should also explain to the participants the procedures, risks and benefits of other treatment options. • Participants could refuse to participate in or withdraw from the clinical trial at any time and without any reason, and such withdrawal would not give rise to any impact on their rights to choose or obtain other treatment.
Right to privacy	• The important results and data obtained from the clinical trial will be submitted to the national drug evaluation institution by Luye Pharma. Such information may be published in academic and medical journals, but the personal information of the individuals participating in clinical trials will be protected strictly. • The clinical trial personnel are legally and ethically obligated to keep confidential the participants' medical records, and their records will be kept as private information in accordance with applicable laws and regulations.
Protection of other rights	• Compensation will be provided to participants for the time and inconvenience incurred by participating in the study, such as the provision of nutrition subsidies and transportation subsidies. • All trial related medications and tests will be provided to participants for free during the trial. • We will take necessary medical measures and active treatment, and bear relevant medical expenses and corresponding economic compensation if participants are suffering from any study-related injuries.

Animal Experiment Management

During the R&D process of drugs, Luye Pharma may need to carry out drug test through animal experiment. Thus, Luye Pharma has formulated the Animal Laboratory Management and Animal Ethics Welfare System (《動物實驗室管理以及動物倫理福利制度》) to strictly regulate the related operation of experiment and animal ethics issues. All laboratories of Luye Pharma involved in animal experiment have obtained the "Laboratory Animal Use License" (實驗動物使用許可證) and relevant working staff are required to hold certificate for animal testing practitioners to ensure the compliance of experiment. As for the acquisition of testing animals, we purchase them from suppliers holding the "Laboratory Animal Production License" (實驗動物生產許可證). Laboratory animals can only be tested after passing quarantine and observation.

Luye Pharma respects life. In order to minimize the pain suffered by laboratory animals, our animal experiments are carried out in accordance with the "Three R Principles" (Replacement, Reduction and Refinement) and "Five Freedoms" (Freedom from hunger and thirst, freedom from discomfort, freedom from pain, injury or disease, freedom to express normal behavior, and freedom from fear and distress) under the Laboratory Animal — Guideline for Ethical Review of Animal Welfare (《實驗動物福利倫理審查指南》) (GB/T 35892-2018). Without prejudice to the experimental operation, we work to minimize behavioral restriction on experimental animals. At the same time, we adopt effective measures to avoid or relieve the pain or injury caused to animals unrelated to the purpose of the experiment as much as possible.

Protection of Scientific Research Results

Taking innovation and research of drugs as one of Luye Pharma's main businesses, we attach great importance to the protection of intellectual property rights of scientific research results. Luye Pharma insists on integrating intellectual property rights into the entire process of technical research and development, product manufacturing and marketing to effectively ensure that "we are advanced in technology, exclusive in the market with adequate legal safeguard", with an aim to develop into an international well-known branded enterprise with proprietary intellectual property rights and sustainable and stable development.

Luye Pharma strictly abides by the laws and regulations such as the Patent Law of the People's Republic of China (《中華人民共和國專利法》) and Trademark Law of the People's Republic of China (《中華人民共和國商標法》), and has developed and improved a number of systems on the documentation regulations on intellectual property rights management, including the Control Procedures for Use of Intellectual Property Rights (《知識產權運用控制程序》), the Control Procedures for Risk Management of Intellectual Property Rights (《知識產權風險管理控制程序》), the Patent Management System of Luye Pharma Group Ltd. (《绿叶制药集团有限公司專利管理制度》), and the Inventor's Recognition System of Luye Pharma Group Ltd. (《绿叶制药集团有限公司發明人署名制度》), integrating intellectual property rights management into all aspects along our business operations. Among which, the Patent Management System of Luye Pharma Group Ltd. regulates the requirements for the formation of an organization in charge of patent works, duties of the organization and staff, patents and property rights management system, use of patent information, implementation of patents, and reward for inventors.

As of the end of the Year, Luye Pharma had been granted over 220 patents and had over 79 pending patent applications in the PRC, as well as over 665 patents and over 118 pending patent applications overseas. Luye Pharma has also registered 348 trademarks and has 157 pending trademark applications in the PRC, as well as 364 trademarks and 296 pending trademark applications overseas.

	Patent Registration	
	Valid Authorized Patent	Valid Patent under Application
PRC Domestic	220	79
Overseas	665	118

	Trademark Registration	
	Valid Authorized Trademark	Valid Trademark under Application
PRC Domestic	348	157
Overseas	364	296

LY01005 Goserelin Patent
(Patent No.: US10258572)

LY03003 Detecting Method Patent
(Patent No.: ZL201410424959.8)

Quality First

Product quality is the backbone of a pharmaceutical enterprise. We insist on improving our quality management system on the basis of observing the international and national regulations and standards relating to the quality of pharmaceuticals to ensure the safe use of pharmaceuticals. In addition, we also adhere to good service quality standards and provide comprehensive service in the lifecycle management of product transportation, storage, usage, improvement and product exit by committing to serving our customers with heart.

Drug Quality and Safety

Luye Pharma has formulated quality objectives, quality approaches and quality goals, systematically implementing the requirements on drug safety, effectiveness and quality control into the entire process of drug production, control and product release, storage and shipment to guarantee customers and patients can use our products with confidence.

- Quality objectives: to pursue higher quality and satisfying customers' needs.
- Quality approaches: to adhere to the concept of "quality by design with excellence in operation", implement comprehensive, all-people and full-process quality management to ensure safe, effective and controllable quality of drugs.
- Quality goals: to make sure that production quality management complies with the requirements of laws and regulations, ensure the use of qualifying materials only, prevent as much as possible the occurrence of product rework and reprocessing, achieve quality pass rate of finished products of 100% and pass rate of market sampling of product of 100%, incur zero accident in respect of quality, and improve customer satisfaction.

Drug Quality

In strict compliance with the laws and regulations including the Law of the PRC on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》), the Implementation Regulations on the Law of the PRC on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法實施條例》), the Measures for Supervision and Administration of Pharmaceuticals Manufacturing (《藥品生產監督管理辦法》), the Good Manufacturing Practices for Pharmaceutical Products (GMP) (《藥品生產質量管理規範》), Luye Pharma has developed a GMP-compliant pharmaceutical quality management system applicable to its drugs manufacturing base. Luye Pharma has established the Quality Assurance Department (QA) and Quality Control Department (QC) as the major drug quality management departments, which perform duties including drug quality assurance and quality control, and the review of the documents relating to the pharmaceutical quality management system, while other functional departments cooperate and participate in drug quality management work.

Since the implementation of the requirements under the GMP (2010 version), Luye Pharma has been carrying out vocational training for employees, compiling and maintaining systematic document management and hardware upgrades.

Quality risk management	With the control targets consisting of factors that affect product quality such as personnel, equipment, materials, laws and regulations, environmental monitoring and others, we have effectively assessed and controlled quality risks to ensure that product quality meets drug registration requirements and quality standards.
Employee training	In terms of employee training, we have conducted trainings and assessments in relation to legal and regulatory requirements, policy documents and job operation skills, during which the evaluation of the assessment results was specially strengthened to improve training results.
Production facilities and equipment	In terms of production facilities and equipment, we have phased out aged equipment with high incident rate, and used equipment with high automation and stable performance.
Systematic document management	We have prepared production quality management documents in accordance with the GMP (2010 version), including quality standards, process specifications, operation standards, recording, reports, etc. The content of such documents is consistent with relevant requirements under the drug production license and drug registration, which is useful in tracing the history of each batch of products.
Materials management	In terms of materials management, we have continued to strengthen the evaluation and assessment of suppliers and the management of materials to ensure that the materials meet the requirements of product quality.

The smooth operation of the pharmaceutical quality management system ensures Luye Pharma's compliance with the quality requirements under national rules and regulations relating to pharmaceutical raw materials, personnel, facilities and equipment, production process, packaging and transportation, and quality control, and regulates the overall operations process of Luye Pharma's manufacturing base, and assists us in identifying and improving any problems existing in our production in a timely manner. During the Year, a number of products of Luye Pharma and its production line have passed GMP inspections. We have also passed ISO 9001 quality system certification for R&D and production of drugs, offering comprehensive guarantee to our product quality.

Production lines based in China have passed	Production lines based in Europe have passed
• China GMP (2010 version) inspection • EU GMP inspection • America FDA PAI • Australia TGA GMP inspection • ISO 9001:2015 quality management system certification • CNAS Laboratory Accreditation	• EU GMP inspection • America FDA GMP inspection • Japan GMP inspection

During the Year, Luye Pharma has **35** products with GMP certification received in China.

Luye Pharma (Sichuan Base)
ISO 9001:2015 certificate

Luye Pharma (Nanjing Base)
ISO 9001:2015 certificate

Luye Pharma's GMP Pharmaceutical Quality Management System

Management aspect	Management system
• Quality management • Plant and facility management • Equipment management • Materials and product management • File management • Manufacturing management • Quality control ("QC") and quality assurance ("QA") • Product shipping and recall management • Self-inspection management	• Management standards • Operation standards • Process documentation • Risk assessment report • Receipts documentation • Accounts record • Warehouse cleaning • Processing specifications • Batch production, and batch packaging recording • Technical standards

During the production of pharmaceuticals, QC personnel is mainly responsible for all incoming materials, inspection and approval of intermediary products, products pending for packaging and finished products, water quality analysis and inspection of stability. QA personnel is mainly responsible for the inspection of plant environment, supervision of water quality, sample observation and management, assessment and approval of suppliers, review and analysis of product quality, supervision of the Company's production activities based on the GMP, and the relevant rules and organization of self-inspection.

