

## **2021 Corporate Social Responsibility Report**



**Shandong Xinhua Pharmaceutical Company Limited**

**April 2022**

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## CHAPTER I OPENING

### I. Declaration

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

### II. About This Report

This report is the sixth social responsibility report issued by Shandong Xinhua Pharmaceutical Company Limited (“the Company”). It describes in detail the Company’s performance of social responsibilities from 1 January to 31 December 2021 (certain facts stated herein go beyond such occurred during the reporting period), which summarizes the achievements for the entire year of 2021 and looks forward the development targets of social responsibilities in the future.

This report was prepared in accordance with “Shenzhen Stock Exchange Guidelines on Normative Operation of Listed Companies on the Main Board”(《深圳證券交易所主板上市公司運作規範指引》), the “Environmental, Social and Governance Reporting Guide”(《環境、社會及管治報告指引》) issued by Hong Kong Stock Exchange, with reference to the “Guidelines to Chinese State-owned Enterprises on Fulfilling Corporate Social Responsibilities”(《關於中央企業履行社會責任的指導意見》) issued by State-owned Assets Supervision and Administration Commission (the “SASAC”) and so on. All of the related data and cases quoted in this report are extracted from relevant statistics of the Company and each of its subsidiaries. All of the related financial information is extracted from the 2020 Annual Results Announcement published. Monetary units mentioned in this report are all denominated in Renminbi.

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

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

### III. Corporate Profile

Shandong Xinhua Pharmaceutical Company Limited (hereinafter referred to as the “Company”), formerly known as Shandong Xinhua Pharmaceutical Factory that was established in 1943 at Jiaodong Anti-Japanese Base, is a selected large-scale backbone pharmaceutical company in the PRC, the major producer and exporter of analgesics in Asia and an important manufacturer in China for the drugs for cardio cerebrovascular system, anti-infection and central nervous system, with a relatively leading position and great influence in the chemical and pharmaceutical industry in the PRC. As a dual-listed (A+H shares) company, the Company was awarded top 10 technological innovation enterprises of the pharmaceutical industry in the PRC and top 50 best enterprises of the pharmaceutical industry in the PRC, with 14 controlled subsidiaries currently. Major subsidiaries include Zibo Xinhua-Perrigo Pharmaceutical Company Limited (Perrigo Company), Xinhua Pharmaceutical (Shouguang) Company Limited (Shouguang Company), Shandong Zibo Xincat Pharmaceutical Co., Ltd. (Xincat Company).

At present, the Company’s annual production capacity of chemical APIs is 50,000 tons. The annual production capacity of the medical intermediates is 500,000 tons. The annual production capacity of the preparation is 28 billion tablets, 1 billion volume injection. The market share of six leading APIs, such as analgin, ibuprofen, aspirin, aminopyrine, levodopa and antipyrine, ranks first in the world, while eight APIs, such as pipemidic acid, isopropyl antipyrine, barbital, isopentobarbital, triphenyldiamine, irisquinone, ethoxybenzamide and stimhike, weigh heavily, which have strong influence in China.

Since the establishment of the Company, the Company put technology and quality in first priority by adhering to the concept of “product quality connects to the future of the Company and drug quality matters to the lives of people”, strictly controlling quality in the production process and constantly striving for excellence. The Company was the first pharmaceutical and chemical enterprise to obtain the certificates of ISO9001, ISO14001 and ISO10012 in the PRC. All bulk pharmaceuticals and types of preparations in production have passed GMP accreditation. As of the date of this report 18 products such as Theophylline and Ibuprofen have passed US FDA accreditation; 11 products such as Theophylline and Aspirin have been granted the COS Certificate from EDQM; Caffeine products passed the social responsibility certificate and environment certificate from USA FDA and HACCP accreditation. In addition, several products have registered in countries such as Russia, Canada and India.

The Company, maintaining a relatively complete research and development system, is a national high and new technology enterprise, and a key high and new technology enterprise under the National Torch Program. The Company has the first national-level enterprise technology centers and post-doctoral research station. The Company has strengthened university-enterprise cooperation, cooperating with Chinese Academy of Medical Sciences, Shenyang Pharmaceutical University, China Pharmaceutical University, Tsinghua University, Shandong University, China University of Petroleum, Beijing Institute of Technology, Qingdao University of Science and Technology, and Central South University, etc. The Company recruited 6 external academicians to promote the research and development of innovative drugs. Based on the consolidation of traditional advantages, the Company focuses on the drugs of cardiovascular and cerebrovascular, digestive system, anti-tumor, anti-metabolism, central nervous system, anti-infection and other drugs, and increases investment in R&D, laying out more than 100 new products. At present, the Company has 8 national Class I new drug registration numbers, 21 Class II new drug registration numbers, and more than 260 authorized patents, and is a three-star "China Patent Shandong Star Enterprise" (the highest level). "Xinhua Brand" is a well-known trademark in China and an export brand cultivated and developed by the Ministry of Commerce.

With nearly 80 years of development history, the Company formed three major industrial plates, namely chemical APIs, pharmaceutical preparations and pharmaceutical intermediates, with five major industrial parks: headquarters, No. 1 Branch, No. 2 Branch, Shouguang (Xinhua) and Gaomi (Xinhua), which are conducive and complementary to each other. The Company has established a complete industrial chain from pharmaceutical intermediates to high-quality drugs, with strong product supporting capacity. The Company follows the path of scientific, harmonious and internationalized development unswervingly, pursues self-improvement, expands markets, optimizes structure and increases efficiency to achieve sound and rapid development.

## **IV. Social Responsibility System**

### **1. Social Responsibility Plan**

The Company has been adopting "protecting health and benefiting community" as its corporate missions, duly attaching social responsibility to the Company's value system and concept system, and conducting social responsibility plan in respect of, among others, corporate operation, value achievement, social impact and environmental performance. It also carried out activities to implement social responsibility management within the company with an aim to achieve all-covered, duly performed and increasingly completed targets of social responsibility, in order to promote the sustainable development of the Company.

## **2. Incentive Mechanism**

The Company successively launched a series of reward management systems, which had formed the incentive system for social responsibility management. With continuous and effective implementation, The Company held the 2021 annual commendation and reward conference, and invested 32.78 million yuan and showed its appreciation to teams and individuals that made outstanding contributions in business operations, scientific research and development, safety production, energy saving and environmental protection, humanity development and other relevant aspects, and granted full recognition to all behaviors and achievements of the Company with regard to fulfilling social responsibilities. The phase 1 Employee Stock Ownership Scheme launched by the Company in 2017. The Company launched the first Share Option Incentive Scheme in 2018, and the assessment is divided into three years. The Company launched the second Share Option Incentive Scheme in 2021, and it will be assessed separately over the next three years. The implementation of the mid - and long-term incentive scheme is conducive to attracting and retaining outstanding talents and fully mobilizing the enthusiasm of employees, which are beneficial to the long-term development of the Company.

## **3. Interested Parties**

Throughout the years, the Company has been maintaining harmonious, cooperative and win-win relationship with interested parties under mutual trust and has established standardized, positive and smooth communication with various parties, achieved continuous improvement in values of internal and external interested parties, and strived to adopt a business model to pursue coordinated, sharing, win-win, prosperous and harmonious development with such interested parties.

## **4. Internal and External Communication Mechanism**

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

## V. Enterprise Honors Obtained in the Year 2021

1. Major Scientific and Technological Achievement Award of Zibo City（淄博市重大科技成果獎）
2. Top 100 Award-winning Enterprises of China Pharmaceutical Industry（中國醫藥工業百強獲獎企業）
3. Model Enterprise of Integrity Construction of Shandong Province（山東省誠信建設示範企業）
4. Top 100 Comprehensive Enterprises of Zibo City in 2021（2021年淄博市綜合百強企業）
5. Outstanding Contribution to Industrial Climbing of Zibo City（淄博市產業攀登突出貢獻企業）
6. Leading Enterprise of Science and Technology of Shandong Province in 2021（2021年度山東省科技領軍企業）
7. Outstanding Contribution to Scientific and Technological Innovation of Zibo City（淄博市科技創新突出貢獻企業）
8. Enterprised with Outstanding Contribution to Quality in Zibo City（淄博市品質強市突出貢獻企業）
9. Contribution Award for the Development of University-Industry Research Cooperation of College of Pharmacy of Shandong University（山東大學藥學院產學研合作發展貢獻獎）
10. 2021 Shandong Province "Quality Lu Medicine" Construction Demonstration Enterprise（2021年度山東省“品質魯藥”建設示範企業）



11. 2021-2023 Shandong Province Demonstration Unit (Base) for the Integration of Industry and Education (山東省產教融合示範單位(基地)(2021-2023))

12. 2021 Top 100 Industrial Enterprises of Zibo City (2021 年淄博市工業百強企業)

13. Two integration of outstanding enterprises of Shandong Province (山東省兩化融合優秀企業)



## CHAPTER II CORPORATE OPERATION AND GOVERNANCE

### I. Corporate Governance Structure

With strict compliance with the requirements of the current effective Company Law, the Securities Law, the Corporate Governance for Listed Companies, and Rules for Shareholders' General Meetings of Listed Companies, Shenzhen Stock Exchange, Stock Listing Rules of SEHK and other laws and regulations as well as related documents, the Company has established a comprehensive corporate governance structure including the general meeting, the Board of Directors, the supervisory committee and the management.

