康哲药业
CHINA MEDICAL SYSTEM

康哲®

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (STOCK CODE:867)

2022
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


CONTENTS

CONTENTS

ABOUT THE REPORT

The Report is the seventh Environmental, Social and Governance ("ESG") Report of China Medical System Holdings Limited (the "Company" , together with its subsidiaries, the "Group" or "CMS") . This is an annual report, which covers the fiscal year from January 1, 2022 to December 31, 2022 (the "Reporting Period") with some additional related information incorporated that may have occurred outside the Reporting Period.

Basis of Preparation

The Report is prepared as per *Appendix 27 Environmental, Social and Governance Reporting Guide* of Main Board Listing Rules issued by The Stock Exchange of Hong Kong Limited ("HKEX"). Meanwhile, this ESG Report refers and responds to issues concerned by United Nations 2030 Sustainable Development Goals (SDGs), MSCI-ESG rating, S&P DJSI, with the combination of the Company' s business development and ESG practices.

Scope of the Report

The Report discloses the ESG risks and performances of the Group conforming to the principles of "Materiality" , "Quantitative" , "Balance" and "Consistency" mentioned in the *Environmental, Social and Governance Reporting Guide*. Unless otherwise indicated, the scope of the Report is the same as that of the *2022 Annual Report* of the Group, and includes the Company, its wholly owned subsidiaries and majority owned subsidiaries.

Data Sources and Reliability Statement

The materials and cases disclosed in the Report were from the Group' s relevant reports and archives. The Group undertakes that the Report does not contain any false information, misleading statements or significant omissions, and is responsible for the content of the Report as to its authenticity, accuracy and completeness.

Obtaining the Report

The Report can be accessed and downloaded from the Exchange' s website (www.hkexnews.hk) and the Group' s website (www.cms.net.cn). For further consultation, any opinion or suggestion regarding the Report, please contact the Group via ir@cms.net.cn.

CHAIRMAN'S MESSAGE

> WE WILL CONTINUE TO PROMOTE THE IMPLEMENTATION OF OUR ESG STRATEGY TO ESCORT THE GROUP' S SUSTAINABLE DEVELOPMENT; AND STAND FIRM IN OUR FAITH AND WORK TOGETHER WITH THE ENTIRE SOCIETY TO CREATE A BETTER AND HOPEFUL FUTURE.

Dear stakeholders and readers:

Looking back at 2022, with the recurrence of the Covid-19, extreme climate-related disasters and various risks such as energy and food crises, it is challenging to achieve the United Nations 2030 Sustainable Development Goals on schedule. It has become a must to embrace change and to measure the dynamic balance between business operations and the environment and society with a long-term approach for enterprise to achieve healthy and sustainable development.

Aiming to become a global leading sustainable pharmaceutical enterprise, CMS actively responds to United Nations 2030 SDGs and makes efforts for in-depth integration between the sustainable development concept and the Group' s strategy and business operation on the basis of full consideration of stakeholders' concerns to form ESG strategic and long-term development targets, in an effort to contribute CMS' s strength to global sustainable development.

CHAIRMAN'S MESSAGE- continued

In the past year 2022, under the guidance of our ESG strategy, we have been actively practicing the concept of green development and taking up the responsibility and mission of being part of pharmaceutical industry: with an innovative drug incubation platform, the Group works together with global innovative forces to develop high-quality and affordable innovative products with differentiated advantages to meet the unmet clinical needs and bring benefits to patients. Besides, we have embedded the concept of "Compliance First" in our corporate culture and built a compliant and efficient operating environment through continuous comprehensive training and process control systems. We have established a risk management system covering all aspects of the supply chain, combined with effective two-way communication and mutual trust mechanisms, to join hands with our partners to build a stable, honest and green supply chain. We pay close attention to and protect the rights and interests of our employees, starting from the tinny details, to create a working atmosphere of equality, respect and diversity for our employees, and realize the growth and development of the enterprise and employees together. We practice green operation concept, actively respond to the national "dual-carbon" target, focus on low-carbon innovation and transformation and increase investment in environmental protection, taking action to respond to global climate change.

Bearing in mind its corporate responsibility, CMS also participates in public welfare undertakings that promote the development of the community, the industry, and even the society, organizing various academic exchanges that promote the development of the industry' s diagnosis and treatment practices, as well as disease popularization activities that enhance public health awareness; actively helping the disadvantaged groups, contributing to rural revitalization, and donating in the case of major public health events or sudden natural disasters to respond to social needs with actions.

With our original intention remaining unchanged for thirty years and upholding our mission of "providing competitive products and services to meet unmet medical needs" , we will continue to leverage our global resources and horizons to become a trustworthy corporate citizen that creates value for our customers. Looking ahead to 2023, we will continue to promote the implementation of our ESG strategy to escort the Group' s sustainable development; and stand firm in our faith and work together with the entire society to create a better and hopeful future.

Chairman
Lam Kong
Hong Kong, China

ABOUT CMS

Company Profile

CMS (stock code: 0867.HK) is a platform company linking pharmaceutical innovation and commercialization with strong product lifecycle management capability, dedicated to providing competitive products and services to meet unmet healthcare needs.

The Group focuses on innovative products that are global first-in-class, or with the best efficacy, safety or cost-effectiveness in the class due to their innovative formulations or drug delivery systems, to enhance accessibility of patients to high quality innovative products that could meet clinical demands. As at 31 December 2022, the Group has a pipeline of 30 innovative products with a high level of innovation and differentiation, of which three will soon be approved for marketing in China for the benefit of patients.

The Group has been working in the field of specialty diseases for 30 years, including cardio-cerebrovascular, gastroenterology, central nervous system, dermatology and ophthalmology. The Group has contributed to the development of the industry by promoting the improvement of clinical practice with differentiated original products of high academic value and high-quality standards. The Group deeply rooted in the specialty areas while expanding its business boundaries, continues to enhance the operation efficiency and scale of its dermatology and ophthalmology businesses. Meanwhile, with a focus on the needs in accessible and affordable quality products in Southeast Asia market, the Group promotes the development of its Southeast Asia business to benefit local patients.

Adhering to the core value of “value creation for customers, innovation, integrity, pragmatism, perseverance and win-win” and taking innovation as its driving force, CMS is committed to bringing more high-quality new drugs to the patients, practicing sustainable development concepts, promoting the improvement of internal operation governance, actively participating in public charity and environment protection practices; it is also committed to becoming the global leading sustainable pharmaceutical enterprise, creating more value for the industry and society.

ESG Awards

The Group has been rated "A" or "AA" in recent 3 years by MSCI-ESG. During the Reporting Period, the Group scored 53 by S&P global CSA, which surpassed 92% of global peers. The Group is one of the global leaders in terms of ESG management level among its industry peers, and has received multiple ESG awards:

CSR Ranking of Pharmaceutical Enterprises*

排名	企业	总得分
1	神威药业	82.07
2	复星医药	77.12
3	华熙生物	75.59
4	药明生物	75.28
5	康哲药业	74.44
6	科伦药业	74.43
7	中国生物制药	74.28
8	华润医药	73.97

*Source: https://csr.infzm.com/csr

Top 10 Best Corporate Governance Companies

TOP 20 ESG Competitiveness of Chinese Pharmaceutical Listed Companies

ESG MANAGEMENT

Statement of the Board of Directors

The Board of Directors is responsible for overall supervision, direction and review of the Group's ESG related work. The Group has set up scientific and effective ESG governance structure by establishing the ESG Committee under the Board of Directors level, with the Group's Executive Director as its Chairman to take charge of ESG management work and two independent non-executive directors as its members. Under the ESG Committee, the Group has organized the organization-wide ESG Working Group to comprehensively promote and execute specific projects. Moreover, in order to step up the systematization, standardization and transparency of ESG governance, the Group has developed *The Environmental, Social and Governance Committee Terms of Reference* to specify the authorities and duties as well as procedures of the ESG management, to ensure the well-ordered advancement and efficient fulfillment of relevant tasks.