Luye Pharma will conduct a sample check for product quality after production. Luye Pharma has developed the "Rules for Acceptance, Inspection and Handling of Sample Products" (《樣品的接收、檢驗、處理規程》) to regulate the entire process including acceptance, inspection and handling of sample products by QC personnel in charge of sampling and quality control. Upon completion of sample check, QA personnel will issue an inspection report enclosed with the "certificate of qualification" or "certificate of disqualification" of sample products.

In addition to strictly controlling drug quality in manufacturing process, Luye Pharma also exercises strict control over the quality and safety of drugs that have been sold in the market. Luye Pharma implements the requirements under the laws and regulations including the GMP and the Chinese Pharmacopoeia (2015 version) (《中國藥典(2015年版)》) and has developed the "Management Regulations on Drug Recalls" (《藥品召回管理規程》) to regulate the procedure for drug recalls. This applies to the recall of drugs due to substandard quality or unsuitability for clinical use (suspension of clinical use caused by reported adverse drug reactions). Luye Pharma receives drug safety information from different channels, such as customer complaints and adverse reaction monitoring, etc., to evaluate the quality and safety hazards of drugs, and determine whether or not to implement a drug recall based on the evaluation results. During the Year, Luye Pharma had strictly complied with drugs manufacturing and quality management system, and had recalled no product for safety and health reasons.

Case: Successfully passed the Pre-Approval Inspection ("PAI") with no FDA-483 Inspection Observation

In December 2019, the innovative formulation drug LY03004 independently developed by Luye Pharma was one step closer to being approved for listing in the United States market. We have received an official inspection report from the U.S. FDA, which shows that the manufacturing base for producing the long-acting formulation drug successfully passed the Pre-Approval Inspection ("PAI") with no FDA-483 Inspection Observation.

Luye Pharma's globalization and extensive expertise in ensuring compliance with the highest global quality standards, contributed to this achievement of Luye Pharma as a historic success.

Responsible Sales and Customer Service Management

The product sales network of Luye Pharma covers more than 80 countries and regions around the world, including major pharmaceutical markets and international emerging markets with high-growth potential, which are expected to increase the drug accessibility of patients in different countries and regions and meet their needs.

Case: Passed Consistency Evaluation and Increased Drug Accessibility

China is the top country for diabetes, with approximately 114 million patients. In June 2019, the Acarbose Capsules (brand name Bei Xi® (貝希)), core products for treating diabetes, was granted approval by NMPA for passing the Consistency of Quality and Efficacy Evaluation of Generic Drugs (the Consistency Evaluation). The passing of the Consistency Evaluation shows that Bei Xi® is consistent with its original product in terms of quality and efficacy, and the two products are clinical alternatives, effectively ensuring the consumption needs for more patients.

Presently, Bei Xi® has been included in the National Essential Medicine List (《國家基本藥物目錄》) and as a class A medical insurance drug in the National Drug Catalogue for Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance (《國家基本醫療保險、工傷保險和生育保險藥品目錄》) to reduce the burden of medication for patients. The passing of the Consistency Evaluation is expected to further accelerate the substitution of original drugs.

Responsible marketing

Luye Pharma has consistently required employees to promote the sales of pharmaceuticals in accordance with professional ethics and in proper ways in order to protect customers' rights and interests as well as reinforce our good reputation in market. Luye Pharma is engaged in the promotion of pharmaceuticals to medical and health institutions and medical professionals. We have strictly complied with the laws and regulations such as the Law of the PRC on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》), the GMP, and the Good Supply Practices for Pharmaceutical Products (《藥品經營質量管理規範》) (GSP) in the promotion of drugs, and implement the "Luye Pharma Group's Conduct Standard for Pharmaceuticals Promotion (《绿叶制药集团藥品推廣行為準則》)" to provide code of conduct and moral guidelines in respect of the promotion and sales of pharmaceuticals for each employee to implement these consistently in daily pharmaceuticals promotion.

Moreover, the labels and directions of all products of Luye Pharma are designed in accordance with the product manuals approved by the China Food and Drug Administration (國家食品藥品監督管理總局) and the Provisions on the Administration of Pharmaceutical Directions and Labels (《藥品説明書和標簽管理規定》). The product advertisements are released in relevant media after obtaining the pharmaceuticals and advertisement approval circular as approved by the drugs supervision and administration department in accordance with the requirements of the Law of the PRC on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》), the Administrative Regulations on Pharmaceutical Product Prescriptions and Labeling (《藥品廣告審查辦法》) and the Interim Measures for the Administration of Censorship of Advertisements on Drugs, Medical Devices, Dietary Supplements and Formula Food for Special Medical Purpose (《藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法》), to ensure their contents are true, accurate and not misleading or deceptive.

In addition, to strictly protect the information of customers, suppliers, partners and other parties, Luye Pharma also implements the Personal Data Protection Policy (《個人數據保護政策》) to prevent the leakage of relevant information in any form. We ensure the implementation of adequate and appropriate technical and procedural measures to ensure the security of personal information processed by Luye Pharma, including but not limited to, the use of encryption technology to ensure the confidentiality of personal information stored in electronic form; ensure that only authorized personnel can access personal information; ensure proper and safe use of mails to prevent the opening of unknown mails leading to virus intrusion; and timely destruction of confidential waste files that may contain personal information.

Quality customer services

To provide better services to customers, Luye Pharma conducts customers' satisfaction survey on a regular basis, with a view to understand the customers' opinions on us, and any issues requiring our enhancement or improvement. Luye Pharma conducts customers' satisfaction survey based the "Monitoring Procedures for Customers' Satisfaction (《顧客滿意度監控程序》)".

Procedure for customer satisfaction survey

- Designate an annual plan for customer satisfaction survey, distribute the customer satisfaction survey questionnaire to target customer groups and collect it, conduct statistical analysis on the questionnaire collected and issue an annual customer satisfaction survey report.
- Conduct survey in the form of written questionnaire, online questionnaire, users' interview on site, or facsimile/telephone calls.

Coverage of customer satisfaction survey

- The survey covers product quality, therapeutic effect of pharmaceuticals, accuracy of quantity delivered, rate of timely delivery, customer service, packaging method, transport service, other opinions and suggestions, and customer's feedback.

Moreover, in order to timely and effectively manage customers' complaints, Luye Pharma has formulated policies including the "Management Regulations on User's Complaints" (《用戶投訴管理規程》) and the Complaint Handling Procedures (《投訴處理操作規程》) based on the GMP, which specify the procedures for acceptance, registration, assessment, investigation, handling and traceability of complaints to ensure product quality and safety of customers' medication. According to the requirements, all complaints should be under documentation and review. Focusing on the complaints related to the product quality defects, Luye Pharma documents the complaints in details and undergoes investigation. If there are defects found or suspected to exist in certain batches of drugs, Luye Pharma will inspect other batches of drugs to ascertain whether other batches are affected and determine whether or not to implement a recall.

The following is the duties of various departments and personnel of Luye Pharma who/which are responsible for customer complaints:

Responsible department and personnel	Duties
Responsible department and personnel	• All need to receive user's complaint through telephone calls, facsimile, etc., and hand it over to director of QA department
QA department	• In charge of collection, forwarding and feedback information of all user's complaints either in written or oral form • In charge of classification of user's complaints • In charge of investigation, assessment and handling of quality-related complaints • Annual review and tendency analysis on product complaints
Person in charge of adverse drug reaction monitoring	• In charge of investigation and assessment of complaints on medical problem
Production department	• Assisting in investigation into production-related complaints
Marketing system	• In charge of investigation, assessment and handling of "suspicious of fake medicine" related complaints
Quality manager	• In charge of implementation of handling users' complaints
Person in charge of quality management	• Approving opinions on handling of user's complaints

During the Year, Luye Pharma has received a total of 67 complaints. They have been answered and feedbacks have been given in a timely manner in accordance with our procedures of handling complaints. Customers' requests are actively responded to.

Environment, Health and Safety

Luye Pharma insists on implementing sustainable environmental and social strategies through the operation process, encourages all staff to participate in the activities and management of the environment and health safety ("EHS"), and continues to improve the EHS integrated management system on an on-going basis. Luye Pharma actively implements the ESG policy, objectives and commitment, and serves the market with first-class management and quality products.

- ESG policy: focus on the environment and health safety and ensure sustainability.
- EHS objectives: maintain normal operation and continuous improvement of the comprehensive management system for the environment as well as occupational health and safety.
- EHS commitment: maintain the management system with effective measures for improvement on an on-going basis, to prevent and rectify any deviation from EHS policy and ESG objectives.

Material issues in this section

- Pollutant discharge and management
- Hazardous waste discharge and management
- Non-hazardous waste discharge and management
- Green manufacturing system governing product life circle
- Use of water resources
- Chemicals management
- Use of energy
- Greenhouse gas emission management

Environmental Protection

Against the background of severe challenges to the global environment, the cooperation and efforts of all walks of society in environmental protection are particularly significant. Luye Pharma shoulders its own responsibilities and is committed to minimizing the negative impacts on the environment caused by our daily operations. The main activity areas of Luye Pharma include production base, laboratories and offices. The major environmental factors affecting Luye Pharma include use of energy, greenhouse gas emission, air pollutant discharge, hazardous and non-hazardous waste discharge and disposal of chemicals. For the detailed statistics on environmental performance, see the Environmental Performance Table set out in the Appendix.