The general meeting is the highest authority of the Company, and the Articles of Association and the Rules of Procedures for General Meetings clearly define the duties and responsibilities of the general meeting and the rules of procedure are clear, which ensures the efficient and standardized operation and scientific decision-making of the general meeting and ensures that all shareholders, in particular, minority shareholders shall enjoy equal status and exercise their rights.

The board of directors is responsible for guiding and leading the affairs of the Company, formulating strategic directions and setting goals and business development plans. The Board of Directors shall, in strict compliance with the Articles of Association and the Rules of Procedures of the Board of Directors, exercise decision-making power within the prescribed scope of duties, and shall be responsible for the establishment and effective implementation of the internal control system and safeguard the overall interests of the Company.

Supervisors of the supervisory committee shall strictly perform their duties in accordance with the provisions of the Articles of Association and the Rules of Procedures of the Supervisory Committee, examine the Company's financial situation, supervise the legal compliance of the performance of duties of directors, managers and other senior management and independently publish opinion.

The management of the Company is responsible for implementing the strategies, objectives and plans adopted by the Board of Directors. The management of the Company shall be responsible for the production and operation of the Company in accordance with the Articles of Association and the Rules of Procedures of the General Manager, organize the implementation of the resolutions of the Board of Directors, report to the Board of Directors and accept the supervision of the supervisory committee.

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

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

## II. Concept System

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

## III. Operating Results

Against the backdrop of numerous difficulties in 2021 such as soaring prices in raw materials and freight rates, significant RMB appreciation and sluggish market demands, the Company and its subsidiaries (the "Group") was able to overcome them by promptly adjusting its strategies and taking an active approach to forge ahead, and maintained double growth in operating revenue and profit, with major operating indicators reaching record highs for the eighth consecutive year.

In 2021, the operating income of the Group amounted to RMB6,560.08 million, representing a year-on-year increase of 9.23%; the total profit amounted to RMB420.44 million, representing a year-on-year increase of 2.14%; the net profits attributable to shareholders of listed company amounted to RMB348.55 million, representing a year-on-year increase of 7.29%; the actual tax paid by the Company for the year amounted to RMB319.29 million. Throughout the years, the Company has been maintaining excellent credit rating, and has a good relationship with many financial institutions, such as ICBC, CCB, ABC, China Eximbank, CMBC, CITIC, CIB.

Unit: 100 million



#### IV. Internal Control and Supervision

The Company comprehensively implemented the “Basic Norms of Internal Control of Enterprises” (《企业内部控制基本规范》), “Guidance on the Application of Enterprise Internal Control” (《企业内部控制应用指引》) and “Guidelines for the Evaluation of Enterprise Internal Control” (《企业内部控制评价指引》) published by five departments including the Ministry of Finance by establishing an internal control working group, with reference to the internal control management system and evaluation measures of the Company, to take full responsibility for the implementation of the evaluation of internal control.

##### 1. Continuously optimizing the internal control system of the Company

Under the framework of comprehensive risk management, the Company has been continuously promoting and optimizing the establishment of internal control system, the control coverage of which includes all key business procedures and items of the Company, and has paid extra attention to important business units, important business items and high-risk areas, with a relatively higher controllability and the ability to satisfy the requirements of external regulatory authorities at the same time. The Company strictly implemented the “Comprehensive Risk Management Measures” and carried out dynamic management on risks to regularly predict and assess all existing and potential risks and formulated corresponding solutions to internal control to achieve the control procedure of ex-ante prediction, in-process control and ex-post rectification. During the year, the Company continuously improved the internal control system through system establishment and other measures, such as promoting the standardization of internal audit work of the Company, and formulating the Implementation Measures for Responsibility Investigation of Illegal Business Investment, etc, and strictly implemented various measures on internal control to ensure the sound and safe operation of the Company.

##### 2. Carrying out internal special checks

Carrying out internal special checks is an important session of internal control management. The Company initiated inspection on the establishment and implementation of the internal control system of its parent and subsidiaries, so as to timely identify the weaknesses of the

enterprises in terms of internal control, reveal potential risks, continuously optimize the internal control system and promote the establishment of risk systems.

In 2021, the Company, led by audit department, with a working group organized by relevant personnel of the production and operation and financial department from various subsidiaries, has organized multiple internal special inspections, including 2 comprehensive audits of the production and operation of subsidiaries, 3 economic responsibility audits and some engineering audits, etc.. In addition, the Company also carried out internal control audits on marketing credit risk and “three gold” occupation management, and special audit on hospitality management to each unit and each subsidiary. The inspection team made a reasonable and effective evaluation on the internal control risks of the above businesses and matters, and urged the relevant departments for improvement and optimization.

In 2021, while continuing to carry out contract review work, the Company benchmarked advanced enterprises to promote the construction of contract management informatization and developed a contract management system to further strictly control contract management. The Company strives to reduce risks and improve efficiency, so as to realize the sharing of important data resources and realize contract information management.

The audit department actively participates in the construction of internal control and organizes the evaluation of internal control in accordance with “Internal Audit Standards” and audit plans of the Company. According to the requirements of comprehensive risk management, the audit department organizes the comprehensive risk identification and evaluation of the Company in 2021. Through effective identification, comprehensive analysis and quantitative evaluation, the Company has understood the risk distribution and extent of influence, and organizes relevant units to formulate corresponding management strategies and response plans in accordance with the evaluation, and early warning indicators are set so as to continuously intensify the overall risk management work.

### **3. Actively consolidating internal control evaluation**

ShineWing has been engaged by the Company to conduct a comprehensive and independent audit on the internal control system of the Company and issue the unqualified opinion “Audit Report of Internal Control for the Year of 2021”. During the reporting period, the Company has improved and optimized the businesses and items which were included in the scope of evaluation in accordance with the suggestions of internal control evaluation. On basis of the day-to-day monitoring and special checking of the Company’s internal control, the Company has assessed the effectiveness of the design and operation of its internal control as at 31 December 2021, completed various tasks with regard to the establishment of internal control during the year, and timely reported to the Independent Audit Committee on the evaluation progress. Having been considered and approved by board of directors, the internal control evaluation report was disclosed publicly on 31 March 2022.

## CHAPTER III SOCIAL PERFORMANCE

### I. Safety Production

The Company thoroughly implemented the safety concept of “Safety is the insurance of the happiness of employees; safety is the prerequisite for successful business performance of a company”. According to the work policy of “strengthening foundation, increasing investment, and controlling risks”, various tasks were carried out effectively. In 2021, the Company was identified by the Ministry of Emergency Response as one of the 56 pilot enterprises of “Industrial Internet + Hazardous Chemical Safety Production”, and successfully passed the law enforcement inspections by governments at all levels.

#### 1. Safety Management System

The Company attached great importance to the occupational safety and health of employees, strictly complied with the Law of the People's Republic of China on Work Safety (《中華人民共和國安全生產法》), Law of the People's Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), “Measures for the Supervision and Administration of Employers' Occupational Health Surveillance” (《用人單位職業健康監護監督管理辦法》), “Measures for the ‘Three Simultaneous’ Supervision and Administration of Occupational Disease Protection Facilities in Construction Projects” (《建設項目職業病防護設施“三同時”監督管理辦法》) and other laws and regulations, and promulgated and implemented the Management System for Production Safety And Occupational Health Production of Shandong Xinhua Pharmaceutical Company Limited (《山東新華制藥股份有限公司安全生產及職業衛生生產管理制度》).

According to the new Work Safety Law of the People's Republic of China, the Company has revised and improved the work safety responsibility system of all employees. At the beginning of the year, the Company carried out the defense work of safety policy objectives at the Company level and workshop level, respectively. By signing Contract Responsibility letter of Lifeline Project target with the principal of each unit. Employees of the Company signed Contract Responsibility letter of Lifeline Project target with their work unit to realize the responsibility system of all employees' safety contracting. At the end of the year, they were assessed and publicized. The individual quantitative evaluation of safety performance of production system managers was implemented, and further deepen the development of “one post, two responsibilities” to promote the implementation of safety responsibilities of personnel at all levels.

In 2021, the Company continued adhering to the safety management concept of “four comprehensive management”, steadily advanced the Four Major plans, took the implementation of duties as the starting point, took risk management and control as the core, and focused on strengthening the foundation, and continuously improved the Company's intrinsic safety management and control level, and steadily advanced the Company's safety standardized



construction and double prevention system construction. In 2021, the company successfully passed the national emergency Response Department of the national dual prevention system construction pilot unit acceptance.

## **2. Safety Management Measures**

### **(1) The investment and construction of the Company's safety production equipment and facilities**

In 2021, the Company completed an investment of RMB32.94 million in safety, of which the parent company completed RMB19.2 million. The Company organized and implemented a smart video security monitoring project in the production area. For the loading and unloading truck area of the northern tank area of the production department of No. 2 Branch, workshops 207, the hydrogenation of workshops 205, and the loading and unloading area of the southern tank area of the production department of No. 2 Branch, the Company has realized the identification and alarm of the incidents of making phone calls, not wearing safety helmets, and not being properly monitored when unloading trucks; in addition, a combustible gas visualization system has been implemented to realize the linkage between combustible gas probes and on-site video probes, and the push of alarm information and video information by We Chat.