Based on the United Nations SDGs, the Board of Directors of the Company develops a comprehensive ESG strategy in line with the Company's vision and mission. The ESG Committee identifies ESG risks and opportunities, makes recommendations to the Board of Directors and formulates corresponding response strategies by objectively reviewing current internal management status. Also, the Group employs the routine stakeholder communication mechanism to learn internal and external demands and concerns, assesses and prioritizes ESG material issues, and takes them into full account when setting and adjusting ESG and business management strategies.

The Company's Board of Directors includes the ESG issues in the scope of its regular discussion and management, and integrates ESG governance into the Group's strategic development and operations. It is responsible for the review and approval of the ESG management goals and improvement schemes, audits and grants necessary supporting resources, and reviews and follows up on the implementation progress of the established ESG management goals at the regular Board meetings. During the Reporting Period, the Group actively practiced its corporate responsibility and improved its internal operation management and policies in multiple areas, covering compliant operations, product liability, employment, supply chain and environmental protection, providing more comprehensive guidance for the advancement and implementation of ESG management to escort the Group's sustainability development.

The Board of Directors of the Company have approved the Report to ensure that there is no false information, misleading statements or major omission in its content.

ESG Management Strategy

Following the principle of sustainable development, the Group takes efforts to promote the deep integration between ESG governance and the Group' s macro strategies. During the Reporting Period, the Group proactively responds to United Nations SDGs and develops its sustainable development vision, strategy and objectives on the basis of the business circumstances, corporate vision, mission and value and giving full consideration to the importance ranking of ESG issues by management and other stakeholders.

Group's Mission:

Providing competitive products and services to meet unmet healthcare needs

Group's Vision:

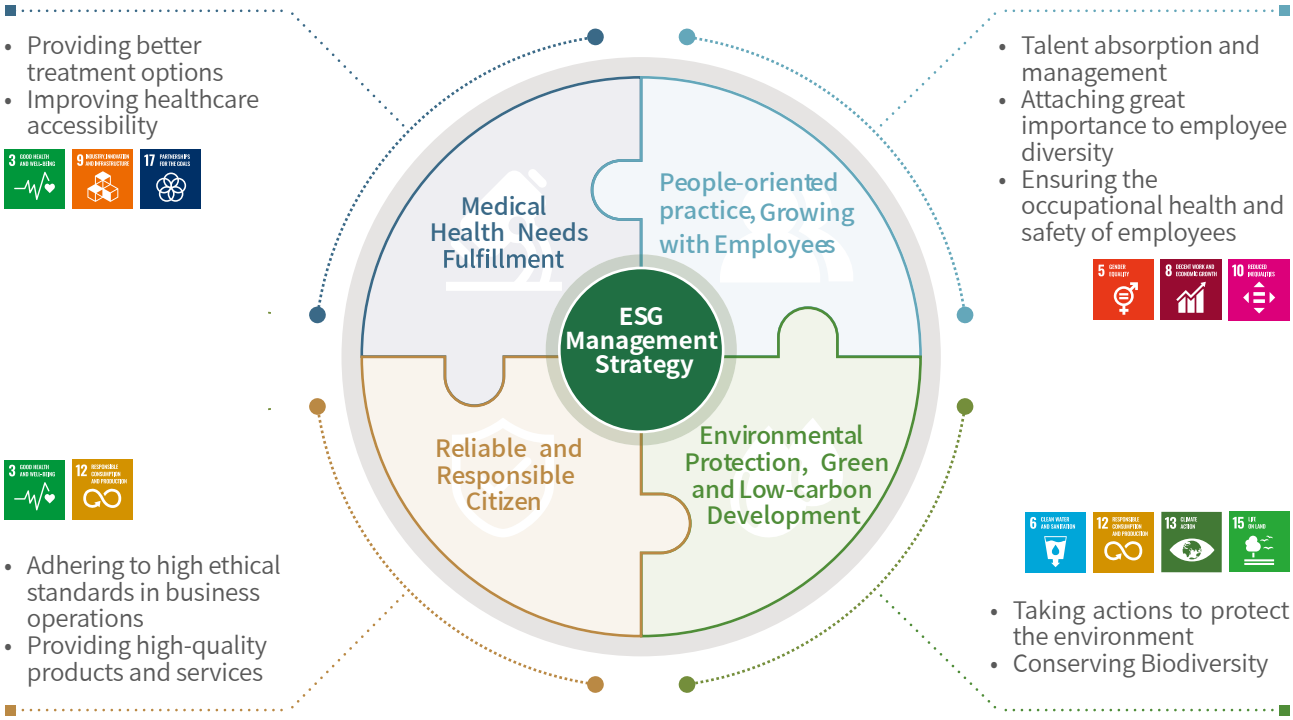
Becoming an innovation-leading, trustworthy specialty pharma

ESG Vision:

Becoming a world-leading sustainable pharmaceutical enterprise

ESG Strategy:

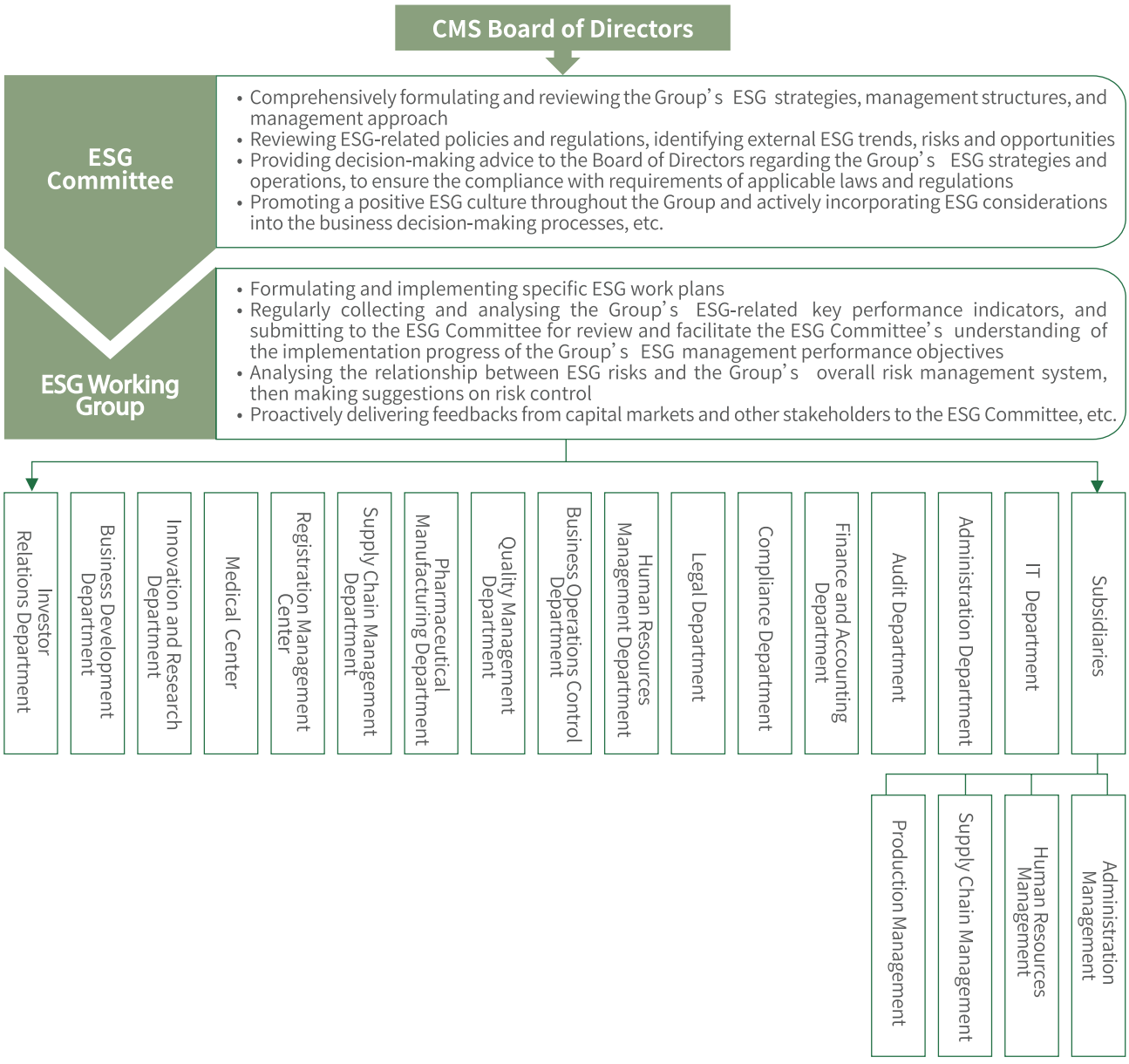
Cooperating with global innovation forces via the Group' s platforms and jointly develop differentiated innovative products to meet clinical needs and benefit the patients; promoting the healthy, harmonious and sustainable development of the society and environment with responsible development