Luye Pharma has established the environmental management system ("EMS") on the basis of ISO 14001:2015 to systematically manage key environmental areas, so as to avoid, reduce or eliminate the impacts of operational activities on the environment. We have thoroughly implemented environment management measures during our operations, conducted environmental factors assessment on the life circle of each product, including design and R&D, production, use and disposal process, and taken measures accordingly. We conduct internal and external EMS audit each year to review and examine the operation of the management system to ensure the completeness of and the continuous improvement in the EMS for consistently enhancing Luye Pharma's environmental performance. During the Year, a number of Luye Pharma's manufacturing bases have passed the ISO14001 certification. During the operation of the EMS, for the management of air and greenhouse gas emissions, the discharges into water and land, and the generation of hazardous and non-hazardous waste, Luye Pharma has complied with applicable laws and regulations that have a significant impact on us during the Year.

Environmental Laws and Regulations Complied with by Luye Pharma (including but not limited to)

- Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》)
- Environmental Protection Tax Law of the People's Republic of China (《中華人民共和國環境保護税法》)
- Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》)
- Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》)
- Law of the People's Republic of China on Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》)
- Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》)
- Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》)
- Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》)

For each material environmental aspect, we have formulated a number of environmental policies with reference to applicable laws and regulations, part of which are set out below:

Major environmental factors	Internal policy of Luye Pharma (including but not limited to)
Use of energy Greenhouse gas emissions	• Energy Resource Management Procedures (《能源資源管理程序》)
Air pollutant emissions	• Management Procedures for Prevention and Control of Air Pollution and Hazards (《大氣污染及危害防治管理程序》)
Water resources	• Management Procedures for Prevention and Control of Water Pollution (《水體污染防治管理程序》)
Hazardous and non-hazardous waste	• Management Procedures for Prevention and Control of Pollution by Solid Waste (《固體廢物污染防治管理程序》) • Management Regulations on Waste (《廢棄物管理規程》)
Chemicals	• Management Procedures for Dangerous Goods (《危險品管理程序》)
Environmental accidents	• Environmental Accidents Emergency Plan (《突發環境事件應急預案》)
Other environmental impacts	• Procedures for Identification, Appraisal and Update of Environmental Factors (《環境因素識別、評價與更新程序》) • Management Procedures on Noise and Vibration (《噪聲與震動管理程序》)

ISO 14001:2015 Certification

Energy and Climate Change

Climate change has become a major concern globally, and its impact on the global scale has become increasingly apparent. The resulting physical risks (such as the increase in natural disasters) and transitional risks (such as the introduction of new policies) have different impacts on business operations. Luye Pharma actively responds to the Paris Agreement by gradually setting up an energy management system to reduce the greenhouse gas emissions from operations. Luye Pharma's greenhouse gas emissions during operations are mainly from boilers, refrigeration equipment, production facilities, automobiles and office electricity consumption. During the Year, our Beijing Base has successfully passed ISO50001:2018 Energy Management System Certification, further strengthening the energy management involved in drug manufacturing.


认证证书

北京北大维信生物科技有限公司

CNAS

ISO50001:2018 Certification

The following are Luye Pharma's management policies and measures for energy conservation and emission reduction.

Control of energy consumption

- Complete various energy statistical returns.
- Reasonably arrange energy usage according to the production volume, make scientific use of energy resources (electricity, gas, steam, etc.), implement load regulation and avoid usage during peak period, improve the equilibrium rate of energy use, enhance the management of rational energy use of major energy-consuming equipment and energy supply networks according to the relevant requirements.
- Post "Save Electricity" labels in office sites.

Management of energy indicators

- Formulate annual energy consumption budgets and conduct cost appraisal.
- Classify, implement and control energy indicators.
- Investigate reasons for budget overrun of indicators and formulate improvement measures.

Progress in energy-saving technologies

- Actively promote the use of new technologies, new processes, new materials and new equipment that save energy, and conduct research on energy-saving technologies with a focus on major energy-consuming processes and equipment.

Management of office electricity consumption

- Saving on the use of lights in office, warehouse and various production areas, where natural light should be fully utilized to avoid the use of excessive lights.
- Save electricity on lighting in production and warehouse areas by turning off lights when leaving.
- Air conditioning shall be operated for the purposes of safety, energy-saving, efficiency, functionality and comfort while meeting production, experiment and office needs.
- Set indoor temperature for the air conditioning: 24–26℃ for the air conditioning in summer and 18–20℃ in winter.
- Office electric appliances such as computers, photocopiers, drinking fountains and refrigerators shall only be turned on when used, so as to reduce standby power consumption.
- Designated personnel shall check whether the switches of all electric appliances are powered off after work.

Management of production electricity

- Production electricity refers to the electricity used in the operation of a variety of machinery and equipment, which shall be handled and controlled by designated personnel in avoidance of idling operation and unnecessary waste of energy.
- Reduce idle time and energy waste through production scheduling and unified production planning.

Case: Transformation of air-cooled water chiller units

During the Year, Luye Pharma (Beijing Base) installed heat recovery units on the air-cooled chiller units, and used the recovered heat for the air-conditioning of buildings, saving steam and thus improving the operating efficiency of refrigeration units and saving resources. Meanwhile, since energy efficiency is under low load conditions, we stop the operation of boilers to reduce energy waste during workshop overhaul.

Photo: A heat recovery unit of air-cooled water chiller units

Case: Scheduling and management of air-cooled water chiller units

During the Year, Luye Pharma (Yantai Base) managed the operation modes of chiller units, and automatically adjusted the number of chiller units in operation based on factors such as production needs, peak power of units, Coefficient Of Performance ("COP") transient values of units, and the cumulative values of the COP of units, so as to make chiller units operate at the highest efficiency and achieve maximum energy saving.

Photo: Chiller units

Air Emissions Management

Luye Pharma's air emissions are mainly from the exhaust gas emitted by combustion of boilers and workshops and laboratories. We have developed policies such as the "Management Regulations on Prevention and Control of Air Pollution and Hazards" (《大氣污染及危害防治管理規程》) to monitor the exhaust gas generated by Luye Pharma, and ensure its compliance with the existing requirements under environmental laws and regulations, so as to reduce environmental pollution. The safety and environmental department is the competent department in charge of exhaust gas emission control, responsible for exhaust gas emission control and daily monitoring. Luye Pharma has prescribed the exhaust gas emission standard limits set under the "Emission Standard of Air Pollutants for Boilers" (《鍋爐大氣污染物排放標準》) (GB13271-2014) and the "Integrated Emission Standard of Air Pollutants" (《大氣污染物排放標準》) (GB16297-1996) as the emission standards, stipulating that emissions shall not exceed such limits. In addition, we have respective measures in place for the treatment of air pollutants from different sources.

Treatment of exhaust gas from combustion of boilers

- Exhaust gas from combustion of fuels of boilers shall be emitted after dust removal, desulfurization and other treatments. The actual exhaust gas emitted will be monitored by a professional environmental monitoring agency on an annual basis.
- Air treatment capacity is calculated based on the results of acceptance and daily monitoring of boiler exhaust gas treatment facilities, ensuring that exhaust gas treatment facilities are in compliance with the requirements of emission standards and function properly.
- Actively respond to the state initiative on emission reduction, and control the total air emissions for the whole year based on the indicators for total air emission of the places where we operate.

Treatment of exhaust gas generated during production

- Processes, rooms or equipment which generate dust during production shall be equipped with dust extractors. Exhaust gas collected and emitted shall be treated for dust removal through filtration or water curtain based on the conditions of process and production site.
- Production processes which generate toxic chemical gas shall be conducted in a closed system with no direct emission of toxic chemical gas to the outside.

Treatment of exhaust gas generated by laboratories

- Toxic and harmful substances and reagents that are volatile and for laboratory use shall be sealed for storage, and those reagents that generate combustible volatile gases shall be stored in a safe ventilation cabinet.
- During the operations in an experiment, toxic and harmful reagents shall be sealed for prevention of volatilization, and operations with inevitable volatilization shall be conducted in a ventilation cabinet, the air outlet of which shall be far away from the working area of staff. The exhaust gas shall be emitted upon activated carbon absorption of toxic substance.

Case: Annual monitoring of boiler exhaust gas

Luye Pharma engages a professional environmental monitoring agency each year to conduct monitoring on major air pollutants emitted by our boilers of each production base to make sure that we emit to the atmosphere in compliance. The professional environmental monitoring agency monitors the concentration of major emissions from boiler outlets, confirms the compliance of atmospheric emissions with relevant national standards after verification and issues a monitoring report accordingly.


四川宇恒泰环境监测有限公司
检 测 报 告

Photo: A boiler emission monitoring report for Sichuan Manufacturing Base

Case: Emission technology transformation of boilers

Luye Pharma (Beijing Base) actively responded to national policies and transformed its boilers during the Year by installing LNBs to reduce the emission concentration of Nitrogen Oxide from 80 mg/m³ to approximately 10 mg/m³, and using advanced fiber-optic vibration detection system technology to perform online real-time monitoring of fume emissions.