### **(2) Operation of safety standardization system**

As a second-level enterprise for the standardization of hazardous chemical production in Shandong Province, the Company strictly implemented the laws and regulations on production safety, and consolidated the construction of a dual prevention mechanism to strengthen the investigation of four-level hidden dangers, the process safety risk analysis, and the safety risk change management. As a bench-marking unit of the dual prevention system for pharmaceuticals and chemical industry in Shandong Province, the Company improved the construction of dual prevention system in 2021, and implemented hierarchical management and control of all 505 risk points that have been assessed and announced, and the risks are under control.

The Company organized workshop-level safety standardization internal audits for 14 production units; organized company-level audits of team safety management systems for 40 teams.

## **3. Safety education and training**

In 2021, the Company has carried out various forms of training. The Company carried out warning education and training, organized the employees to watch, study and summarize accident warning education films twice; strengthened the training of newly appointed middle-level cadres and full-time safety management personnel, and organized 32 people to participate in the qualification management and forensics examination of the Municipal Safety Supervision Bureau; adhered to carry out the youth safety skills competition every year since

2013, maintaining the determination to improve the safety literacy of young employees. In 2021, the Company built a safety skills training base in the high-tech zone, and organized more than 800 young workers to combine theoretical study with practical guidance. The Company has established and improved a 1,700-question bank online answer sheet simulation learning platform, provided practical guidance on working at heights, fire extinguishing, the use of air exhalation, cardiopulmonary resuscitation, and confined space operations. In addition, the Company employed experts from the Occupational Disease Prevention and Control Institute to conduct emergency response training, and actively promoted employees to study and answer questions online and take theoretical exams on the computer, and organized practical assessments. Through these, employees can not only improve their practical operation ability, but also mastered more comprehensive operation skills. And It not only improved the comprehensiveness of employees' skills, but also consolidated the operation ability of young employees and their ability to deal with emergencies. This year, 16 company-level trainings were completed, and 59 people went out for training.

Through the promotion of the construction of the Company's training base, the long-term training for employees of dozens of hazardous chemical production enterprises in the high-tech zone has further improved the basic safety literacy of young employees in various chemical enterprises, and enhanced the young employees' practical skills, self-defense, self-rescue, and mutual rescue ability, and promoted the social responsibility of each enterprise, which would be conducive to social stability and make contributes to the society.



#### 4.Hidden trouble investigation and management

At the beginning of the year, the Company issued Xin Yao Gu Zi [2021] No. 26 "Notice on Issuing the 2021 Annual Security Risk Inspection and Management Plan". Led by the leaders of the Company, a comprehensive inspection of the four seasons was carried out on each unit. Each professional department carried out the inspection of each department and each specialty according to the plan at the beginning of the year. Each production unit carried out hidden danger investigation according to the checklist of personnel at all levels, and continuously improved the management and control of the Company's larger risk points. It also organized training on the ability of personnel to investigate risks, so that grass-roots employees can



master the content of risk points in charge and control measures, etc., and strengthen the effective management and control of risk points. In 2021, the security department organized a total of 20 safety inspections, dispatched 324 inspectors each time, discovered and improved a total of 1,289 general safety hazards, and issued 17 company-level hidden danger rectification notices.

## 5.Safety Culture Cultivation

The Company's senior leaders take the lead in carrying out safety commitments every year; the Company has established a safety committee, which holds a quarterly meeting, and a monthly meeting on safety. Each team of the production unit organizes a safety activity day every week, and all employees participate in. Moreover, it formulates annual safety policy goals at the company level, workshop level, and team level, and carries out safety responsibility contracting, decomposing and implementing responsibilities by levels.

## 6.Safety emergency drill

The Company further strengthened emergency drills, improved the assessment of quantitative indicators of drills, and promoted the improvement of the Company's emergency response level. In 2021, the Company carried out 11 company-level emergency drills, 58 workshop-level emergency drills, and 893 team-level emergency drills, including 188 drills during night shifts and during irregular working hours on holidays. In addition, 16,302 people participated in the drills.



In the past three years, there was no safety incident of general or above level and no work-related death accidents. During the reporting period, the company lost 780 working days due to work-related injury.

## II. Social Contribution

### 1. Product Quality Assurance

#### (1) Quality Management and Control

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

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

The Company has formulated corresponding quality standards for raw and auxiliary materials, packaging materials, process water, semi-finished products, and manufactured products. The inspection department drafted and revised the inspection procedures for raw and auxiliary materials, packaging materials and finished products, and issued COA. The procurement, acceptance, warehousing, inspection, storage and distribution of preparation raw materials were carried out in accordance with the Company's "Preparation Raw Materials Management Standards". The labeling of preparation products, the ordering plan for packaging materials, the packaging design and procurement of printed materials, the inspection and acceptance of incoming goods, storage and distribution, as well as collection and use were all carried out in accordance with the Company's "Preparation Packaging Materials Management Standards".

The Company strictly abides by the “Drug Administration Law of the People's Republic of China” (《中華人民共和國藥品管理法》), “Good Supply Practice for Pharmaceutical Products” (《藥品經營質量管理規範》) as well as other laws and regulations and relevant systems of the Company. In 2021, there was no product quality incident of general or above level or material quality complaint.

#### (2) Establishment of well-designed drug recall procedures

The Company has established procedures and management requirements for the recall of pharmaceutical preparations. For drugs that have or may have potential safety hazards, the Company voluntarily initiated recall procedures to recall products that have been sold or released.

Drug recall is divided into the following seven stages. The first stage is to collect information about drug safety hazards and conduct risk assessment based on the collected information; In the second stage, relevant personnel such as production personnel, inspection personnel or personnel with experienced medical background shall conduct drug safety hazard investigation. The scope and content of the investigation shall be determined according to the actual situation, and the scope of the investigation shall include all drug batches that may have potential safety hazards; The third stage is to determine the level of drug recall, formulate the recall plan and implement the recall decision for the drugs with potential safety hazards after the evaluation of drug safety hazards; The fourth stage is to conduct recall communications with distributors, retailers and consumers; The fifth stage is to implement the recall and deal with the recalled products; The sixth stage is to draft the recall report, submit it to the regulatory department and send a copy to the distributors; The seventh stage is to implement corrective and preventive measures, and finally complete the recall process and close the recall.

Product recall drills are conducted by the Company every two years. If the product is found to be exposed to hidden quality and safety hazards after hitting the market, the Company shall strictly implement the “Management Standards for Handling Customer Complaints and the Returned Products” (《顧客投訴及退回產品處理管理標準》), “Management Standards for Drug Recall” (《藥品召回管理標準》) and other rules. When the product is found to be unqualified by customers after delivery, the Company shall handle the case in accordance with the “Management Standard for Handling Customer Complaints and Returned Products” (《顧客投訴及退回產品處理管理標準》); when the product is found to be unqualified by the Company after delivery and shall be recalled, the Company shall recall the product in accordance with the requirements of the “Management Standards for Drug Recall” (《藥品召回管理標準》).

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

In 2021, the Company successfully passed the customer and official audit for many times, and completed 177 batches of national and provincial sampling at all levels, and the inspection results were qualified. The Company passed the quality audit of Bayer Beijing factory and Xinhua Pharmaceutical by Beijing Drug Administration; Cooperated with Shanghai Roche to pass the quality audit of ptqe of Roche headquarters; Passed the special drug inspection of No. 3 Branch of the regional inspection bureau of Shandong Drug Administration, the special inspection of products containing stimulants, the special inspection of intensively purchased varieties and the quarterly follow-up inspection; Passed the flight inspection of small volume injection by Shandong Drug Administration; Passed the on-site inspection of GMP compliance of 202XY new car workshop by Shandong Drug Administration; Passed the combined on-site inspection of GMP and production license of cefradine capsules commissioned by Xinda company by Shandong Drug Administration; Passed the on-site inspection on the registered production of Ibuprofen Tablets commissioned by Xinhua Gaomi by Shandong Drug Administration.

In 2021, the Company successfully promoted the quality management of various preparations. The entrusted processing of Roche medoba has been filed and publicized by Shanghai Drug Administration, and medoba has successfully started commercial production and product release; Successfully passed the on-site GMP compliance inspection of 202XY new car workshop by Shandong Drug Administration, and completed the submission of verification batch and technical review data of production address change for Ibuprofen Tablets, chloramphenicol tablets, analgin tablets and glimepiride tablets; The entrusted processing (Xinda Pharmaceutical and Xinhua Gaomi) project was carried out smoothly, passed the combined on-site inspection of the GMP compliance of cefradine capsule and the change of production license, started the commercial production as well as the technology transfer work of Nanding cephalosporin products, digoxin tablets and hydrogenated cortisone tablets in workshop 202 to Xinda Pharmaceutical; Successfully passed the on-site inspection of Ibuprofen Tablets (specification: 0.1g) registered production; Anda 200mg Ibuprofen Tablets have been approved by FDA; Completed the production and product release of three batches of technology transfer validation batches of two specifications of STADA prescription ibuprofen 200mg/400mg Ibuprofen Tablets respectively, and the registration data have been submitted for German official review.