CMS's ESG Strategy

Structure and Process of ESG Governance

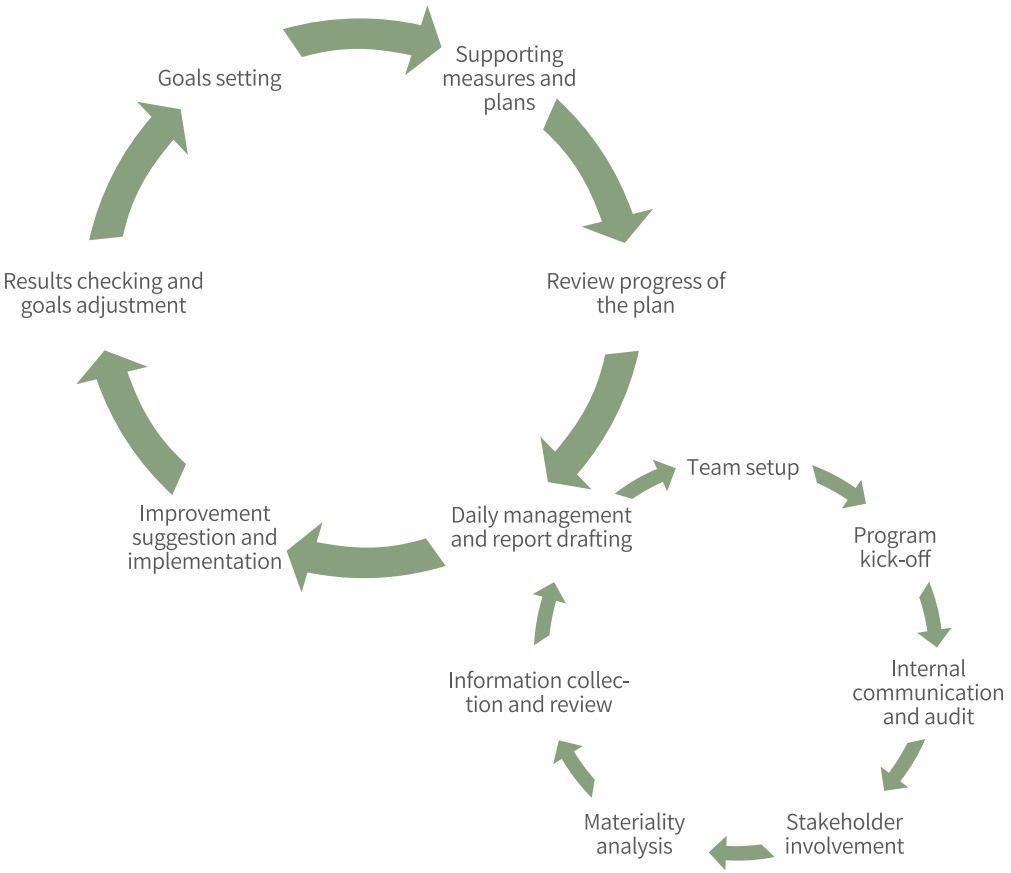
After years of ESG management practicing, the Group has formed a three-tier ESG governance framework consisting of the Board of Directors, the ESG Committee and the ESG Working Group to systematically carry out ESG management from the governance level of the Board of Directors to the ESG implementation level. The Group's ESG Committee consists of three directors, among them the Executive Director, Chief Financial Officer and Vice President of the Group, Ms. Chen Yanling is the Chairman of the Committee; The ESG Working Group comprises the heads from each department, and participates in the concrete implementation and reporting of the ESG work. *The Environmental, Social and Governance Committee Terms of Reference* has been published on the Group's official website for all stakeholder's reference.



CMS's ESG Governance Structure

The Group's ESG management follows a nested closed-loop process:

- Reviewing the ESG management goals of the previous year, and proposing and implementing improvement solutions to the issues existing in ESG management through audit, ESG leading practice benchmarking, professional third-party's recommendation, etc;
- Review and adjust or develop ESG management goals according to the Group's internal and external environment updates and take into consideration of improvement plans;
- Dividing the ESG management goals to formulate corresponding ESG management supporting measures and plans;
- Supervising the execution of the measures through daily ESG management and dynamic monitoring of ESG information, and regularly reviewing the progress of the plan fulfillment;
- Preparing the annual ESG report according to the current situation of ESG management with reference to the results of stakeholders' survey analysis;
- Checking and reviewing the results of ESG governance at the end of the year.



CMS's ESG Management Process

ESG Communication with Stakeholders

The Group has established a routine stakeholder communication system to maintain efficient interaction with all stakeholders through diverse and targeted channels, and actively respond to the stakeholder' s requirements, in order to facilitate the implementation of the Company' s sustainable development. CMS has maintained connections with stakeholders via the following methods.