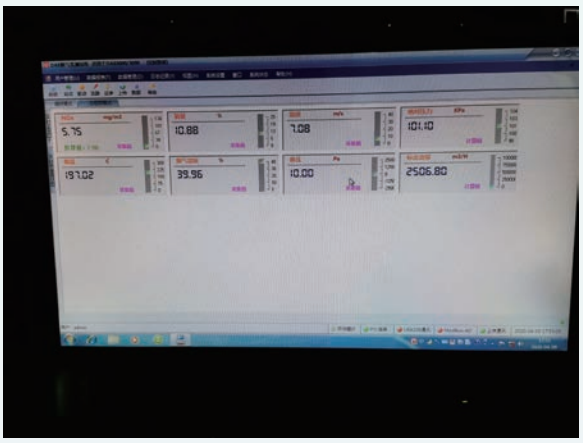


Photo: Online real-time monitoring system

Case: Renovation of exhaust gas treatment devices

Luye Pharma (Nanjing Base) actively responded to the 2019 "Uphill Battle of Comprehensive Management against Air Pollutants in Autumn and Winter" (秋冬大氣污染綜合治理攻堅戰), by strictly implementing the pollution treatment program issued by the local government, further reforming the exhaust gas treatment devices in lecithin workshop, and using catalytic oxidation exhaust gas treatment device that have been official put into use in November 2019 to further reduce the emissions of volatile organic compounds (VOCs).

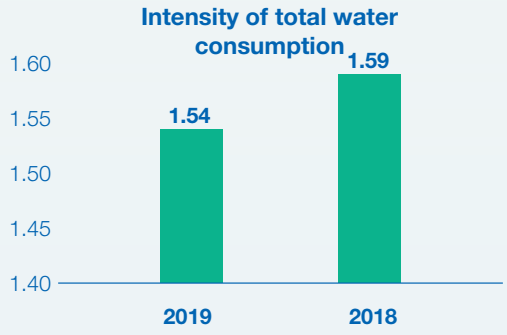
Photo: Exhaust gas treatment device in lecithin workshop

Water Resources Management

The population growth and social development has put human beings under increasing pressure in relation to water resources. The use of water of Luye Pharma mainly concentrates on industrial water used in pharmaceutical production and auxiliary equipment, and domestic water used for cleaning and cooking. Although Luye Pharma obtains water through municipal pipeline networks during operation process and therefore has no issue in sourcing water resources, we have still actively implemented a variety of measures on water saving and integrated water resources utilization.

Water saving

To save water, Luye Pharma implemented many measures to improve the effective use of water resources and reduce waste of water from the levels of technology, management and education. We have provided guidance on the use of water by our employees in accordance with the "Management Procedures for Energy Resources of Luye Pharma" (《能源資源管理程序》), so as to raise their awareness of saving water. Luye Pharma's safety and environmental department will check and supervise the use of water by employees from time to time. Upon detecting any violation of the regulations by any department or individual, we will make comments and criticisms with internally announced punishment. On the contrary, the safety and environmental department will also reward those departments and individuals with outstanding performance in water saving. Luye Pharma's intensity of total water consumption during the Year decreased by approximately 3% compared to 2018.



(Cubic meter/income per RMB10,000)

Case: Transformation of cooling tower

In July 2019, Luye Pharma (Beijing Base) completed the transformation of a cooling tower on the roof of the building of the production base, and installed a sediment filter to reduce the impact of sand and dust in the air on the water quality in the tower and reduce water and electricity consumption caused by frequent replacement of circulating water. The reformed cooling tower has been running for 6 months during the Year. According to our monitoring, the sediment in water was found significantly reduced. There is no need to replace cooling water, saving approximately 300 tons of water.

Sewage Management

Sewage discharge management is another focus of water resources management of Luye Pharma. Luye Pharma has developed management systems such as the "Management Procedures for Control of Wastewater Pollution" (《水體污染防治管理程序》) to manage and treat wastewater generated in our production activities, products or services, minimizing the adverse impacts of wastewater discharge on the surrounding environment and human health. All sewage generated by Luye Pharma are transported to sewage treatment station for treatment, and sewage shall not be discharged if untreated or below national or local standards for sewage discharge after treatment. Luye Pharma engages a professional environmental monitoring agency to conduct sample monitoring on water quality of our sewage outfall at least once a year.

Waste Management

Luye Pharma has developed policies such as the "Management Procedures for Prevention and Control of Pollution by Solid Waste" (《固體廢物污染防治管理程序》) and the "Management Procedures for Waste" (《廢棄物管理程序》), in order to manage the hazardous and non-hazardous waste identified during our operations and ensure proper disposal of such waste. Luye Pharma has applied the management philosophy of reducing waste, reusing waste and decontamination throughout the process of solid waste generation, collection, storage, transportation, usage and disposal.

Solid waste management

- Solid waste mainly includes hazardous waste and non-hazardous waste. Among them, hazardous waste mainly involves medical waste, organic liquid waste, organic resin waste and waste activated carbon, etc. Non-hazardous waste mainly includes domestic waste and recyclable waste, such as Chinese medicine dregs, waste packaging materials, etc.

Waste collection and storage

- Classify and collect non-hazardous waste in a centralized manner, and designate the disposal of waste in corresponding garbage bins.
- Standardize the construction of hazardous waste temporary storage sites: we list clearly the nature of each dangerous solid waste and their corresponding dangerous characteristics. Hazardous waste warehouses use hollow cofferdam to prevent dangerous solid waste leaking from warehouses and causing pollution on the surrounding environment. For flammable hazardous waste, we install explosion-proof facilities, such as combustible gas detectors and ventilation facilities, etc.
- Establish contingency disposal plan for hazardous waste. Enhance operators' contingency capability in dealing with leakage incident, so as to reduce the impact on the environment.

Waste transportation and disposal

- Internal transfer: Use suitable packaging containers to prevent leakage, spillage, dripping or volatilization during loading, removing or transport.
- For hazardous waste, we commissioned nationally-recognized professional agency for handling disposal.
- For non-hazardous waste, we have signed an agreement on the disposal of domestic waste with the local environmental department, pursuant to which we will transport the waste every day to prevent environmental pollution due to excessive storage. General recyclable waste, such as packaging and obsolete equipment, will be collected to local recycling company. Medicine dregs will be disposed of by professional agency to make them into fermented fertilizer for harmless disposal.

Treatment of drug waste

- Expired drugs and the remaining test samples shall be temporarily stored by the quality control department for management, and shall be destroyed after notifying the safety and environmental department in advance to liaise with the drug waste disposal unit for disposal.
- The drug waste generated by R&D centres shall be stored by them, and shall be destroyed after notifying the safety and environmental department in advance to liaise with the drug waste disposal unit for disposal.
- Recalled drugs, expired drugs in inventory or returned drugs shall all be temporarily stored in warehouses for registration and management, and shall be destroyed after notifying the safety and environmental department in advance to liaise with the drug waste disposal unit for disposal.

During the Year, as the production capacity of Luye Pharma has increased, the amount of waste generated has generally increased, leaving no obvious emission reduction effect to be seen.

Chemicals Management

Chemicals are being widely used in different medical areas. Luye Pharma prevents and controls the detrimental impact of industrial chemicals on human health and environment from the source and is committed to managing chemicals from dual angles of safety and environment. From the perspectives of safety and environmental protection, we have formulated the "Management Procedures for Dangerous Goods" (《危險品管理程序》) and the "Environmental Accidents Emergency Plan" (《突發環境事件應急預案》) to impose strict management on dangerous goods, prevent and control leakage of dangerous goods, fire, poisoning, explosion accident and reduce the harm caused to human beings and adverse impact on the environment.

Chemical Environmental Management System

- With the risk assessment and risk management of chemicals as the basic framework, we have established a number of basic environmental management systems for chemicals, such as environmental pollution control of chemicals, prevention and contingency plans for pollution accident, so as to control the risk to the environment and human health from hazardous chemicals.

Preventive Principle

- When selecting raw materials, we would prefer using environmental-friendly and non-toxic reagents than the toxic ones.
- When selecting suppliers, we carry out due diligence on the qualifications of suppliers. For example, they are required to possess safety production license for dangerous chemicals, business license, safety registration system and road transport permits.
- We conduct a risk assessment on the storage site of chemicals and increase the capital investment in hardware equipment and facilities in aspects of fire prevention, explosion proof and anti-pollution.

Process Intervention Principle

- The safety instructions (SDS) of chemicals provided by suppliers are displayed in the storage area. For newly introduced chemicals, we formulate specific preventive measures.

Case: Drill on environmental emergency plan

During the Year, Luye Pharma (Beijing Base) organized a drill on environmental emergency plan with employees of all production workshops participated in to test their ability to implement the Environmental Accidents Emergency Plan (《突發環境事件應急預案》) and improve their emergency response capabilities to respond to environmental emergencies.

Photo: Employees participating in a drill on environmental emergency plan

Engagement in Environmental Activities

In addition to implementing and adopting various policies and technologies in relation to environmental protection at the operational level, we also focus on improving employees' awareness of environmental protection and cultivate employees' environmental protection habits.

Promotion and education

- Utilize both traditional and new media to actively promote policies and measures on waste disposal and their effectiveness, which helps to create an atmosphere that facilitates waste disposal.

- Lead all employees to build up the concept of waste reduction and waste management. Increase every staff member's awareness of waste classification and resources conservation and advocate green and healthy lifestyle through various ways of promotion and education.

Case: Training on environmental awareness

In April 2019, Luye Pharma (Beijing Base) carried out training with the theme of safety management including Environmental Protection Management, Hazardous Sources and Contingency Disposal (《環境保護管理、危險源及應急處置等安全管理》) to explain to employees environmental emergencies plans, identification of environmental factors, identification of hazardous sources, etc. The training was held for 6 hours in total, and the employees participated have all passed the training test.