By the end of 2021, a total of 14 varieties with 20 specifications of oral solid and liquid preparations of the Company had passed the consistency evaluation of quality and efficacy of generic drugs.



#### (4)Product liability

No products need to be recalled for safety and health reasons in 2021. In 2021, a total of 55



complaints were received, mainly for consulting, which did not affect the internal quality of products. After receiving the complaints, the quality management department classified them according to the risks and impact of the complaints on patients' health, and investigated them jointly with relevant departments to determine the root cause of the customer complaint, and then evaluated whether there were potential safety and regulatory risks, and determined the appropriate CAPA to prevent the problem from happening again. The department replied to customers within the specified time limit, and timely understood customers' satisfaction and suggestions on complaint handling. We review complaints every six months, review relevant records and conduct trend analysis, and evaluate the effectiveness of relevant corrective and preventive measures to identify issues that require alertness, may recur, and possible recall of medicines from the market are needed, and take appropriate action based on the review.

## **2. Streamlined Terminal Sales Channels**

Based on the current situation of prevention and treatment of cardiovascular and cerebrovascular diseases in China, the Company has increased the promotion of Jiening, a key drug for prevention and treatment of cardiovascular and cerebrovascular diseases. The products have entered more than 1,000 secondary hospitals and more than 3,000 community-level hospitals, and the distribution rate of retail pharmacies has reached 50%, improving the accessibility of products. The Company carried out brand generic drug promotion activities, and its high-quality and low-price drugs widely entered the national retail pharmacies and community-level medical institutions, benefiting the public.

By actively responding to the centralized procurement of national drugs and winning the bid, high-quality products that passed the consistency evaluation, such as cefradine capsules, glimepiride tablets, captopril tablets, clarithromycin tablets, cetirizine tablets, ibuprofen tablet, etc., have been widely used in national public medical institutions, saving a large amount of medical insurance funds for the country and reducing the medical burden of patients.

## **3. Relationships with Investors, Customers and Suppliers**

### **(1) Management of relationship with investors**

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

corporate culture that respects investors and to realize the ultimate goal of maximizing the corporate value and shareholders' interests.

The Company has always been committed to protecting the interests of medium and small investors, by introducing the market situation, the Company's operating results, business development and prospects to investors by receiving visits and consultations from investors from various parties, interacting with public investors online and consulting by telephone, etc., further enhancing the public's awareness of the Company and enhancing the Company's profile.

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

The Company took an active participation in varieties of activities related to investor relations. During the year, the Company organized and carried out the "Here comes the Shareholders " investor rights knowledge contest, popularize the knowledge of rights and interests for the majority of small and medium-sized investor. The Company held the 2020 annual results conference to interpret the content of the annual report to the majority of investors and explain the strategic plan in detail; in 2021, it organized a number of conference calls, on-site research, etc., and actively participated in the online collective reception day activities to discuss and communicate the issues that investors are concerned about, enhancing investors' understanding of the Company, and protecting the legitimate rights and interests of investors.



## (2) Management of relationships with customers

A sound customer management system forms an integral part of the business development of the Company. The Company has been adhering to the concept of "customer-oriented" services. Targeting on customers from different sectors of the Company, the major business sectors organized, analyzed and classified different levels to manage information such as basic information and credit records of customers by way of in-depth investigation in light of

business nature, attaining favorable control over sales management, marketing management and customer service management of the Company based on its ordinary and usual business.

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

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

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

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



The Company actively promoted the innovation and development in the field of "Internet + Healthcare", with Xinhua Pharmaceutical E-commerce Innovation Park as the main body, layout regional and nationwide integration of Internet medical resources, Xinhua "Internet + Healthcare" innovative service system is continuously constructed by creating an out-patient electronic prescription circulation mechanism, establishing an online follow-up service platform, building an Internet hospital platform and a cloud diagnosis and treatment platform, and providing high-quality one-stop Internet medical and health service solutions for users.



### (3) Supplier Relationship Management

The Company promulgated and strictly complied with the "Measures for the Administration of Sunshine Purchase (Trial)" (《阳光采购管理办法（试行）》), "Management Standard for Procurement and Supply of Chemical Raw Materials and API Packaging Materials" (《化工原料及原料药包装材料采购供应管理标准》), "Management Standard for Procurement of Auxiliary Materials" (《辅助材料采购管理标准》), "Management Regulations for Material Procurement of Procurement Department" (《采购部物资采购管理规定》), "Management Regulations for Procurement of Equipment, Spare Parts, Electricity and Instruments of Procurement Department" (《采购部设备、备品备件、电气、仪器仪表采购管理规定》), "Standard for Materials Classification and Suppliers Management" (《物料分类及供应商管理标准》), "Management Standard for Audit of Materials Suppliers" (《物料供应商审计管理标准》), "Management standard for chemical raw materials and intermediate products" (《化工原料及中间产品管理标准》) and List of suppliers, and other management systems for supply chain. Pursuant to the administration requirements of the documents, the Company classifies



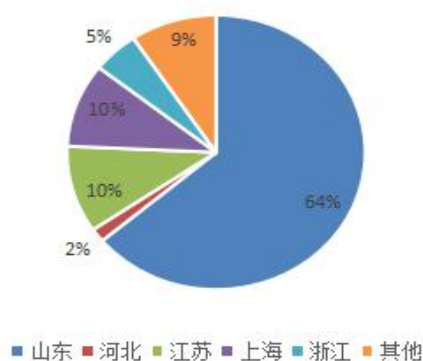
the material suppliers for management purposes and conducts review on suppliers regularly. QA organization conducts emergency review by way of risk evaluation on quality-related matters, including material defects, HSE, issues or commercial reasons relating to social ethnics. According to the audit plan for suppliers formulated and issued by QA on an annual basis, the Company conducts regular audit on suppliers(including on-site audit, paper audit). Further, the Company strengthens the management of suppliers via questionnaires, executing quality agreements and other means in accordance with requirements. Unqualified suppliers are required to rectify or will be disqualified from supplying.

The changes of materials and suppliers is subject to approval of QA according to the requirements of Material Classification and Supplier Management Standard.

The possible external and internal risks in the procurement process are mainly reduced by the following methods: strengthening the inspection on material demand plan and material procurement plan; perform a good job in the audit of contract verification; strengthen the management in the implementation of material procurement contracts; intensify the management of material procurement performance appraisal. The procurement process and standards were strictly implemented in accordance with relevant systems; Reduced the impact of regional safety, environmental protection, major activity control and other factors on material supply by adding suppliers in different regions; Paid attention to the changes of epidemic situation at any time, took measures such as preparing goods in advance and formulated alternative schemes for suppliers in medium and high risk areas.

The Company actively seeks for establishment of long-term strategic cooperative partnership with suppliers passing credit rating authentication in domestic and foreign industries and enterprises which have leading position and good reputation in the industry, and evaluate the supplier's supply assurance capability, environmental and social risks through audit and supplier's annual business performance. To promote suppliers to fulfill their social responsibility of energy conservation and emission reduction, when all else are equal, suppliers with Environmental Management System certificates, safety and environmental protection management standards and strong sense of social responsibility are preferred in the course of selection.

按地区划分的供应商数量分布



#### 4. Science and Technology Innovation

The Company has always been committed to science and technology first, vigorously implemented the strategy plan of “Big Research and Development”, established a perfect R&D innovation system, and took the lead in innovation ability. In the relentless pursuit of truth and pragmatism, the Company made great achievements in product development, technology upgrade and research, which enhancing the back-end support to its overall development and strengthening its core competitiveness, and promoting the innovation-driven development of the whole pharmaceutical industry.

At present, the Company has six talent platforms: National Enterprise Technology Center, academician workstation, postdoctoral workstation, pharmaceutical master joint training point, Taishan scholar post and senior technician workstation. The Company was rated as one of the top 100 enterprises in China’s advanced enterprise education.

In 2021, four new product approvals were obtained: the transfer of irbesartan tablets (0.15g) holder was approved by the national authority (approval No.: 2021b00669), which became the first case in China to obtain the approval of holder transfer, the transfer of tofatib citrate tablets was approved by the national authority (national drug approval No.: H20213652), and the production approval of lactobacilli granules (1g national drug approval No.: H202113135, 2g national drug approval No.: H202113136) was obtained.



Positive progress has been made in the conformity assessment of generic drugs. As of the end of 2021, the Company had 14 products of 20 specifications passing the conformity assessment, including glimepiride tablets (1mg and 2mg), captopril tablets (25mg), cefradine capsules (0.25g), cetirizine hydrochloride tablets (10mg), Cefalexin capsules (0.125g, 0.25g), ibuprofen tablets (0.1g, 0.2g), clarithromycin tablets (0.25g), diphenhydramine hydrochloride tablets (25mg), diltiazem hydrochloride tablets (30mg), sodium bicarbonate tablets (0.3g, 0.5g), cefalexin tablets (0.125, 0.25g). Aminophylline Injection (10ml: 0.25g), compound sulfamethoxazole tablets (sulfamethoxazole 0.4g, trimethoprim 80mg). Rabeprazole sodium

enteric coated tablets, citicoline sodium injection, clarithromycin granules, cefixime capsules, donepezil capsules, finasteride capsules and other key consistency evaluation products are being carried out in an orderly manner. There are 33 drugs under research in the consistency evaluation, of which 14 products are lined up for review at CDE.