Stakeholders	Major Requirements	Main Communication Method
Government and regulatory authorities	• Compliance with laws and regulations, and drug safety • Compliant operation under supervision • Tax compliance, employment creation	• Government-company seminar • Supervision and inspection • Work reports and researches
Investor/ shareholder	• Standardized governance and rigorous risk control • Prudent operation and value creation • Disclosure compliance, openness and transparency	• General meeting, results announcement • Company news, announcements and periodic reports • Telephone, email, voting at general meeting • Company official website and WeChat official account • Investor visit, conference and presentation • External road show
Supplier	• Open and fair procurement • Timely communication, win-win developments	• Meeting and visit • Work meeting, and communication via telephone and email • Company official website and WeChat official account • Industrial seminar • Public bidding
Distributor	• Integrity management and compliant drugs • Timely communication, win-win developments	• Work meeting, and communication via telephone and email • Company official website and WeChat official account • Customer service hotline • Meeting and visit
Employee	• Protection of rights and interests • Employee caring, demand communication • Remuneration and benefits, training and development	• Team building activity • Employee training • Feedback platform • Employee satisfaction and engagement survey
External practitioner in the pharmaceutical industry	• Product safety, rights and interests protection • Privacy protection, business ethics	• Disclosure of product label and other information • Academic conference and forum • Processing of customer complaint and feedback
General public	• Good interaction, information disclosure • Product safety, rights and interests protection • Privacy protection, business ethics • Inclusive health and charity • Community development and social value	• Product labelling and other information disclosure • Processing of customer complaint and feedback • Participation in community public welfare activities • Medicine and health related knowledge popularization • Company official website and WeChat official account

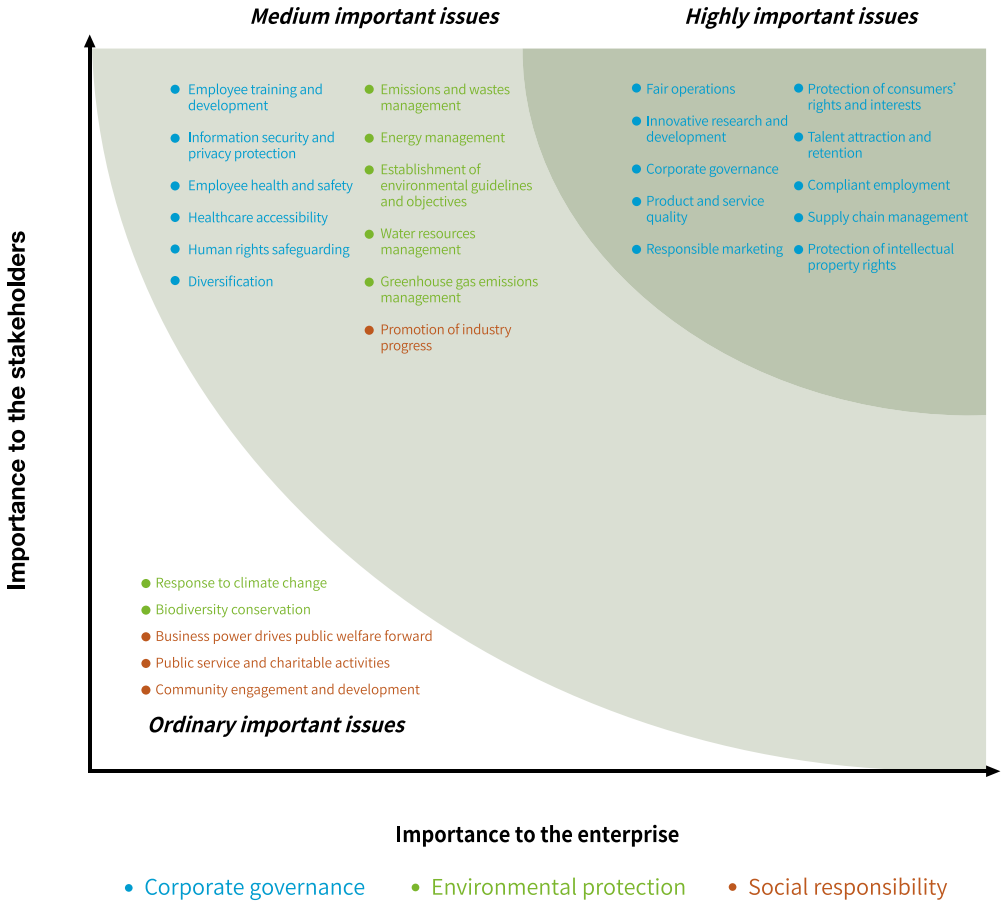
ESG Material Issues

During the Reporting Period, the Group reviewed and assessed the ESG management issues. On the basis of the feedback collected by means of online questionnaires survey, the Group conducted dynamic adjustment and optimization of its ESG management and drew up the material issues list as critical basis for the preparation of the Report, ESG strategy and the corporate development management.

The Group makes materiality assessment through the following steps:

- Establishment and update of the ESG issues database: CMS's ESG management issues library in 2022 has been completed and updated with reference to *Appendix 27 Environmental, Social and Governance Reporting Guide* of Main Board Listing Rules issued by the Exchange, the concerns of the capital market, the development trend of the pharmaceutical industry and the Group's operations.
- Involvement of stakeholders: Reassess the importance of ESG governance issues by taking into consideration of the results of the following two researches on important issues and conclude the 2022 important issues matrix and list.
  -In 2021, a research on important ESG issues was conducted for all stakeholders, covering the government, regulatory institutions, investors/shareholders, suppliers, distributors, internal staff, external medical practitioners and the public, and 538 pieces of effective questionnaire responses were collected.
  -In 2022, in order to obtain a deep understanding of the management' s opinion on the importance of ESG issues, a research on important issues was conducted for mid-level and senior management and 39 pieces of effective questionnaire responses were received.
- Review and confirmation: The Company's Board of Directors has reviewed the assessment procedure of the material issues and confirmed the results.
- Dynamic adjustment and optimization of ESG work: dynamically adjust and optimize the ESG work for current years on the basis of the reviewed and confirmed ESG material issues.

Based on the results of the survey and discussions of the Board of Directors, the Group has ranked the materiality of issues in 2022 as follows:



CMS's ESG Materiality Analysis Matrix

The materiality assessment of CMS 2022 ESG issues found 10 highly important issues, 12 medium important issues, and 5 ordinary important issues, the details of which are listed below:

Importance of issue	Issue scope	Issue
Highly important issue	Company governance	Fair operations
	Company governance	Innovative research and development
	Company governance	Corporate governance
	Company governance	Product and service quality
	Company governance	Responsible marketing
	Company governance	Protection of consumers' rights and interests
	Company governance	Talent attraction and retention
	Company governance	Compliant employment
	Company governance	Supply chain management
	Company governance	Protection of intellectual property rights
Medium important issue	Company governance	Employee training and development
	Environmental protection	Emissions and wastes management
	Company governance	Information security and privacy protection
	Environmental protection	Energy management
	Company governance	Employee health and safety
	Environmental protection	Establishment of environmental guidelines and objectives
	Environmental protection	Water resources management
	Company governance	Healthcare accessibility
	Social responsibility	Promotion of industry progress
	Environmental protection	Greenhouse gas emissions management
	Company governance	Human rights safeguarding
	Company governance	Diversification
Ordinary important issue	Environmental protection	Response to climate change
	Social responsibility	Business power drives public welfare forward
	Environmental protection	Biodiversity conservation
	Social responsibility	Public service and charitable activities
	Social responsibility	Community engagement and development

Based on the assessment results of materiality issues, the Group has prepared the ESG Report to respond to the above materiality issues in an orderly manner.

MEDICAL HEALTH NEEDS FULFILLMENT

The Group focuses on unmet clinical needs. Relying on its innovative drug incubation platform and commercialization platform, the Group constantly empowers commercialization of research findings as well as diagnosis and treatment practice improvement, to offer better choices for disease treatment, and further promote accessibility of innovative drugs.

KEY TARGETS AND PROGRESS

Providing better treatment options

Targets for Year 2030:

- Increasing R&D investment in differentiated innovative drugs for serious diseases/chronic diseases

Progress in Year 2022:

- Continuously promoted deployment, clinical development and registration of innovative products for serious diseases and chronic diseases as well as orphan drugs. R&D expenditure reached RMB730.6million.