Photo: Training on environmental awareness

Case: Horse chestnut-planting activity

During the Year, Luye Pharma (Yantai Base) continued to organize employees to conduct horse chestnut-planting activity in the production base for promoting environmental protection awareness among employees. Active ingredients in our major products including "Maitongna" (麥通納®), "Okai" (歐開®) and "Olai" (歐萊®) are extracted from the fruits of horse chestnuts. The activity allows employees to more intuitively understand the importance of environmental protection.

Photo: Horse chestnut-planting activity

Occupational Health and Safety

In the course of our business development and operations, we regard the service for human health as a noble mission and prevent proactively any accident that could potentially harm our staff, contractors or nearby residents. Luye Pharma has established an integrated and all-rounded occupational health and safety management system and acquired OHSAS 18001:2007 and ISO 45001:2018 occupational health and safety management system certifications.

ISO 45001:2018 certification

OHSAS 18001:2007 certification

The safety goal of Luye Pharma is to achieve zero damage, zero fire hazards and zero explosions. We strictly abide by the national and local laws and regulations relating to occupational health and safety, and have developed a series of internal policies governing occupational health and safety. During the Year, we have complied with the applicable laws and regulations that are significant to Luye Pharma, and have recorded neither material safety accident nor fatal work injury.

Laws and regulations relating to occupational health and safety that Luye Pharma abided by (including but not limited to)	Internal policies of Luye Pharma (including but not limited to)
• Production Safety Law of the People's Republic of China (中華人民共和國安全生產法) • Fire Protection Law of the People's Republic of China (中華人民共和國消防法) • Regulations on Safety Supervision over Special Equipment (特種設備安全監察條例) • Provisions on Safety Management of Dangerous Chemicals (危險化學品安全管理條例)	• Production Safety Inspection System (安全生產檢查制度) • Administration Procedure of Personal Labor Protection Articles (個人勞動防護用品管理程序) • Occupational Health and Monitoring Management System (職業健康與監護管理制度) • Mechanical Protection Safety Procedure (機械防護安全程序) • Fire Management System (消防管理制度) • EHS Education and Training Policy (EHS教育與培訓制度) • Electrical Safety Protection Procedure (電氣安全防護程序) • Accidents and Hazards Screening and Governance System (事故隱患排查治理制度)

Each subsidiary of Luye Pharma has established a safety management committee under the occupational health and safety management system for decision-making and management of safety affairs in the Company. The functional structure of safety management committee of Luye Pharma (Yantai Base) is shown as below:

General Manager

- Fully responsible for the safety of the Company.

Safety and Environmental Protection Department

- The safety department of the Company, responsible for daily company-level safety inspection and hazards ratification and supervision.
- Organize a production safety inspection each month, fill in "Production Safety Routine Checklist" (《生產安全例行檢查表》) and "Hazards Rectification Notice" (《隱患整改通知書》) if any safety hazard is found during inspection) and dispatch the form(s) to the responsible department.
- Carry out risk classification control of occupational health and safety, monitor the implementation of risk management measures and keep track of the effectiveness.

Department Head

- Responsible for safety affairs of respective department under the management and guidance of the safety management committee and the safety and environmental protection department.
- Implement safety measures including daily safety hazards inspection, rectification and safety training.
- Identify occupational health and safety risks of respective departments.

The work procedure of safety risk classification control includes key controlling sections such as screening out risk points, identification of the sources of danger and carrying out the risk assessment, risk classification control and updates.

Screening out risk points

- Identify risk points throughout the production process, including basic information such as location, name of the risk, and potential types of the accident.
- Screen out risk points and set up risk screening ledger.

Identification of the sources of danger

- Pursuant to the "Classification and Code of Hazardous and Harmful Factors in Production Process" (《生產過程危險和有害因素分類與代碼》) (GB/T13861), identify sources of danger from four aspects, namely the human factor (people's unsafe behavior such as operation against rules), object factor (safety protection facilities, safety technology, etc.), management factor and environmental factor (dust, noise, etc.).
- Develop a detailed safety checklist for work system and equipment use. With reference to relevant laws and regulations, technical standards and other requirements, formulate inspection standards as the review criteria.

Carrying out the risk assessment

- Three states should be considered in identifying the sources of danger: normal, abnormal and emergent.
- Pursuant to the "Classification and Code of Hazardous and Harmful Factors in Production Process" (GB/T13861), carry out risk assessment based on the classification of four risk factors, namely human, object, management and environmental factors.
- Assess potential accidents that are classified into 20 categories according to the "Classification of Work-Related Accidents" (《企業職工傷亡事故分類標準》) (GB6441-1986), such as object strike, mechanical injury, etc.

Risk classification control

- Conduct risk control with vertical accountability and classification.
- Tier-one risk (red): major risk, controlled and managed by the Company;
- Tier-two risk (orange): higher risk, controlled and managed by the workshops (departments);
- Tier-three risk (yellow): general risk, controlled and managed by teams; and
- Tier-four risk (blue): low risk, controlled and managed by staff.

Updating identification of the sources of danger and risk assessment

- Luye Pharma conducts reassessment on the safety risk when there are changes in the production activity or workplace and the facilities of Luye Pharma, or other factors such as relevant laws and regulations.
- Organize and update the identification of the sources of danger, eliminate dangers that no longer exist and supplement dangers that newly arise.

Experience summary and achievement showcase of safety risk classification control system and hazards screening and governance system

All employees and contractors of Luye Pharma and the service provider should strictly comply with our safety rules and regulations. To achieve these, we believe that it is important to create a safety culture, which enables employees to understand the safety responsibilities they should assume in the work. The management team of Safety Department of Luye Pharma holds meetings each quarter, aiming to share experience, communicate and discuss the best practices to enhance safety performance. In addition, we formulate education and training plans related to occupational health and safety each year, which provide daily safety education, safety education by grade, safety education for external parties, special safety training, etc., to ensure everyone's health and safety.

Luye Pharma is also concerned about the mental health of staff. We established a psychological advisory committee where private communications with staff take place so as to relieve their psychological stress. Meanwhile, we arrange the work schedule reasonably to ensure rest time for employees. To alleviate the life and psychological stress for our staff, we also organize abundant activities for employees with competitive welfare package.

Case: "Cherish Life" theme activity

In April 2019, Luye Pharma (Sichuan Base) organized all staff to carry out "Cherish Life · Safety Experience Activity" to enhance staff's safety skills and safety awareness. The safety experience activity provided teaching including first aid training, fire escaping, usage of fire extinguisher and high-rise building escaping, etc.

Photo: First aid teaching

Case: Safety knowledge competition

In June 2019, Luye Pharma (Beijing Base) held safety knowledge competition with the theme of "Great truths are always simple, combining learning with practice, develop with safety and pursue excellence", aiming to promote the laws and regulations of production safety to the staff, and raise safety awareness of all staff.

Photo: On the scene of safety knowledge competition

Case: Comprehensive drill for safety, environmental protection and fire-fighting

In September 2019, Luye Pharma (Nanjing Base) conducted a comprehensive drill for safety, environmental protection and fire-fighting to enhance the company's fire prevention awareness and fire response capabilities such as fire-fighting, evacuation and saving people. We checked the intact rate of the fire-fighting equipment, conducted the training of basic theoretical knowledge of safety, environmental protection and fire-fighting as well as organized a drill practice for participants.

Photo: Fire-fighting drill

Employee Development

"Employee Development" is Luye Pharma's long-term business philosophy and we treat staff as the most valuable asset. We actively recruit talents and have created a diversified platform for occupational training as well as multiple channels for career development paths to achieve mutual development of staff and the Company.

Material topics included in this section

- Occupational health and safety system
- Employee salary and benefits
- Employee training and occupational development
- Employee recruitment policy
- Production safety and emergency handling procedure

Talent Management

On the basis of strictly abiding by relevant laws and regulations relating to employment, Luye Pharma adopts a proactive human resources policy to attract and retain outstanding talents from home and abroad to ensure a team of talents is built. Luye Pharma aims at creating cultural compatibility among its companies, such that employees could realize their potentials and show their talents, and companies could achieve outstanding performance, so as to give back to shareholders, society and employees. Our recruitment management system is shown below:

Labor employment

- Recruitment:
  We strictly abide by the laws and regulations relating to employment, such as the Labor Law of the People's Republic of China (中華人民共和國勞動法), the Law of the People's Republic of China on Employment Contracts (中華人民共和國勞動合同法), the Employment Promotion Law of the People's Republic of China (中華人民共和國就業促進法) and the Contract Law of the People's Republic of China (中華人民共和國合同法), with an aim to establish an all-rounded human resources system. Meanwhile, Luye Pharma strictly complies with the Provisions on the Prohibition of Using Child Labor (禁止使用童工規定) by verifying the identification of the applicants to resolutely refuse the hiring of child labor in the process of recruitment and employment.

- Labor:
  With regards to the recruitment, career development, promotion, training and incentives, we are willing to provide equal employment opportunity irrespective of color, nationality, race, age, sex, religious beliefs or physical disability.

- Dismissal:
  If staff fails to pass the probation period, or Luye Pharma incurs significant loss or is involved in accident as a result of serious violation of discipline or dereliction of duty, Luye Pharma shall terminate the labor contract with the staff, give notice to employees and claim for compensation in accordance with applicable laws and regulations.

Remuneration

- Luye Pharma provides competitive remuneration package. We regularly participate in the annual salary survey for domestic pharmaceutical market organized by the world well-known salary research companies, from which we understand the overall salary level, current condition and development trend of pharmaceutical market. In accordance with its development strategies, Luye Pharma formulated an overall remuneration strategy, ensuring that it is able to attract, motivate and retain talents.