In 2021, R&D expenses reached RMB328 million. Xinhua Pharmaceutical and Xinda Pharmaceutical have successfully passed the recognition of high-tech enterprises in Shandong Province, and Xinhua Shouguang has passed the recognition of high-tech enterprises (filed); "Key technology and industrialization of clean and efficient production of ibuprofen" won the first prize of science and technology award of China Chemical Society in 2020. The Company has undertaken one provincial and ministerial level scientific research project, and the development and construction project of Shandong Peninsula National Independent Innovation Demonstration Zone, the "Construction of Caffeine Green Key Technology and Continuous System" (2019ZCQZB11), presided over by Shandong Provincial Department of Science and Technology, is currently in orderly progress.

In 2021, the Company added four scientific research and innovation platforms and established two innovation centers with China Pharmaceutical University, namely, China Pharmaceutical University Xinhua Pharmaceutical Joint Research Center for innovative drugs and high-end preparations and Xinhua Pharmaceutical - China Pharmaceutical University major public safety and emergency drug research and innovation center; Established Xinhua Pharmaceutical Nanomedicine Laboratory of China Research Institute of the University of New South Wales and Xinhua Pharmaceutical International Nanomedicine Research Center with Academician Rose and academician Zhen Chongli in Qingdao International Academician Port. The Company signed an agreement with Beijing University of technology to build an employment practice base. It introduced a new academician, and appointed academician Zhou Honghao as the chief consultant of clinical pharmacology of major innovative drugs of the Company.

New progress has been made in the development of innovative drugs. At present, there are four innovative drugs. In collaboration with Shenyang Pharmaceutical University, OAB-14, a major innovative drug for Alzheimer's disease, has made significant breakthroughs in prescription screening, preparation technology and quality standards, pre-clinical pharmacology and toxicology, and is preparing for phase I clinical trials. The project of anti pulmonary hypertension innovative drug lxh-1211 developed in cooperation with Central South University completed the preliminary study of small-scale synthesis, and the pharmacodynamics research was carried out smoothly.

## **5. Intellectual property protection**

The Company has formulated a patent work scheme. First, to combine with the specific characteristics of the Company, it has determined to focus on patent protection while taking into account trade secrets and trademarks; Second, to establish and improve the working system, establish patent working procedures, and clarify the division of labor for relevant

departments; Third, to improve the working system and formulate the Patent Management System, Patent Management Measures and Intellectual Property Protection Regulations; Fourth, to strengthen training and education, carry out training activities with different contents and forms according to different training objects, and to strengthen the attention and support for enterprise patent work.

By the end of 2021, a total of 467 patents have been applied, including 325 inventions, 89 utility models and 53 exterior designs. It has obtained 250 authorized patents, including 124 inventions, 76 utility models and 50 exterior designs.

The Company is recognized by the Department of Science and Technology of Shandong Province and the Shandong Administration for Market Regulation as the highest-level three-star "Chinese Patent Shandong Star Enterprise"; two projects, "green synthesis of 1-chloroethyl-4-isobutyrobenzone" and "new process for preparation of 4-carboxamidoantipyrine" receive Shandong Provincial Patent Gold Award. The "regeneration recovery process of activated carbon in caffeine production process and its device" was awarded the Zibo City patent second prize; "preparation method of ibuprofen crystallization" declared the 22nd China Patent Award and has been selected from the initial evaluation.

## **6. Anti-Corruption**

In 2021, the Company focused on strengthening discipline inspection and focusing on the primary responsibility of supervision. The Company has promoted the "three noes" mechanism through strict discipline enforcement, improving the system, plugging loopholes and strengthening integrity warning education. By assisting the Party committee of the Company to implement the main responsibility of comprehensively and strictly administering the Party, the Company educates and guides party members and leaders to enhance the awareness of red line and rules and to hold the bottom line without touching the red line, so as to improve the honest and professional awareness of Party members and leaders, and eliminate and reduce violations of discipline and law.

The Company highlighted the integrity warning education of key personnel, and built up the ideological defense line of honesty and self-discipline. The Company also carried out Party Day activities with the theme of warning education on party conduct and clean government, and enhanced the awareness of party members' integrity risks. A conference was held to warn education for cadres, where they watched warning education films collectively, and received good warning education results. The company held a meeting for newly promoted middle-level leaders to enhance their understanding of their position responsibilities and the responsibility of building a clean and honest party. At the training class for development objects held by the Party Committee of the Company, the Commission for Discipline Inspection of the Company deployed designated personnel to teach special party classes and special guidance on party discipline. The Company strictly control the threshold of the Party and enhanced the awareness of the red line and bottom line of discipline.

By strengthening the public transportation management during Tomb-Sweeping Day, Labor' s Day, Mid-Autumn Festival and National Day, the Company put an end to the private use of public vehicles. The Company also paid special attention to the reminder of incorruptible entrance in the entrance season, optimize the integrity archives of party members and leaders in key positions, performing good in replying the opinion on incorruptible government, and performing well in daily supervision and management such as responding to the opinion of party style and incorruptible government, so as to create an atmosphere of incorruptible employment.

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

### **III. Protection of Employees' Interests**

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

#### **1. Employment Opportunities**

The improvement of employment problem is an important way to realize, maintain and develop fundamental interests of the majority, which is in favor of the overall situation of social stability. The Company provided over 232 direct jobs to different talents in the society in 2021. Meanwhile, as the youth occupational training bases of the local government, the Company established training bases with several universities including Shandong University, etc.

The Company has a professional skill talent team and a high-skilled talent team. The professional skill talent team contains 215 people with senior titles, 493 people with intermediate titles. The high-skilled talent team contains one National technical experts, 12 chief technicians of Qilu, 22 chief technicians in Zibo City, 798 senior technicians, 670 technicians, 486 senior workers. Meanwhile, the Company formulates plans annually on the introduction of scientific research and technical management personnel according to the reserves and use of talents.

During the year, with Mr. Zhou Honghao, academician of the Chinese Academy of Engineering on board as the chief scientific advisor for the Company's clinical pharmacology research, and one new member from the National Key Talent Project as the chief scientist of the Company's genetic and cellular engineering research, the Company has brought into a total of 163 new staffs with a bachelor's degree or above, including 66 with a master's degree or above. The



Company forms its talents team through cultivation of new hires and internal talents.



## 2. Employees statistics

As at 31 December 2021, the number of staff of the Group was 6,533(3,770 males and 2,763 females).

### (1) By Job Category:

Job Category	Production Personnel	Sales Personnel	Engineering and Product Developers	Quality Supervision and Inspection Personnel	Other Personnel	Total
Number	3,744	892	895	550	452	6,533
Percentage	57.31%	13.65%	13.70%	8.42%	6.92%	100.00%

### (2) By Age Range:

Age Range	Under 35	35-55 (inclusive)	Over 55	Total
Number	3,207	3,197	129	6,533
Percentage	49.09%	48.94%	1.97%	100.00%

**(3) By Region:**

Regional Distribution	Domestically	Overseas	Total
Number	6,525	8	6,533
Percentage	99.88%	0.12%	100.00%

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

Age Range	Under 35	35-55(inclusive)	Over 55	Total	Region
Number	104	42	0	146	1 overseas, 145 domestic
Percentage	1.59%	0.64%	0%	2.23%	

**3. Laws and Regulations**

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

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

The Company established a social security system in compliance with the requirements of the government and provided social insurances such as social endowment insurance, medical

insurance, employment injury insurance and unemployment insurance as well as housing provident fund. The rate of coverage of social insurance was 100%.

#### **4. Health of Employees**

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

##### **(1)Labor Protection**

The Company has always purchased labor protection supplies in accordance with national and industry standards, and allocated corresponding labor protection supplies in accordance with the characteristics of different positions. The Company carried out planned training for employees on prevention of occupational hazards and safety protection knowledge. The Company supervised, inspected and guided the establishment of occupational health protection equipment, the usage of labor protection equipment for employees, emergency plans and drills for accidents of enterprises storing, using and disposing of hazardous chemicals. At the same time, the Company purchased special labor protection equipment such as specialized protection suits and masks for employees on the positions of disposal of fly ashes, waste acid burning and equipment maintenance according to corresponding occupational contraindication, and passed the annual re-authentication of occupational health and safety management system.

In 2021, the Company provided and distributed qualified protective articles for employees in accordance with laws and regulations, and carried out inspection, assessment and closed-loop management in accordance with the Company's annual inspection plan to protect the health of employees to the greatest extent.

##### **(2)Occupational Disease Prevention**

In 2021, according to the requirements of laws and regulations, 1,346 detection points of occupational hazard factors in the Company were outsourced, and the detection results met the requirements of national exposure limits. At the beginning of the year, the Company formulated a physical examination plan and conducted occupational health examination for personnel exposed to occupational hazards before, during and after leaving the post in accordance with the requirements of laws and regulations, among which, 146 persons received pre-post physical examination, 2,631 persons received on-the-job physical examination and 88 received off-the-job physical examination. No occupational disease or occupational



contraindication was found in all personnel, and the Company informed the employees of the results of occupational health examination in writing in a timely manner.