Improving healthcare accessibility

Targets for Year 2030:

- Improving healthcare accessibility in China and other developing countries

Progress in Year 2022:

- Proactively promoted diversified disease knowledge popularization and education, leading diagnosis and treatment practices exchange, etc. together with Chinese industry associations and public welfare foundations;
- Accelerated business deployment in Southeast Asia, and deployed 1 accessible and affordable differentiated product as well as 4 innovative products meeting urgent clinical needs.

Providing Better Treatment Options

Innovative Products

Based on unmet clinical needs, the Group collaborates with global biotech (biopharma) companies in jointly developing innovative products that are globally first-in-class (FIC) and best-in-class (BIC), in an effort to resolve clinical diagnosis and treatment difficulties of serious diseases and chronic diseases and offer better option for disease treatment. Leveraged on years of accumulation, the Group mainly manages clinical development and commercialization of product in Chinese or other authorized markets, to improve R&D efficiency of innovative drugs and benefit patients. Meanwhile, the Group constantly deepens industry-academy-research cooperation with first-class medical colleges in China, enhancing innovative R&D capabilities to promote the local innovative technological breakthrough.

30
Innovative Pipeline Products, Mainly FIC and BIC

>10
Clinical Studies Dominated by Registered Randomized Controlled Trials (RCT) in Progress

During the Reporting Period, the Group added 4 innovative products with differentiated advantages:

- In December, gained an exclusive license in China and 11 Southeast Asian countries for the development and commercialization of ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. Food and Drug Administration(FDA), and the first and only FDA-approved product for repigmentation in vitiligo
- In August, gained an exclusive license in China and 11 Southeast Asian countries of EyeOP1® Glaucoma Treatment Device, for ultrasound Cyclo Plasty(UCP) treatment, a simple, fast, safe and non-invasive treatment method for glaucoma
- In July, acquired VEGF/ANG2 tetravalent bispecific antibody, an ophthalmic medical device, developed for ocular fundus neovascular diseases, which could achieve stronger effectiveness and lower dosing frequency compared with existing anti-VEGF drugs
- In March, customized development of CMS-D005, a class I innovative drug developed for the treatment of metabolic system related disease

The Group has 4 innovative products under China's New Drug Application (NDA) reviews:

Diazepam Nasal Spray

The only FDA-approved spray product for acute recurrent seizures in patients aged 6 and above; once approved in China, it will become a first-aid medicine for epileptic seizures that is safe and convenient to use outside the medical setting and has a very rapid onset of action for Chinese child and adult patients

Tildrakizumab Solution for Injection

It is expected to provide the most cost-effective monoclonal antibody treatment option for patients with moderate to severe plaque psoriasis

Methotrexate Injection (Psoriasis)

It is expected to be the first methotrexate pre-filled injection for the treatment of psoriasis by subcutaneous administration in China, fulfilling medication needs for basic treatment of psoriasis patients. This product is included in the *Urgently Needed Drug List* in China as an urgently needed clinical drug with short supply

Methylthioninium Chloride Enteric-coated Sustained-release Tablets

An oral methylene blue sustained-release formulation that enhances diagnosis sensitivity in detecting cancerous/precancerous lesions during colonoscopy

Orphan Drugs

The Group pays attention to orphan drugs all the time, and hopes to contribute to developing optimal treatment for patients with rare diseases. The Group has 3 products involved in the field of rare disease treatment, 2 of which are innovative products and have been approved by the EU and U.S. FDA as orphan drugs, currently under phase II/III clinical trials; The Group owns exclusive license of these products in China and other authorized territories. Besides, Tetrabenazine Tablets, developed for an orphan disease named Huntington's disease, is currently under ANDA in China; The Group owns exclusive license of the product in Mainland China.

R&D Investment

During the Reporting Period, the Group continuously increased R&D investment, and proactively promoted related work such as deployment, clinical development and registration of products for serious diseases, chronic diseases and rare diseases. In 2022, the Group had a turnover of RMB 10,497.5 million (in the case that all medicines were directly sold by the Group) and its total R&D expenditure (including both capitalized and expensed amount) was RMB730.6 million, accounting for 7.0% of the Group's turnover (in the case that all medicines were directly sold by the Group).

Improving Healthcare Accessibility

Chinese Market

The Group is committed to providing safe, effective, accessible and affordable treatment options for patients in different regions, of different ages and suffering from different diseases. The Group' s existing products have sufficient evidence-based medical evidence, good reputation, relatively low daily treatment cost and are sold in China after fair pricing through regional tendering procedures. As at 31 December 2022, among the Group' s 10 core marketed products, 7 were included in the National Reimbursement Drug List and 2 were included in the National Essential Drug List, which effectively relieved the burden on patients and guaranteed fair accessibility for the general public. In the meantime, the Group lays emphasis on the expansion and penetration of the county-level and lower-tier markets, striving to improve the accessibility of medical products in the entire country and economically backward areas.

>50,000
Hospitals/ Medical Institutions Coverage in China

>200,000
Drugstores Coverage in China

Moreover, the Group proactively promoted the popularization of disease knowledge and improved public health awareness using various approaches. During the Reporting Period, the Group continued to join hands with industry associations of relevant diseases and public welfare foundations to promote popularization of disease knowledge via public lecture and voluntary diagnosis and treatment services, etc.:

Live-streaming events on National Eye Health Day

The Group joined hands with JD Health to build "Eye Care Center" popular science projects, launched a series of popular science activities concerning care for eye health and ophthalmic diseases; and invited well-known ophthalmologists to give speeches under the theme of "Focus on Preventing and Controlling Myopia and Build a Bright Future Together" . The live-streaming event attracted more than 200,000 viewers in total.

Public lecture on inflammatory bowel disease (IBD)

The Group co-organized a large-scale public lecture on "19 May - World Inflammatory Bowel Disease Day" with the Gastroenterology Branch of Chinese Medical Association and Beijing Medical Award Foundation, and invited experts in the field to give speeches on most typical topics that patients are concerned about. The total number of viewers online and offline exceeded 300,000.

Public service events on hypertension

The Group responded to *Healthy China Initiative (2019-2030)* to boost awareness rate, treatment rate and control rate of hypertension in China. Over the years, partnering with the Hypertension Branch of the Chinese Geriatrics Society, the Group held "Knowing Your Blood Pressure" free diagnosis and treatment services and health education activities for hypertension patients in 30 grade-A tertiary hospitals nationwide. Free blood pressure measurement stations were built in outpatient departments and offered disease science popularization and health consultation, and gave guidance to patients in blood pressure measurement and blood pressure management at home in a standard manner.

Public lecture on the rare disease severe myoclonic epilepsy in infancy (Dravet)

The Group joined hands with the China Association of Health Promotion and Education in attending the first "International Seminars for Dravel Syndrome Families and Experts" and organizing public lectures nationwide to share advanced perception, progress and achievements regarding the Dravet syndrome, helping patients to build a deeper understanding of the rare disease as well as relevant diagnosis and treatment practices.

In addition, the Group set up the "Disease Science Popularization" section in its WeChat Official Account, to improve the accessibility of disease knowledge to the public. During the Reporting Period, the Group published 6 general science articles of disease knowledge regarding hypertension, dry eye, psoriasis, depression, etc.

Besides, the Group proactively organized various online and face-to-face academic meetings together with industry associations, public welfare foundations, medical experts, medical personnel, etc., which promoted exchange and discussions on cutting-edge medical technologies and outstanding diagnosis and treatment practices, jointly promoted advancement of medical care, and empowered diagnosis and treatment management as well as practice improvement.