- In respect of the design of the remuneration structure, we determine the remuneration level of employees through a performance-based assessment system and by referencing three aspects, namely level of market rates, job responsibility and employees' performance.

Working hours and holiday

- Working hours:
  40 hours per week, Saturdays and Sundays are rest days. If the employee works overtime for special reasons, he/she shall fill in the Overtime Application Form (《加班申請表》) and work overtime only with the approval of the department manager, which does not involve forced labor.

- Holidays:
  Besides public holidays, Luye Pharma's employees can enjoy paid annual leave, marriage leave, maternity leave, sick leave, etc., to ensure employees to strike a balance between work and life.

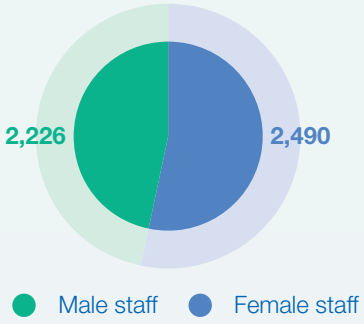
Employee development

- To formulate a professional and sound talent development plan and set up a dual-pathway development system for the employees.

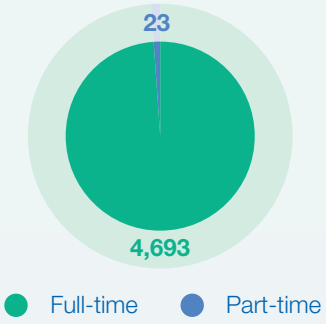
During the Year, Luye Pharma has strictly complied with aforementioned laws and regulations relating to employment, and found no violation of relevant laws and regulations.

Luye Pharma always takes a fair and impartial attitude towards every employee. It concerns the equality between men and women, and has been committed to maintaining equal proportions for both men and women. As of the end of the Year, Luye Pharma has a total of 4,716 employees. The number of employees by gender, employment type, age group and geographic region is indicated below:

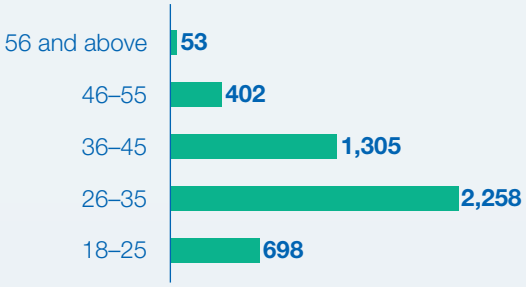
Number of employee by gender



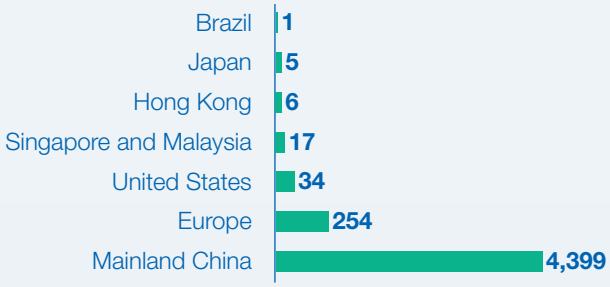
Number of employee by employment type



Number of employee by age group



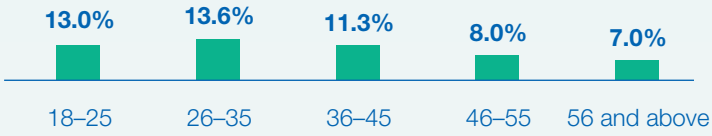
Number of employee by geographic region



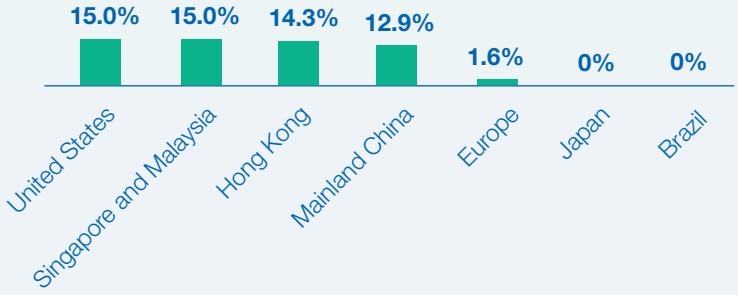
In addition, Luye Pharma derived our employee turnover rate by gender, age group and geographic region during the Year through statistical analysis:

Employee turnover rate by gender

Employee turnover rate by age group



Employee turnover rate by geographic region



Staff Training

In order to maintain stable development of the talents, Luye Pharma has established multi-channel career development paths such as research and development, professional technology and management. Luye Pharma encourages employees to choose their own promotion and career development path, to realize their potential and to achieve the sustainable development of the staff and the enterprise.

In respect of drug quality, we have developed the "Management Procedures for Capacity, Training and Awareness" (《能力、培訓和意識管理規程》) in accordance with Pharmaceutical Products GMP Guidance: Quality Management System (《藥品GMP指南：質量管理體系》), which summarizes the principles for business knowledge training for all staff and training on GMP and pharmaceutical management regulations, and have stipulated the formulation of training program and its contents. In respect of EHS, we have formulated EHS Education and Training Policy (《EHS教育與培訓制度》) and formulate occupational health and safety related education and training plan every year, to provide daily safety education, progressive safety education, safety education for foreign personnel and special safety training. In respect of employees' comprehensive abilities, we have formulated the Regulations on the Management of Luye Pharma's External Training Projects (《绿叶制药集团外部培訓項目管理規定》), which engages external institutions to provide employees with online or offline training based on business and job requirements, or support employees to participate in on-the-job educational training courses.

In order to promote staff's comprehensive abilities training effectively, we set up the "Luye Evergreen College" for classification and cultivation of international talents, backup management talents, existing management talents and professional talents. We formulate training plans every year. This Year, we provided training activities themed on commonality cultivation, specific group cultivation and personality cultivation. Various types of trainings of Luye Pharma are presented as follows:

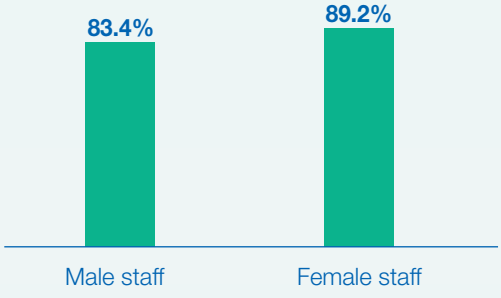
Training for university graduates of the current year	• Include targeted training such as outward bound, corporate culture and regulatory system and general quality courses. A two-year plan for follow-up and cultivation is designed after enrollment.
Induction training for new employees	• Provide online and offline learning courses, and arrange experienced staffs as mentors to guide the work of new employees.
Incremental training for employees	• Internal teachers provide immediate training and guidance during work to provide employees with on-the-job learning experience for job skills improvement.
Job skills training	• Provide diversified training opportunities, including internal training, external open courses, industrial summit forum and part-time MBA/EMBA, for employees of all levels.
Management skills training	• Appoint internal and external experts to regularly provide management ability and leadership training for management personnel.
Part-time education and training	• Arrange qualified employees to participate in long-term training projects and part-time degree education.

The "Set Sail Talent Project Phase IV" expansion activities and classroom training held in May 2019

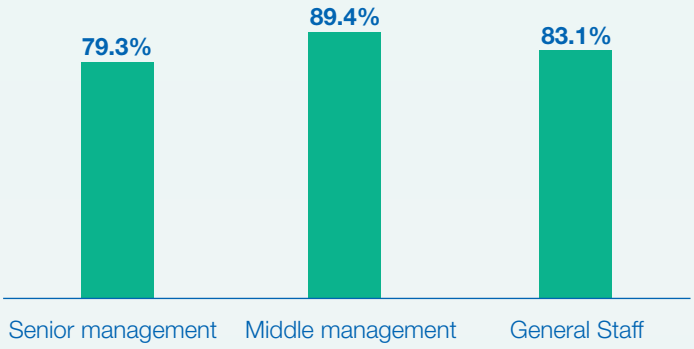
31 general quality trainings held in 2019, with training topics including effective communication, pyramid theory, efficient work, time management and etc.

The following is the relevant statistic on staff's training for this Year:

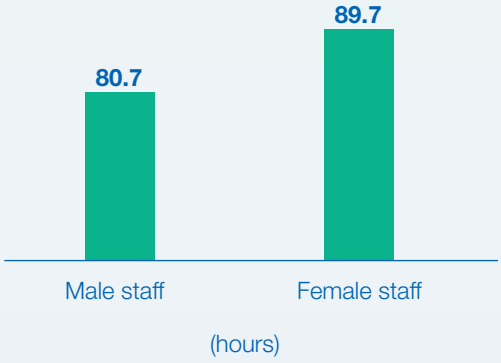
Percentage of employee trained by gender



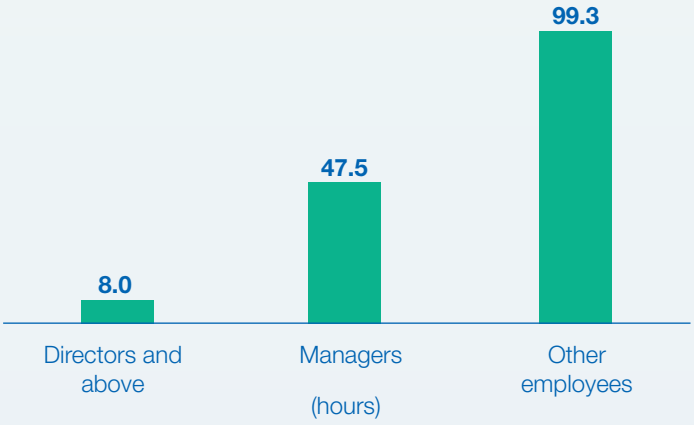
Percentage of employees trained by employment type



Average training hours completed per employee by gender



Average training hours completed per employee by employment type



Employees' Welfare

Luye Pharma pays attention to its employees' physical and mental health. We tried our best to ensure that the employees can enjoy the basic welfare prescribed by the PRC and also provided employees with a variety of other benefits to further enhance employees' benefits. We also organized various staff activities, to enrich their lives during spare time and strengthen their bond and team cohesion.