### **(3)Protection for Female Workers**

The Company has established the legal rights protection system with the “Collective Contracts” as the main part, supplemented by the “Collective Consultation Agreements on Wages”, “Special Agreement on Labor Safety and Health”, “Collective Contract for Special Protection of Female Employees”, “Regulations Concerning the Labour Protection of Female Staff and Workers” and “the Regulation of Paid Annual Leave Administration for Staff”, which effectively protect the rights and interests of female employees in terms of remuneration, working hours, rest and holiday, occupational safety and health, insurance and benefits, etc. As the spokesmen for female employees, the female employee committees at all levels earnestly performed their duties, paid attention to investigation and research, and actively provided feedback information on basic-level female employees. Formulating and reporting relevant proposals and insisting on carrying out special inspection on the labor protection of female employees, which includes: implementation of special treatment for female employees during menstruation, pregnancy, childbirth and lactation; heatstroke prevention and reduce temperature in summer; work safety and health.



The trade union of the Company organization specialized personnel each year to the basic unit for the Labour contract law and labor protection of female worker summer special inspection, the democratic management of grass-roots units, rights protection, labor protection, women work in accordance with the law and propaganda and education and so on eight aspects to conduct a comprehensive inspection, the inspection result as an important basis of PingXianShuYou.

## **5. Career Training and Development**

The Company persistently implemented the principle of “establishing a learning-oriented team and cultivating learning-oriented employees” and consolidated the belief of “training is the long-term input of the Company, driving force of development and the largest welfare of

employees”. The Company actively implemented education training plans, innovated education training forms, enhanced development of talents, and continuously promoted employees’ comprehensive quality. The Company formulated and printed the “Education Training Plan of 2021”, carefully deployed the education training throughout the year, confirmed the education training projects of the Company and each of its subsidiary, thereby further enhancing its cultivation of talents. The Company organizes orientation training and expansion training for new hires annually to enable them to quickly get adapted to the situation of the Company, to adjust their working condition, and to actively get used to the working pace of the Company. In order to meet the cognitive demands of employees for new professional capabilities, new technical knowledge and new management idea, education training of the Company involves various aspects such as professional knowledge, technology development, communication and cooperation. Besides, professional institutions were appointed and internal trainings were organized to promote the systematization and routinization of employees’ training.

In 2021, the Company has completed all levels of education training for 31,658 staffers in aggregate. The training proportion of men, women and personnel at all levels is 100%; The total training hours reached 161,295 hours; The average training hours of senior management, middle management and ordinary employees reach 42 hours, 28.5 hours and 24.5 hours, respectively; Male and female employees received an average of 24.7 hours of training. The Company sent 317 staffers in aggregate to attend training for staff. The Company successively organized training programs for mid-level and senior management in relation to business strategies, enterprise Party building, compliance of laws and regulations, and education on anti-corruption alert for Party members and leading cadres, professional training on safety quality and environmental protection equipment, medicine basic theory training for youth backbone staff, safety skills upgrading training for youth staff and high-skilled talents training, etc. The subsidiaries also actively developed the employee training program, participated in the various competitions and competitions organized by the group company, and sent employees to study, effectively promoted the comprehensive quality and professional competence of the staff.



## 6. Cultural Life of Employees

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

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



## IV. Social Welfare

### 1. Social Donations

The Company always insists on fulfilling various social and public responsibilities and moving forward firmly to become a responsible and dignified large state-owned enterprise. The Company closely combines corporate development and social welfare to achieve a win-win relationship of realization of social interests and corporate efficiency.

In 2021, the Company assisted Dangshan County in poverty alleviation in the name of the company's labor union by procuring agricultural products such as flour, fungus and vermicelli, with a total amount of RMB300,900; actively responded to the activity of "joint construction

by pairs” of the general urban and rural trade union of the city, and worked in Pairs with the Agriculture of Boshan flower trail to help vegetable farmers sell 107,500 kg of vegetables, amounting to RMB374,459.50; actively responded to the municipal poverty alleviation support activities, and purchased 2,210 kg of agricultural products from Shangjiao Village, Shima Town, Zibo City, amounting to RMB4,710.

The Company continued to implement distribution of grant for employees in need with an amount of RMB599,090 in aggregate for 340 employees throughout the year, among which a rescue subsidy of RMB507,660 was distributed to 202 employees with difficulty. The Company subsidized 138 students and distributed student grants and gifts amounting to RMB91,430 through “Autumn Education Aid” event. The Company held a series of sending-warm activities before new year and the Chinese new year such as visit of leaders for employees in need and model workers to realize “Prioritized Assistance for Primary Level” and comprehensively cater for employees in need.



## 2. Community Activities

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

(1) Evaluated the index of operating experts in 2021. By carrying out small index labor competition for operating experts aiming at “two increases and two reductions, cost reduction and efficiency enhancement”, during which 632 operating experts were selected with a reward of RMB195,920, thereby further stimulating employees’ initiative and motivating their enthusiasm of participation.

(2) Organized the Technical Contest of the Company in 2021. More than 3,000 employees passed the selection, and 470 employees participated in the technical competition activities at



the company level, during which the top six of ten specialties received informed recognition, selecting ten technical experts.



(3)The Company held diversified recreational and sports activities in 2021, mainly including “Book 38”reading activities, Spring long-distance running activities, exhibition activities of literary and artistic works of employees celebrating the 100th anniversary of the founding of the party, exhibition activities of calligraphy and painting photography of the 100th anniversary of the founding of the party, organization and participation in the knowledge competition of party history of employees in the provincial petrochemical system, employee badminton competition, employee volleyball competition, etc.



(4)Based on the needs of employees, we set up a caring service team to provide caring services to employees as much as we can. Two caring service teams with 43 members have served 10

times, scope of service: basic household maintenance, cleaning up family hygiene of employees in need, visits and condolences, and “Delivering warmth, coolness, health, culture and training” volunteer service activities, etc. The service function and business level of the labor union have been improved, and some minor problems in the daily life of employees have been resolved, creating a harmonious atmosphere for the Company and promoting positive energy.



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

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

In order to better serve the residents and further enhance the residents' awareness of safe drug use and health care, Xinhua drugstore entered Dongyuan community on May 29, 2021 to carry out the activity of "free clinic to enter the community, care for health" to guide the people taking drugs for hypertension prevention and chronic diseases. At the same time, it also provided free services such as measuring blood glucose and blood pressure, sending health and medical services to the residents' door and providing considerate and convenient services for residents.

On June 7, 2021, Xinhua drugstore organized employees to go to the college entrance examination point of Zibo middle school and distributed emergency supplies such as mineral water and disinfectant wipes free of charge to cheer for the student candidates.



On June 21, 2021, Xinhua drugstore joined hands with Yunnan Baiyao Group to carry out the "summer cooling activity", which sent 500 boxes of Huoxiang Zhengqi liquid to environmental sanitation workers in hot summer. The little act of love has moistened the hearts of sanitation workers.



The Company conducted some online product training sessions and academic conferences, with extensive expert and customer participation, strong impact and good publicity effect, it also enhanced the influence of the company.

In 2021, Xinhua Pharmaceutical experts successively went to some basic drugstores to solve the people's worries and doubts, popularize health care, disease prevention and medication knowledge, and were welcomed and praised by the people present. For common hypertension, coronary heart disease and digestive system diseases, pharmaceutical experts explained in detail from the early symptoms of common diseases, how to prevent and treat them in daily life, how to eat and use drugs healthily, so that the people can enjoy free expert medical services, learn disease prevention knowledge, enhance the awareness of health protection, and improve the knowledge level of disease prevention and control at the grass-roots level.



### 3. Reserving special drugs and taking on the great responsibility of love

On March 29, 2021, a patient in Jiangsu Province developed poisoning symptoms due to accidental administration of rat medicine. The patient was in critical condition and urgently needed acetamide injection produced by the Company for treatment. Since acetamide injection is a specific antidote with extremely small demand at ordinary times, local hospitals and pharmaceutical companies had no reserves then. The family members were extremely anxious and asked for help everywhere. Finally, they contacted the sales manager of Suzhong region of Xinhua Pharmaceutical and obtained acetamide injection by starting the emergency allocation and assistance program. After a long-distance travel of 300 kilometers, we finally arrived at the first people's Hospital of Huai'an City at 8:10 p.m, and delivered the drug to the patients at the earliest time, turning the patient out of danger.



Xinhua Pharmaceutical Acetamide Injection, as an emergency drug for detoxification, has a low sales volume and a high cost, but the Company attaches great importance to social responsibility and reserves emergency drugs regardless of cost, which has saved lives for numerous times. Saving one life after another and silently assuming the humanistic care and great responsibility as a red enterprise.



## CHAPTER IV ENVIRONMENTAL PROTECTION

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

### I.Environmental Protection Upgrades

In 2021, the Company, focusing on the entire layout, kept enhancing the internal control of environmental protection and gradually achieved the upgrading and transformation of its environmental protection work. The Company fulfilled the standards of the pollutant emission controls and improved the emergency management ability of abrupt environmental pollution accidents through strict management and control, adopted responsive environmental protection measures according to industry features, increased the input of environmental protection measures, passed the supervision and reviewing of ISO, outperformed the environmental protection target of the local government during the year and promoted the overall level of the environmental protection work of the Company.