Southeast Asian Market

Focusing on unmet clinical needs of high quality and affordable product in the Southeast Asian market, the Group' s Southeast Asia business, "Rxilient Health" , in August, 2022, entered into an agreement with Hefei Tianmai for the second-generation insulin products and the third-generation insulin products, to satisfy the basic treatment demand for the diabetes patients in Southeast Asia, which is expected to decrease the medical expenditures. At the same time, it leverages the resources of the Group to deploy imported products from Europe and the U.S., and makes contribution to the development of medical standards in Southeast Asia with accessible and affordable differentiated innovative products that could meet local clinical needs; During the Reporting Period, the Group deployed 4 innovative products with differentiated advantages and urgent clinical needs, including EyeOP1® Glaucoma Treatment Device, ruxolitinib cream, VEGF/ANG2 tetravalent bispecific antibody and CMS-D005. For products that have been launched in the Southeast Asian market, the Group takes full account of the economic and industry development levels of different countries, and adopts locally appropriate pricing strategies to boost the accessibility and affordability of drugs in developing countries.

During the Reporting Period, the Board of Directors of the Company has reviewed the investment and development progress of serious diseases/chronic diseases products, and the contribution in improving healthcare accessibility and other related issues in board meetings.

RELIABLE AND RESPONSIBLE CITIZEN

The Group adheres to the principle of "Compliance First", sticks to high-standard and responsible business operation, constantly improves internal management and operation practice, and is devoted to providing stakeholders with professional and high-quality products and services.

KEY TARGETS AND PROGRESS

Adhering to high ethical standards in business operations

Targets for Year 2030:

- Maintain 100% employee coverage of business ethics training every year.

Progress in Year 2022:

- The Group-wide study of the 2022 edition of *CMS Anti-fraud Management Policy* was conducted from director to employee level (including interns), with employee coverage of 100%.
- The Group required all employees (including interns) to study and sign the *CMS Self-discipline Commitment*. As of 31 December, more than 60% employees have signed the Commitment.

Providing high-quality products and services

Targets for Year 2030:

- Constantly improve the quality management in the entire process of product life cycle.

Progress in Year 2022:

- Product quality and safety related trainings have covered 100% employees involved in drug R&D, production, operations, etc.
- Engaged experts from quality, medical and clinical fields as consultants to assess and review internal R&D quality system construction, and actively promote targeted improvements.
- Improved hierarchical management of finished product suppliers and risk control system.

Adhering to High Ethical Standards in Business Operations

Business Ethics

CMS adheres to high-standard business ethics and resist various forms of improper and unethical business practices. On the basis of strictly complying with the laws and regulations of the People's Republic of China and other countries and regions where its business operations and investments are located, the Group established a scientific and effective risk identification and management system to comprehensively control the compliance and business ethics risks of each process of operation and effectively prevent and control internal risks.

The Audit Department of the Group is responsible for the internal audit of the Group and subsidiaries. The Audit Department reports the annual audit plan, findings, risk warning, improvement measures and progress to the Audit Committee under the Board on a yearly basis. Through regular review of internal and external audit report, the Audit Committee assists the Board in monitoring and reviewing of the effectiveness of the Group's risk management and internal monitoring system to timely identify the significant risks that may have impact on the Group's operation. During the Reporting Period, the Board of Directors of the Company has assessed and reviewed information and issues relating to business ethics and anti-corruption at Board meetings.

In order to further prevent and control compliance risk, a Compliance Management Committee has been set up, chaired by Mr. Lam Kong, the Chairman and Chief Executive of the Group, and composed of management of the Group such as Chief Operating Officer, Chief Financial Officer and directors of the Group. The Compliance Management Committee is responsible for overseeing the compliance and business ethics issues in the Group's marketing activities and holds meetings for systematic review of compliance management, including the establishment and update of compliance system, compliance special inspection and unannounced inspection plans and results, etc. Meanwhile, the Group regularly holds management meeting on a quarterly basis. The Compliance Department of the Group reports the potential risk of compliance management and internal control progress directly to executive directors and senior management to further enhance the prevention and monitoring of internal system risk.

Anti-corruption Management

The Group emphasizes on anti-corruption management, and through an inter-department anti-corruption supervision system and systematic policies and training mechanism to comprehensively improve the capability of corruption risk prevention and control within the enterprise.

Regulations and Policies

In terms of policies, The Group has established *CMS Code of Promotional Conduct, CMS Anti-fraud Management Policy, Internal Audit Policy* and other regulations and policies, which explicitly require employees not to engage in any improper practices such as bribery, corruption, extortion, fraud, money laundering and any forms of facilitation payments within the Group, or in the interaction with affiliated companies, and other stakeholders including the media, governments, distributors, suppliers and medical personnel. The Group reviews the internal rules and regulations regarding anti-corruption management at least once a year and promoted timely update by reference to latest laws and regulations and enforcement ordinance of pharmaceutical industry and taking into account historical review results.

Education and Training

The Group has established regular training mechanism for relevant policies. Since 2019, we have organized the training and study of anti-fraud policies for executive directors, management and all employees (including interns) for 4 consecutive years. Meanwhile, in the quarterly management meeting of the Group, the training of compliance policies and system for executive directors and mid-level and senior management is conducted by Compliance Department of the Group by sharing the latest industry compliance requirements to ensure that the moral integrity is abided by from director to employee level. In addition, the Group has incorporated the anti-corruption training in its regular training system, adding the anti-corruption content to the compliant marketing training for employees, quarterly training for new recruits, training on expense reimbursement for employees, supply chain management training and other training courses to clarify relevant work regulations and enhance employees' awareness of anti-corruption and compliance and strengthen the Group' s compliance operation culture of integrity and incorruptibility.

100%

Employees Training coverage of the 2022 Edition of *CMS Anti-fraud Management Policy*

Monitoring and Assessment

The Group has also constructed an anti-corruption monitoring system covering the entire process of business operation, and implement comprehensive prevention and control of internal corruption risk through inter-departmental collaboration.

The Compliance Department

The Compliance Department of the Group is responsible for improving and optimizing the anti-corruption activities control system, working framework, code of conduct and systems

The Legal Department

The Legal Department is responsible for the prevention and control of legal risks of each stage of the business operation

The Finance and Accounting Department

The Finance and Accounting Department has developed financial management measures based on the compliance framework to firmly control the entire process from expense budgeting, reimbursement to expenditure, and in the meantime, leveraged the digital management system to enforce the review and process control, enhancing the transparency of expenses and the compliance of internal operation

The Audit Department

As an important line of defence for the Company's risk management, the Audit Department of the Group has established the risk-management-oriented audit system, covering the finance, internal control, operation management, information system, fraud investigation of the Group, and conducts every two years internal audit of all the operating entities of the Group to identify and control operation fraud risk. During the Reporting Period, the Audit Department carried out anti-corruption audits for the Group and subsidiaries to identify and assess the risk in the process of procurement, promotion, marketing and investment, and continuously tracks the implementation of improvement measures; and identified no significant anti-corruption related risk within the Group

7
Anti-corruption Related Internal Audit Projects

Additionally, in 2022, the Group accepted and passed the special compliance audit conducted by international partners on a yearly basis.