- Holiday Welfare: The Company offers holiday welfare to employees during some traditional holidays such as Spring Festival, Women's Day, Children's Day;
- Commercial Insurance: Inpatient and outpatient medical insurance, 24-hour personal accident insurance and critical disease insurance are included to enhance the health insurance coverage of the employees without worries behind;
- Annual Health Check: Health check is organized each year and a health record is set up for each employee;
- Employee Mutual Support Plan: A mutual support fund is set up to provide relief for employees and their families who suffer from major accidents and family misfortunes besides basic benefits and commercial insurances, helping them get through difficulties;
- Wedding Cash Gift: Wedding cash gift is prepared for all the newly-weds;
- Excellent Performance Commendation: An annual commendation meeting is held each year both at the Group level and Company level to award employees and teams with excellent performances;
- Gold Leaf Medal: A gold leaf medal is granted to employees who have served the Company for ten years.

Case: The fourth staff sports meeting

In May 2019, Luye Pharma held the fourth staff sports meeting with the participation of nearly 2,000 employees, which perfectly presented our sportsmanship of fighting spirit.

Case: The fourth staff sports meeting

Case: The most beloved life — 25th anniversary photography and painting exhibition of the Group

In June 2019, "The most beloved life — 25th anniversary photography and painting exhibition of the Group" was opened in Yantai City Art Museum with the theme of "The 25th anniversary of Luye Pharma's development", to reflect the creative topics like our development milestones, employees' life, learning, work, natural scenery and human landscape. Thousands of works of staff and their relatives have been presented in the exhibition.

Photo: Photography and painting exhibition

Case: "LUYE Cup" the eighth half marathon in Laishan District

The "LUYE Cup" half marathon in Laishan district, sponsored by Luye Pharma, has been successfully held for eight consecutive times, and is also known as a event with quality and specification. As the only marathon in Yantai that is free of registration fees, "LUYE Cup" has won the favor of people in different areas who like long-distance running. In October 2019, over 800 employees took part in this event to fully enjoy the fun of sports.

Photo: Picture of employees participating in the "LUYE Cup"

Community Promotion

Besides actively improving internal management of the enterprise through systematic management of research and development, product and service quality, environment, and labor, etc., Luye Pharma hopes to advocate the concept of sustainable development to a broader level and promote the sustainable development of society with different parties by using the influence of the Company.

Material topics covered in this section

- Supplier selection and management

Sustainable Supply Chain

We have established 8 production bases and more than 30 product lines in the world to achieve in-depth layout of global supply chain system. We hope that the relatively mature industrial chains in various regions will be grafted into the global advanced supply chain through external cooperation methods such as the purchase of raw materials and ancillary materials as well as the OEM processing of drugs, further building a global supply chain network from the purchase of front-end raw materials and ancillary materials to the supply for terminal patients, to better serve patients worldwide.

Owing to the globalization of Luye Pharma, we are inevitably facing risks relating to environmental and social problems in supply chains. In the process of equipment and raw material procurement and drugs manufacturing commission, Luye Pharma continues to review our suppliers and manage suppliers through different aspects including quality, environment and compliance performance, so that Luye Pharma can produce quality and safe medicines as environmentally-friendly as possible. Luye Pharma has formulated the "Management Procedures for Suppliers and Related Parties" (《供方及相關方管理程序》), the "Management Regulations on Appraisal and Assessment of Supplier's Overall Performance" (《供應商整體表現評價與評估管理規程》), "R&D Drug Commissioning Production Management Procedures" (《研發藥品委託生產管理規程》) and other internal policies, in a bid to ascertain and evaluate the performance of suppliers, contractors and related parties on environmental, safety status and product quality for better performance, thereby together promoting the sustainable development of society.

Supplier selection practices

These focus on reviewing suppliers' operation management level, market position, product functions, quality assurance and testing capabilities, compliance with laws and regulations, EHS management performance, and intellectual property concepts. Suppliers are selected and engaged based on their performance.

Evaluation and monitoring practices

- Conduct due diligence on potential cooperative suppliers, organize the completion of due diligence report and update suppliers catalogs.
- Comprehensively assess and evaluate the quality of materials provided by suppliers according to production technologies, qualification data and supplier audit.
- Investigate suppliers' EHS performance, such as reviewing whether their products and services are complied with relevant EHS laws and regulations, checking whether they have passed ISO14001 environmental management system certification, and whether they have the pollutant emissions permits.
- Comprehensively assess and evaluate the prices of material supplied by suppliers according to market conditions and supply and demand.

- When purchasing products that involve intellectual property rights, the intellectual property department evaluates the intellectual property rights with the suppliers, and if necessary, requires the suppliers to provide the intellectual property ownership certificates, and conducts assessment and evaluation on suppliers' intellectual property status each year.

- Comprehensively assess and evaluate the overall performance of suppliers including environmental and safety status, sales and after-sales service.

- Comprehensively assess and evaluate the overall performance of suppliers based on the communication and cooperation with suppliers during the Year, including the quality, price, credibility, timely delivery rate, sales (including the verification of transportation methods, intactness of packaging, etc.) and after-sales service (technical support, timeliness of quality rectification, etc.).

As of the end of the Year, Luye Pharma has 1,316 domestic suppliers and 77 overseas suppliers. For selecting and engaging suppliers, we implemented above-mentioned evaluation and monitoring methods on all of them to ensure the stability and sustainability of our supply chain.

Public Welfare

While focusing on its own development, Luye Pharma takes the initiative to devote itself to areas such as giving support to education, public donation and community services so as to contribute to people in need. We successively set up "Luye Love Bursary" to facilitate education and "Luye Scholarship" to support scientific research innovation in certain universities as well as donated several hope primary schools to carry out various education and orphan support projects in different ways. Also, Luye Pharma implemented drug donation activities through different charity institutions for patients living in poverty. Furthermore, Luye Pharma undertook public activities such as serving the communities and society by promoting respect for and helping the elderly, supporting the local sports events, etc.

Case: Support the "Firefly Plan (囊螢計劃)" of Yunnan Honghe Prefecture Project of the Cancer Foundation of China

In August 2019, Luye Pharma donated RMB100,000 to support the "Firefly Plan" of Yunnan Honghe Prefecture Project launched by the Cancer Foundation of China for 34 college students from registered poor households with cancer patients in Honghe Prefecture. Each student receives free bursary ranging from RMB500 to RMB800 every month so that they can complete their college education.

Photo: Launching ceremony of "Firefly Plan" of Yunnan Honghe Prefecture Project

Case: Donation and installation of solar water heaters for poor households

In November 2019, Luye Pharma held a charity donation activity with the theme of "Caring for Liangshan and delivering warm (情繫涼山遞溫暖，愛存昭覺暖人間)" in Wazi village, Liangshan Prefecture, Sichuan Province, and donated and installed solar water heaters for 116 poor households.

Photo: Group photo of Luye Pharma representatives and villagers

Case: Issuance and grant of medical fund, scholarship and bursary

In 2019, Luye Pharma continued to issue "Luye Biomedical Innovation Fund at Peking University (北京大學綠葉生物醫藥創新基金)" with RMB1 million, "Luye Pharma Scholarship for Yantai University (煙台大學绿叶制药獎學金)" with RMB200,000 and "Luye Pharma Love Bursary (绿叶制药愛心助學金)" with RMB100,000 and continued to finance poor college students, orphans and education through Children and Teenagers Fund of Jiangsu Province (江蘇省兒童少年基金會) with RMB300,000.