## 1. Treatment of Three Wastes

### (1) Solid Waste Treatment

The Company comprehensively managed the wastes and classified, stored, managed and disposed of them strictly in accordance with national and local requirements. According to the “National Catalog of Hazardous Wastes”, the Company recognized fifteen hazardous wastes, including waste colloids, residues, scrapped preparations and drugs, scrapped chemicals, waste activated carbon, waste mineral oil, waste nickel, waste mother liquor, packaging of hazardous waste, waste toner cartridges, waste adsorbents, waste mercury containing lighting equipment, laboratory waste organic solvents, waste filter elements and biochemical sludge, all of which have signed agreements with qualified disposal units for entrusted disposal.

#### Disposal of Solid Waste

Name	Disposal in 2021
Total hazardous waste (tonne)	9,436.5
Hazardous waste density (tonne/ RMB10,000 output value)	0.0268
Amount of household waste discharge (tonne)	2,500
Density of household waste discharge (kg/ RMB10,000 output value)	7.11

In accordance with the enhanced national requirements on waste management, the Company conducts classified management of waste and strictly managed and disposed the Company's waste in accordance with the categories of domestic waste, food waste, construction waste, recyclable waste and hazardous waste. Entrusting Zibo Municipal Environment and Health Bureau to manage and clear the Company's domestic waste, so as to prevent the mixed release of all kinds of garbage.

### (2) Exhaust Gas Control

The Company made use of RTO, photoelectric/photo-oxidative catalytic purification, low-temperature plasma, spray absorption, carbon fiber adsorption, breathing bag, condensation recovery and “double pipe” technology of liquid material loaders and so on to ensure the emission of waste gas is in compliance with the Emission Standard of Volatile Organic Compounds - Part 6: Organic Chemical Industry (DB37/2801.6-2018), Air Pollutant Emission Standard of Pharmaceutical Industry (GB37823-2019), Control Standard of Unorganized Emission of Volatile Organic Compounds (GB37822-2019), Integrated Emission Standard of Regional Air Pollutants (DB37/2376-2019), Emission Standard of Volatile Organic Compounds and Odor Pollutants for Sewage Treatment Plants (Stations) of Organic Chemical Enterprises in Shandong Province (DB37-3161-2018) and other relevant standards.



### Exhaust Emissions

Name	Emissions in 2021 (tonne)
Sulfur dioxide	0.13
Nitrogen oxides	0.17
Particulates	1.381
VOCs	23.999
Greenhouse gas	250,960tCO <sub>2</sub>

### (3) Effluent Control

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

### Waste Water Emissions

Name	Emissions in 2021 (tonne)
Waste water	2,738,190
COD	584.11
Ammonia nitrogen	21.007

## 2. Adoption of Measures and Achievement of Results

The Company entrusted the colleges and universities such as Qingdao University of Science and Technology as technical support, and entered into a technical service contract with such university, with an aim to providing technical support for the technological transformation of the Company's major products, such as caffeine, analgin, aspirin, ibuprofen, pipemedic acid and other bulk pharmaceuticals. Meanwhile, in cooperation with several domestic well-known environmental protection technology companies, the Company has introduced advanced facilities, such as RTO, carbon fiber adsorption, low-temperature plasma, photoelectrocatalysis, etc. to carry out in-depth treatment to organized exhaust emissions, so as to prevent the same from being emitted into the atmosphere as VOCs, hence contaminating the surrounding environment. The Company introduced advanced technologies and facilities such as MVR, CWO and membrane treatment to pretreat the high-concentration production wastewater, so as to ensure the stable operation of the Company's sewage treatment system and discharge to the standards. The Company actively introduced new environmental protection technologies to solve environmental protection problems: using microwave technology to treat MVR waste gas in workshop 105, actively introducing new treatment technology of hydrogen sulfide in sewage plant, and completing the pilot test of biodegradation treatment of waste colloid in workshop 205 and waste adsorbent in workshop 105.

In 2021, total investment in environmental protection was approximately RMB 219 million, among which the environmental protection investment of the parent company amounted to RMB140 million, mainly including the operation costs of waste water treatment and supporting facilities amounting to RMB57.90 million, the investment in environmental protection measures amounting to RMB51.10 million and the disposal of hazardous waste amounting to RMB15.80 million. The Company has completed the dichloromethane resin adsorption project of workshop 103, the exhaust rectification project of MVR workshop of workshop 105, the membrane concentration waste gas recovery and treatment project of workshop 203, the project of adding four sets of absorption towers in workshop 205, the project of adding two-stage absorption towers in MVR workshop of workshop 207, etc.

The measures for burning organized waste gas at RTO facilities, the technology of absorption of organic solvent by carbon fiber, recycled inorganic salts from high salinity wastewater by means of MVR, technology of TRS removal of hydrogen sulfide and other various advanced technology widely adopted by the Company were included in the recommended environmental protection technology and means of the environmental protection system of Zibo City.

Each of the subsidiaries actively performed responsibilities of environment protection, adopted various measures for energy conservation and emission reduction, and reduced negative impact of environmental protection.

The Company and its holding subsidiaries such as Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd., Xinhua Pharmaceutical (Shouguang) Co., Ltd. and Shandong Xinhua Wanbo Chemical

Co., Ltd. are on the List of Key Pollutant- discharging Units announced by the Ministry of Environmental Protection, the average daily discharge of them meets the standard.

### **3. Tackling climate change**

In view of the impact of major climate change, the company has formulated the Emergency Plan for Extreme Abnormal Weather to take different preventive measures according to the severity of extreme abnormal weather to ensure the normal operation of production and operation. At the same time, an emergency drill is organized every year to ensure that the emergency plan is effective.

In addition, the company has been connected with the weather forecast of Zibo Meteorological Bureau, to give early warning of extreme abnormal weather in advance, and release weather forecast information daily through the company's internal LAN, to overcome the adverse impact of climate change on production and operation.

### **4. Promotion for Environmental Protection**

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

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

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

Advocating green office. We optimized energy saving and environmental protection policies of the Company, managed the inspection system, advocated paperless office, encouraged the recycle of printing paper; optimized the system for cross-regional video and telephone meetings to reduce travel expenses, advocated employees to travel with green vehicles, made use of environment-friendly materials and rewarded energy saving behaviors. Environmental protection and energy saving measures should be carried out in daily production and lives. Special attention should be paid to electricity and water saving within the production and office areas. Switch off the lights in equipment rooms and corridors which are not in use and control



the use of water. The use of water and electricity in the plants of the Company shall be included in the scope of evaluation on workshop fees so as to encourage energy saving.

### 5.Circumstances in which administrative penalties are imposed for environmental problems

During the reporting period, the company and its subsidiaries have reached the standard of daily emissions and received the following administrative penalties due to individual reasons:

Name of the company or subsidiary	Reason for penalties	Violation	Penalty results	Impact on the production and operation of the listed company	Rectification measures of the company
Shandong Xinhua Pharmaceutical Company Limited	Assistance Inspection of Atmospheric Administration of Ministry of Ecology and Environment of the People's Republic of China	Environmental violation in which emergency discharge outlets of 103 workshop are not included in the management of pollutant discharge permits	ZHFZ [2022] No. 06 Penalty of RMB121,250	No significant impact	The pollutant discharge permit has been updated, rectifications have been completed, fines have been paid, and inferences have been made to prevent recurrence.
Shandong Xinhua Pharmaceutical Company Limited	Assistance Inspection of Atmospheric Administration of Ministry of Ecology and Environment of the People's Republic of China	Environmental violation in which pollutant discharge methods and discharge destinations are inconsistent with the pollutant discharge permit	ZHFZ [2022] No. 16 Penalty of RMB132,500	No significant impact	The pollutant discharge permit has been updated, rectifications have been completed, fines have been paid, and inferences have been made to prevent recurrence.
Xinhua Pharmaceutical (Shouguang)	Loose screw at the flange connection of the exhaust pipeline of the ammonia	Failure to maintain pipelines in a timely manner, resulting in	ZHFZ [2021] SG316 Penalty of	No significant impact	The screw was replaced and reinforced immediately to prevent the spread of odor.