If it is found and verified after examination that any employee has certain improper behaviours in business, such as corruption, bribery, etc., certain punishment will be imposed on such employee according to the severity and the promotion of the specific employee will be negatively affected. Warning or dismissal will be considered for serious cases, and if the act constitutes a crime, the specific employee will even be transferred to the judicial authority for criminal responsibility. Therefore, in order to continuously improve compliance and anti-corruption related practices and form normalized and sustainable employee study mechanism, the Group has required all employees to study and sign the *CMS Self-discipline Commitment* for three consecutive years to keep them be more alert to improper commercial behaviours.

Employees

Studied and Signed the *CMS Self-discipline Commitment*

*As at the date of Report publication

Abstract of the *CMS Self-discipline Commitment*

Employee's commitment:

- Strictly abiding by the provisions related to incorruptibility and self-discipline
- Properly exercising authority and not using authority to make undue benefit for oneself or a specific related person
- Not embezzling or occupying the resources of the Group, or leveraging own authority to influence or interfere with the Group's business
- Resolutely resisting commercial bribery, not accepting any property from any affiliated units or suppliers
- Not offering bribes to or soliciting bribes from any business-related personnel

Supplier integrity management

Compliance management of supply chain is highly important to ensure sustainable business development. During the Reporting Period, the Group further improved admission criteria for its suppliers and set up due diligence list on the basis of examination and verification of qualification to ensure the suppliers comply with the Group's high-standard compliance management and control requirements. In addition, during the Reporting Period, the Group continuously promoted the signing of *Proposal for Suppliers* initiated to domestic and overseas suppliers, and actively advocates their adherence to zero tolerance to any forms of corruption, extortion or bribery, in an attempt to build a uncorrupted supply chain together; and constantly gathered the suppliers' internal policies and regulations on anti-corruption and proactively exchanged anti-corruption management policies of the industry with them.

Suppliers

Signed the *Proposal for Suppliers*

Abstract of *Proposal for Suppliers*

The Group's proposals:

- Complying with applicable laws, regulations and standards of the place where the operations locate;
- Providing high-quality, safe and effective products and services that comply with quality standards of the countries and regions where the operations locate as well as contract agreements;
- Resolutely resisting on bid rigging, bidding collusion, acceptance of kickbacks and other unfair competition;
- Keeping zero tolerance for any form of corruption, extortion or bribery.

In addition, the Group has made available multiple feedback and complaint and reporting channels to suppliers such as email, telephone, official website and face-to-face communication, ensuring the suppliers are informed of the Group' s complaint and reporting channel as well as processing process, so that the suppliers can complain and feedback timely whenever they are aware of any incompliant behaviours of the employees of the Group, such as bribery and corruption, unfair competition, revealing the Company' s business or technical confidential information or abuse of authority, etc. During the Reporting Period, the Group has conducted relevant trainings of all domestic and overseas suppliers in terms of CMS anti-corruption complaint and reporting channel and processing process.

100% Suppliers
Received Anti-corruption Complaint and Reporting Related Training

During the Reporting Period, CMS did not report any case of corruption. In terms of prevention of bribery, extortion, fraud and money laundering, the Group was not in violation of any relevant laws and regulations that have significant impact to the Group's business or operations.

Responsible Marketing

The Group sticks to implementing responsible marketing with professional image and high-standard business ethics, and executes promotion, marketing and interactions with medical and healthcare professionals as well as medical institutions in a legal and compliant, objective and scientific manner. With the improvement in regulations and policies building and system of training and education, monitoring and assessment, communication and complaint/appeal, the Group has formed a set of relatively comprehensive monitoring and control mechanism throughout the responsible marketing, implementing entire process monitoring and control of marketing and promotion activities.

During the Reporting Period, there was no complaint or legal action against the Group arising from overstated/misleading information of promotion or cheating consumers.

Regulations and Policies

On the basis of strictly complying with laws of the place of operation regarding compliance promotion, the Group has established comprehensive internal responsible marketing management system and policies to bind and direct the entire process of marketing and promotion activities. Therein, the Group has established the *CMS Code of Academic Promotion Conduct*, which is applicable to all the full-time and part-time employees as well as interns of the Group and its subsidiaries, to strictly prohibit any marketing and promotion with overstated, cheating, false and misleading content or through commercial bribery or in other illegal manners.

In addition, the Group has strict responsible marketing review and management system, ensuring the promotions are conducted for the purpose of demonstrating the product efficacy objectively and precisely. All forms of marketing and promotion activities, content and materials are subject to strict internal review and approval prior to being released for use so as to ensure the product promotion information is consistent with the requirements of laws and regulations as well as the information approved by national regulatory authorities. The Group also requires that all advertisements and promotions are subject to the application for advertising approval from relevant government departments and shall not be published in the professional magazines designated by both the Ministry of Health and National Medical Products Administration(NMPA) until they have been approved.

Education and Training

In order to ensure that the employees fully understand the Group's requirements on compliance in academic promotion, marketing and advertising, the Group has established a comprehensive education and training system for responsible marketing and has set up regional compliance management teams of regional managers and compliance specialists in all business regions to improve the control requirements in relation to responsible marketing and the efficiency of information delivery and communication through a dedicated team.

15 Times

Responsible Marketing Related Trainings

100%

Employees in Marketing and Promotion-related Posts (incl. Interns) Coverage

During the Reporting Period, the Group's education and training activities related to responsible marketing include but are not limited to:

- Organizing induction training and quiz for new employees in marketing and promotion-related posts on a monthly basis, with the participation and passing rate of the quiz linked to the annual performance of regional compliance management team;
- Holding monthly compliance communication meeting with the promotion team, presenting and elaborating the latest control requirements and implementation of responsible marketing;
- Publishing and interpreting latest industry compliance policies on the Group's internal digital communication platform on a monthly basis, to facilitate the management and employees to know about the relevant developments of responsible marketing;
- Setting the "I want to ask a compliance question" column to provide an open channel for employees to ask questions about responsible marketing, which will be responded by the Compliance Department within a week;
- In case of any updates in responsible marketing system or policies, top-down online training will be conducted for all employees, with all employees in marketing and promotion-related posts taking and passing the quiz accordingly.

Monitoring and Assessment

The Group has established a comprehensive monitoring and assessment mechanism for responsible marketing, and the Business Operation Control Department directly monitors and controls the strategic planning, operation plans and business development under the marketing and promotion system. For the purpose of effectively monitoring the implementation of the responsible marketing, the Compliance Department of the Group takes the lead in carrying out regular controls covering all aspects of marketing activities and conducts rigorous reviews of activity plans, it also performs unannounced inspection in the course of marketing promotion activities. In addition, the Finance Department of the Group cooperates to scrutinize the compliance of marketing promotion activities from the perspective of the expense reimbursement by checking the related contracts, site photos, invoices and other vouchers. After the marketing promotion activities are completed, the monthly analysis, examination and assessment reports will be produced and reported to the executive director. Additionally, the Audit Department reinforces the monitoring of responsible marketing by auditing the compliance, authenticity and integrity of marketing promotion expenses of all the subsidiaries that are responsible for marketing and promotion business. Besides, the Group regularly engages a professional third party to run extra special audit and issue audit report to ensure that the Group's operations comply with the suppliers' high standard compliance requirements. During the Reporting Period, no significant compliance risk is identified within the Group during the related unannounced inspection and relevant audits.