Photo: Award ceremony of Medical Fund

Appendices

Environmental Performance Table

	Data in 2019[1]	Data in 2018	Measurement unit
Resource consumption			
Total electricity consumption	65,488,220.00	51,031,051.00	kWh
Intensity of electricity consumption	100.91	98.64	kWh/income of RMB10,000[2]
Total natural gas consumption	2,723,210.00	3,166,567.00	Cubic meters
Intensity of natural gas consumption	4.28	6.12	Cubic meters/income of RMB10,000
Total industrial steam consumption[3]	198,246.44	60,691.00	MKJ
Intensity of industrial steam consumption	0.31	0.12	MKJ/income of RMB10,000
Total gasoline consumption (by automobiles)	24,203.00	38,416.00	Liters
Intensity of gasoline consumption[4] (by automobiles)	3,025.38	3,201.33	Liters/per gasoline-powered automobile
Total diesel consumption (by automobiles)	5,998.00	6,592.00	Liters
Intensity of diesel consumption (by automobiles)	2,999.00	3,296.00	Liters/per gasoline-powered automobile
Total water consumption	982,202.00	820,837.00	Cubic meters
Intensity of total water consumption	1.54	1.59	Cubic meters/income of RMB10,000
Packaging materials consumption	1,480.65	1,579.18	Tons
Intensity of packaging materials consumption	0.0023	0.0031	Tons/income of RMB10,000
Emission of air pollutants by boilers			
CO emission	3,621.05	4,154.40	Kilograms
NO_x emission	4,310.77	4,945.71	Kilograms
SO_x emission	25.86	29.67	Kilograms
$PM_{2.5}$ emission	327.62	375.87	Kilograms
Emission of air pollutants by automobiles			
CO emission	347.92	442.79	Kilograms
NO_x emission	304.04	278.93	Kilograms
SO_x emission	0.46	0.68	Kilograms
$PM_{2.5}$ emission	11.97	11.19	Kilograms
PM_{10} emission	13.24	12.39	Kilograms

1 *The statistical scope of all environmental performance data for the Year is consistent with the scope of this report. As the Group increased its production capacity during the Year, there was an increase in consumption of some resources and pollutant emission as compared to 2018.*

2 *The Group recorded revenue of approximately RMB6,357.59 million during the Year.*

3 *The newly constructed project in Shandong Base underwent commissioning and started operation during the Year, leading to extra consumption of industrial steam.*

4 *Luye Pharma possessed eight gasoline-powered vehicles and two diesel-powered ones during the Year, with the number of gasoline-powered vehicles down by four compared with 2018.*

	Data in 2019[1]	Data in 2018	Measurement unit
Emission of greenhouse gas (scope I and scope II)			
Emission by use of boilers (scope I)	5,891.13	6,820.50	Tons
Emission by automobiles (scope I)	73.07	107.24	Tons
Emission by electricity consumption (scope II)	54,736.96	42,156.83	Tons
Emission by refrigerants	2,535.68	2,177.30	Tons
Greenhouse gas emission in total	63,239.85	51,261.86	Tons
Intensity of greenhouse gas emission in total	0.10	0.10	Tons/income of RMB10,000
Production wastewater discharge (processed)			
Production wastewater discharge	537,078.00	326,667.90	Tons
Intensity of production wastewater discharge	0.84	0.63	Tons/income of RMB10,000
Non-hazardous waste produced			
Medicine dregs produced	1,350.96	1,333.53	Tons
Medicine dregs recycled	1,209.10	1,175.50	Tons
Intensity of medicine dregs produced	0.0021	0.0026	Tons/income of RMB10,000
Packaging materials waste produced	64.18	29.03	Tons
Packaging materials waste recycled	34.51	16.53	Tons
Intensity of packaging materials waste produced	0.00010	0.000056	Tons/income of RMB10,000
Hazardous waste produced[5]			
Medical waste produced	13,450.75	20,128.00	Kilograms
Intensity of medical waste produced	0.02	0.039	Kilograms/income of RMB10,000
Organic waste liquid produced	779,895.60	414,620.00	Kilograms
Intensity of organic waste liquid produced	1.23	0.80	Kilograms/income of RMB10,000
Organic resin waste produced	960	500.00	Kilograms
Intensity of organic resin waste produced	0.0015	0.0010	Kilograms/income of RMB10,000
Waste activated carbon produced	25,252.00	6720.00	Kilograms
Intensity of waste activated carbon produced	0.039	0.013	Kilograms/income of RMB10,000
Waste toner cartridge produced	414.00	308.00	Units
Intensity of waste toner cartridge produced	0.00065	0.00060	Units/income of RMB10,000
Waste fluorescent tube produced	95.00	45.00	Units
Intensity of waste fluorescent tube produced	0.00015	0.000087	Units/income of RMB10,000

Social Performance Table

Safety

Death toll	Employee	0	Number of people
	Subcontractor	0	Number of people
Accidental work injuries	Work-related fatalities	0	Number of people
	Lost days due to work injury	0	Days

5 *The generation of hazardous waste in 2018 has been adjusted upon re-calculation and is subject to the data set out in this report.*

Employees

		Number of people	Turnover rate
Total number of people		4,716	12.3%
Gender distribution	Male	2,226	13.9%
	Female	2,490	10.9%
Employment type distribution	Full-time	4,693	—
	Part-time	23	—
Age distribution	18–25	698	13.0%
	26–35	2,258	13.6%
	36–45	1,305	11.3%
	46–55	402	8.0%
	56 and above	53	7.0%
Geographic distribution	Mainland China	4,399	12.9%
	Europe	254	1.6%
	United States	34	15.0%
	Singapore and Malaysia	17	15.0%
	Hong Kong	6	14.3%
	Japan	5	0.0%
	Brazil	1	0.0%

Percentage of employees completed training			
Gender distribution	Male	83.4%	
	Female	89.2%	
Rank distribution	Directors and above	79.3%	
	Managers	89.4%	
	Other employees	83.1%	
Average training hours completed per employee			
Gender distribution	Male	80.7	hours
	Female	89.7	hours
Rank distribution	Directors and above	8.0	hours
	Managers	47.5	hours
	Other employees	99.3	hours

ESG Report Content Index

ESG Reporting Guide			Reference to GRI Standard	Related sections in the Report
A. Environmental				
Item		Descriptions		
Aspect A1: Emissions				
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	GRI 305: Emissions; GRI 306: Effluents and Waste; GRI 307: Environmental Compliance	Environmental Protection
Key Performance Indicator (KPI)	A1.1	The types of emissions and respective emissions data		Environmental Performance Table
	A1.2	Greenhouse gas emissions in total and, where appropriate, intensity		Environmental Performance Table
	A1.3	Total hazardous waste produced and, where appropriate, intensity		Environmental Performance Table
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity		Environmental Performance Table
	A1.5	Description of measures to mitigate emissions and results achieved		Energy and Climate Change Air Emissions Management Water Resources Management
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved		Waste Management

Aspect A2: Use of Resources				
General Disclosure		Policies on effective use of resources	GRI 302: Energy; GRI 303: Water; GRI 307: Environmental Compliance	Environmental Protection
KPI	A2.1	Direct and/or indirect energy consumption by type in total and intensity		Environmental Performance Table
	A2.2	Water consumption in total and intensity		Environmental Performance Table
	A2.3	Description of energy use efficiency initiatives and results achieved		Energy and Climate Change
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved		Water Resources Management
	A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced		Environmental Performance Table
Aspect A3: The Environment and Natural Resources				
General Disclosure		Policies on minimizing the issuer's significant impact on the environment and natural resources	GRI 302: Energy; GRI 303: Water; GRI 305: Emissions; GRI 306: Effluents and Waste	Environmental Protection
KPI	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them		Chemicals Management Engagement in Environmental Activities

ESG Reporting Guide			Reference to GRI Standard	Related sections in the Report
B. Social				
Item		Descriptions		
Aspect B1: Employment				
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to remuneration and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare	GRI 401: Employment; GRI 405: Diversity and Equal Opportunity	Talent Management Employees' Welfare
Recommended Disclosures	B1.1	Total workforce by gender, employment type, age group and geographical region		Talent Management Social Performance Table
	B1.2	Employee turnover rate by gender, age group and geographical region		Talent Management Social Performance Table
Aspect B2: Health and Safety				
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to provision of a safe working environment and protection of employees from occupational hazards	GRI 403: Occupational Health and Safety	Occupational Health and Safety
Recommended Disclosures	B2.1	Number and rate of work-related fatalities		Occupational Health and Safety
	B2.2	Lost days due to work injury		Occupational Health and Safety
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored		Occupational Health and Safety

Aspect B3: Development and Training				
General Disclosure		Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	GRI 404: Training and Education	Staff Training
Recommended Disclosures	B3.1	The percentage of employees trained by gender and employment category (e.g. senior management, middle management)		Staff Training Social Performance Table
	B3.2	The average training hours completed per employee by gender and employment category		Staff Training Social Performance Table
Aspect B4: Labor Standards				
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of child labor or forced labor	/	Talent Management
Recommended Disclosures	B4.1	Description of measures to review employment practices to avoid child and forced labor		Talent Management
	B4.2	Description of steps taken to eliminate such practices when discovered		No Relevant Situation
Aspect B5: Supply Chain Management				
General Disclosure		Policies on managing environmental and social risks of the supply chain	GRI 308: Supplier Environmental Assessment; GRI 414: Supplier Social Assessment	Sustainable Supply Chain
Recommended Disclosures	B5.1	Number of suppliers by geographical region		Sustainable Supply Chain
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored		Sustainable Supply Chain

Aspect B6: Product Responsibility				
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress	GRI 416: Customer Health and Safety; GRI 417: Marketing and Labeling; GRI 418: Customer Privacy	Meet the Needs of Patients
Recommended Disclosures	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons		Drug Quality and Safety
	B6.2	Number of products and service related complaints received and how they are dealt with		Responsible Sales and Customer Service Management
	B6.3	Description of practices relating to observing and protecting intellectual property rights		Protection of Scientific Research Results
	B6.4	Description of quality assurance process and recall procedures		Drug Quality and Safety
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored		R&D Ethics Responsible Sales and Customer Service Management
Aspect B7: Anti-corruption				
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	GRI 205: Anti-corruption	Operating with Integrity
Recommended Disclosures	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		Operating with Integrity
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored		Operating with Integrity

Aspect B8: Community Investment				
General Disclosure		Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	/	Public Welfare
Recommended Disclosures	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)		Public Welfare
	B8.2	Resources contributed (e.g. money or time) to the focus areas		Public Welfare

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