Co., Ltd.	storage tank	ammonia spillage	RMB65,000	impact	
Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd.	Assistance Inspection of Atmospheric Administration of Ministry of Ecology and Environment of the People's Republic of China	Environmental violation in which pollutant discharge methods and discharge destinations are inconsistent with the pollutant discharge permit	ZHFZ [2022] No. 15 Penalty of RMB81,875	No significant impact	1. The management of RTO emergency bypass was further refined and the management procedures for emergency bypass were drafted; 2. Expert demonstration was conducted on the necessity of retaining the emergency bypass, and the demonstration opinions were submitted to the environmental protection department for filing; 3. Both the basic management of environmental protection and the learning and understanding of environmental protection laws and regulations were further strengthened.
Shandong Xinhua Wanbo Chemical Industry Co., Ltd.	Assistance Inspection of Atmospheric Administration of Ministry of Ecology and Environment of the People's Republic of China	Failure to implement emergency control measures as required	ZHFZ [2022] No. 05 Penalty of RMB87,500	No significant impact	The administrative measures that meet the emergency requirements have been revised, and the basic data of emergency management and control and other pollutant discharge reduction information are filled in accordance with the specifications and the actual situation, and reported to the Ministry of Ecology and Environment for record.
Shandong Xinhua Wanbo Chemical Industry Co., Ltd.	Assistance Inspection of Atmospheric Administration of Ministry of Ecology and Environment of the People's Republic of China	Environmental violation in which pollutant discharge methods and discharge destinations are inconsistent with the pollutant discharge permit	ZHFZ [2022] No. 14 Penalty of RMB81,875	No significant impact	The Company has established the Regulations on the Management of Safety Emergency Discharge Outlets of RTO Device of Shandong Xinhua Wanbo Chemical Industry Co., Ltd., pursuant to which during the period when the RTO device ceases operation for any reasons, all working procedures involving VOCs emission shall be suspended, and the Company shall immediately report

					to the environmental protection department for record to prevent similar acts.
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## II.Comprehensive Utilization of Resources

The Company has strictly complied with relevant national energy laws and regulations such as Energy Conservation Law, Cleaner Production Promotion Law and Circular Economy Promotion Law, as well as the management requirements of superior administrative departments, implemented the national energy conservation standards and norms, actively implemented various recommended requirements, improved the management system and strictly followed it, so as to promote the safe, standardized and economical use of energy. Through the application of energy-saving devices and the improvement of energy-saving technology, the Company optimizes the energy efficiency and promotes clean and low-carbon production. At the same time, with the implemented concept of circular economy, the Company declined and reduced the consumption of resources such as packaging materials, strived to improve the comprehensive utilization efficiency of resources, and promoted “green development, recycling development and low-carbon development” for the enterprise.

According to its production and operation work plan, the Company actively promoted energy-saving target responsibility management, adhered to performance orientation, planned and implemented energy-saving technology improvement, improved energy efficiency, and reduced the product energy consumption costs. In 2021, the Company's energy use target was to reduce the overall cost of energy use by RMB5 million. The Company scientifically decomposed and refined the energy-saving objectives according to the process characteristics of the main products, signed the letter of responsibility for energy-saving objectives with the main energy users, strictly implemented various energy management systems in the production process, and conducted assessment according to the professional assessment methods of energy. The Company regularly made statistics, accounting and comprehensive analysis on the completion of energy conservation objectives, tracked and evaluated the completion progress. The Company firmly grasped the problems and deficiencies in energy management and energy consumption, adhered to the problem orientation in all work, and improved the performance level of energy management by improving detailed management and implementing technical improvement measures.

In 2021, the enterprise adhered to the application and improvement of energy-saving technologies and achieved remarkable results in energy conservation, mainly including:

1. Anakin exhaust "deep condensation + carbon fiber adsorption" comprehensive transformation of ethanol recovery. After the transformation, the ethanol components contained

in the tail gas are fully condensed and liquefied. The exhaust VOCs is  $\leq 50\text{ppm}$ , and the recovery and reuse rate is  $\geq 90\%$ . Compared with the original process, to recover 361 tons of raw ethanol, 282 tons of steam consumption are saved in subsequent concentration and rectification with 813GJ of condensed desuperheating water.

2. Deep condensation treatment of calcium carbamazepine tail gas. For the original absorption process of pressure filtration, material transfer and drying of calcium carbamazepine containing ethanol exhaust gas, it has a low concentration of recovered ethanol which is not usable; the hot gas discharged from drying can not be condensed in time, which affects the vacuum degree and product quality; on one hand, the VOCs of tail gas discharged is high, and on the other hand, ethanol is not well recovered, resulting in waste of raw materials. "Circulating water condensation + spray absorption" process is a drying process under  $-30\text{ }^{\circ}\text{C}$  deep condensation. The condensation recovery rate of ethanol is  $\geq 92\%$ , and VOCs is stable within the allowable range, with remarkable benefits in raw materials and energy savings.

3. The distributed roof photovoltaic power generation device operates stably. The Company makes full use of solar clean energy and reduces the cost of electricity. The No. 1 Branch, No. 2 Branch and the headquarters use about 1.863 million kwh of clean electricity.

4. Thermal insulation reconstruction project of public steam pipe network in No. 1 Branch Park. For the main public steam pipeline in the park of No. 1 Branch plant, new materials were used to optimize and transform the insulation structure. After the transformation, the measured pipeline surface temperature was greatly reduced and the steam heat loss is greatly reduced. At the same time, due to the reduction of loss in the process of steam transmission and the improvement of steam supply quality, the steam consumption of the production unit was slightly lower than that before the transformation.

Set out below is the data for resources consumption in 2021:

Resources	Unit	Consumption in 2021
Power consumption	100 million kWh	1.85
Tap water	10 thousand m <sup>3</sup>	338.30
Steam	10 thousand tonnes	51.12
Packaging materials used for finished products	tonne	9,219
Power consumption (energy consumption per RMB10,000 output value)	kWh	481.83
Gasoline consumption (energy consumption per RMB10,000 output value)	tonne	1.33
Water consumption (energy consumption per RMB10,000 output value)	m <sup>3</sup>	8.81

**Results for comprehensive use of resources:** The energy use of the main products saved 30,600 tons of steam, 1.8632 million kWh of electricity, and 30,100 m<sup>3</sup> of tap water compared to the same period of last year, saving energy use costs of approximately RMB 10.11 million.

### III. Social Supervision and Social Demonstration

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

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



## CHAPTER V FUTURE PROSPECTS

2022 is the second year of the 14th Five-Year Plan. The Company will continue to focus on optimization of product structure and industrial chain upgrade, and on the basis of strengthening and improving the quality of raw materials and drugs, promote new breakthroughs in scientific and technological innovation, project construction, large preparation strategy, large research and development strategy, international operation, and new model cultivation, with higher business performance to the party's twenty gifts.

On the basis of well-organized production of several international processed drugs and timely delivery of orders with good quality and quantity, the Company further strengthened close contact with internationally renowned companies and strived to introduce more international cooperation projects, building a more competitive international structure. In 2022, the Company will continue to deepen the reform of safety management system, optimize the establishment of energy management system, actively promote energy conservation, emission reduction and green production, continue to improve the sense of satisfaction, acquisition and happiness of employees, and create a blessed and warm working environment. Meanwhile, the Company will perform social responsibility as its mission, actively contribute to the society, continue to be devoted in charity activities and philanthropy, and deliver positive energy of corporate development to jointly develop a harmonious society.

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

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

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

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

## **CHAPTER VI QUESTIONS AND FEEDBACK**

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

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## GUIDELINES AND INDEX OF THIS REPORT

Content of ESG Report Indicator Index released by Stock Exchange of Hong Kong Limited

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<b>Aspect A4</b>	<b>Climate Change</b>	
General disclosures	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact the issuer.	44
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	44
<b>B. Society</b>		
<b>Aspect B1</b>	<b>Employment</b>	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant impact on the issuer, in respect of remuneration and dismissal, recruitment and promotion, hours of work, holidays, equal opportunities, diversification, anti-discrimination and other treatments and benefits.	30
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	29、30
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	30
<b>Aspect B2</b>	<b>Health and Safety</b>	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant impact on the issuer, in respect of provision of safe working conditions and protection of employees against occupational hazards.	13、30
KPI B2.1	Number and rate of work-related fatalities	16
KPI B2.2	Lost days due to work injury.	16
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	31、32
<b>Aspect B3 Development and Training</b>	<b>Aspect B3 Development and Training</b>	
General disclosures	Policies on knowledge and skills to enhance employees' performance of duties with description of training activities.	32、33
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	33
KPI B3.2	The average training hours completed per employee by gender and employee category.	33
<b>Aspect B4</b>	<b>Labour Standards</b>	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant on the issuer, in respect of prevention of child labour or forced labour.	30
KPI B4.1	Description of measures to review employment practices to avoid	30



	child and forced labour.	
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Unhappen
<b>Aspect B5</b>	<b>Supply Chain Management</b>	
General disclosures	Environmental and social risk policies to manage the supply chain.	23、24
KPI B5.1	Number of suppliers by geographical region.	24
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	23、24
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	23、24
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	23、24
<b>Aspect B6</b>	<b>Product Responsibility</b>	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant impact on issuer, in respect of health and safety, advertising, labeling and privacy matters and remedial methods for products and services provided.	17
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	19
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	19
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	26、27
KPI B6.4	Description of quality assurance process and recall procedures.	17、18
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	21-23
<b>Aspect B7</b>	<b>Anti-corruption</b>	
General disclosures	(a) The policies; and (b) compliance with relevant laws and regulations which have a significant impact on issuer, in respect of prevention of bribery, extortion, fraud and money laundering.	27、28
KPI 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.	None
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	27、28
KPI B7.3	Description of anti-corruption training provided to directors and staff.	27、28
<b>Aspect B8</b>	<b>Community Investment</b>	
General	The policies on understanding of needs of community in which it	34-39

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disclosures	operates by community involvement, and ensuring that its business activities would take into account community interests.	
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	34-39
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	34-39