Over 1,000 times
Unannounced Inspection on Marketing and Promotion Activities

3 Times
Internal Audits Related to Responsible Marketing

3 Times
Special Audits by Third Party

In addition, the Group has established a *Compliance Performance Assessment Policy* to include responsible marketing in the performance assessment of marketing and promotion personnel. In case the employee is proven to have non-compliant behaviour, the performance assessment result will be negatively affected. If it is not a serious non-compliant behaviour, his/her bonus and future promotion will be affected with a warning notice, and dismissal will apply in serious cases. In order to show that the compliance assessment is originally intended for education instead of penalty, the Group builds a bonus pool with the fines related to compliance to award compliance outperformers, with an aim to provide positive guidance and encouragement. Besides, to ensure smooth communication with employees, the Group has established a performance assessment grievance mechanism whereby employees are able to appeal the assessment results to the person in charge of compliance and business, and could submit to the Compliance Committee for review.

Whistleblowing Management

The Group has established a strict whistleblowing system and has specified the whistleblowing channels, handling process and whistleblower protection provisions in *CMS Anti-fraud Management Policy* to ensure that all whistleblowing is duly handled. We encourage all employees, partners, customers, suppliers and other stakeholders to monitor and report any suspected illegal and improper business practices of our employees.

Whistleblowing Channels

- Telephone: 0755-82416868 ext. Compliance Department
- Email: compliance@cms.net.cn
- Official website: www.cms.net.cn
- WeChat Official Account: CMS00867
- Address: Compliance Department of CMS, 6F - 8F, Block B, Majialong Chuangxin Building, 198 Daxin Road, Nanshan District, Shenzhen, Guangdong Province 518052

Whistleblowing Process

The Group accepts reports from a variety of channels, both in name and anonymously, and has established a systematic process for whistleblowing handling, which can be forwarded to the Audit Committee of the Group' s Board of Directors for review as requested by the whistleblower.

Acceptance	Carry out detailed acceptance registration, and keep properly the whistleblowing materials and evidence.
Handling	After a whistleblowing is accepted, the content of the whistleblowing and information will be verified and evaluated. If the whistleblowing content is eligible for case opening, investigators will be appointed according to the position of the person being reported against, and the investigation results be registered. By the avoidance principle, the person being reported against shall not participate in the anti-fraud investigation against him/her as an investigator. If the person being reported is a senior management, the Board of Directors will directly designate a department/staff to set up a working team to conduct investigation. Once verified, the investigation records will be submitted to the management or the Board of Directors for review. The whistleblowing case will be dealt with exactly in line with the evaluation results, followed by announcement within the Group.
Result notification	Within 3 working days after the case is handled, a reply on the handling results will be given to the whistleblower in spoken or written, or by other proper forms. The whistleblower has the right to ask about the whistleblowing handling progress and the handler shall reply in a timely manner.
Archive management	Anti-fraud personnel shall keep properly all the documents throughout the process of the acceptance, registration, investigation and reporting of the whistleblowing. After the end of the whistleblowing examination / investigation, the relevant whistleblowing materials shall be collected as confidential documents.
Remedial measures	After the process is completed, remedial measures are taken in a timely manner to reassess the control of business unit which has been affected, with corresponding improvement measures implemented.

Whistleblower Protection

The Group is determined to protect the legitimate rights and interests of the whistleblowers and will take all reasonable measures to provide them with comprehensive protection. The *CMS Anti-fraud Management Policy* has clearly stated that anonymous reports are allowed, the whistleblower's personal information and reporting materials shall be kept confidential, and the whistleblower's identity shall not be disclosed without the whistleblower's consent. In the case that any whistleblowing handlers violate the whistleblower protection provisions including intentionally disclosing the whistleblower's information or the whistleblowing content, or reacting negatively or refusing to respond to the reasonable protection request made by the whistleblower for being afraid of being/having been taken revenge on or treated unfairly, the whistleblower may directly report that to the Board of Directors of the Group. The Group will take disciplinary actions against the violator. Moreover, the Group strictly prohibits harasses or harms against the whistleblower, and such actions will be dealt with severely once confirmed and verified.

Privacy Protection and Information Security

The Group attaches great importance to privacy rights of consumers and protects the privacy information of customers and other stakeholders in accordance with *Personal Information Protection Law of the People's Republic of China* and other related laws and regulations as well as contracts. The Group has formed the *CMS Code of Conduct, CMS Confidentiality Regulations* and other rules and policies to clarify the privacy and confidentiality principle of the third parties, and require all employees to maintain strict confidentiality of the privacy information of consumers.

The Group sets the *Regulations on Information Security Management* to ensure the implementation of information security work and protects the information and private data of employees, customers and other related parties through internal document separation, document encryption, and other methods. It has established an authorization mechanism for customer data access, requiring employees to inquire and maintain customer data with limited authorization, and unauthorized employees shall not access, export or copy any customer information. In addition, the Group has signed confidentiality agreements with its employees to convey and emphasize the importance of confidentiality duties and the legal consequences of breach, with a view to further enhance employees' awareness of confidentiality. For suppliers who may have access to consumers' private information, the Group strictly restrains suppliers' behaviour through signing contracts and agreements to protect customers' privacy rights.

In addition, the Group has, on the basis of conducting information security self-inspection annually, introduced a third-party professional institution to perform information security audits on a yearly basis since 2021. During the Reporting Period, the Group has engaged a third-party professional institution to conduct a comprehensive assessment over the Group's information security prevention and control through information security vulnerability scanning and information asset security verification, and to give risk alerts accordingly. Based on the results of information security audits, the Group develops and implements targeted improvement measures to ensure that the information security system is capable of fully preventing and resisting relevant risks through upgrading of information security protection measures.

The Group continues to strengthen the construction of information security culture and, has carried out internal privacy protection and information security training on a yearly basis since 2019, which further standardized the internal computer and network operations, enhanced employees' ability to prevent and respond to information security incidents, and prevented the occurrence of information security incidents such as leakage of private information.

100%

Employees (incl. Interns) Coverage of Privacy Protection and Information Security Training

The Group regards the protection of customer privacy and information security as an important foundation for stable operation, the Group submits the work of information security management (including audit results, risk identification and improvement progress) to ESG Committee under the Board of Directors for review on a yearly basis.

Intellectual Property Protection

The Group regards intellectual property rights as important corporate assets, including but not limited to trademarks, intellectual property rights, confidential information, production know-how, etc. The Group has built an internal document database of intellectual property rights, covering the Group's trademarks, patents, copyrights, etc, providing a basis for management and maintenance of intellectual properties rights. The Group manages intellectual property rights throughout the product investments, research, registration, promotion and marketing, etc. If any suspected infringement on intellectual property rights is found, the Legal Department of the Group will protect the Group's legitimate rights and interests by using administrative and judicial ways as appropriate, and document the process of defence.

To further regulate daily maintenance, risk identification and management, dispute settlement and other work of intellectual property rights, the Group has developed *CMS Intellectual Property Management Policy.* In addition, the Group also expressly forbids employees to disclose corporate trade or technical confidential information in *CMS Anti-fraud Management Policy*. To constantly enhance the employees' emphasis on intellectual property rights, Group-wide study and training of the *CMS Anti-fraud Management Policy* was conducted among staff (including interns), covering 100% of employees.

While protecting its own intellectual property rights, the Group respects and safeguards the interests of all owners of intellectual property rights related to the corporate business. It is in strict compliance with relevant laws and regulations, so as to avoid infringing on the intellectual property rights of others. The Group opens whistleblowing channels to the general public and if any infringement is found, whistleblowing may be submitted via email, telephone and official website, etc.

During the Reporting Period, the Group had no significant intellectual property infringement litigation.

Providing High-Quality Products and Services

Product Liability

CMS quality policy

All employees, Comprehensively, Whole process, Continuous improvement

The Group takes "offering competitive products and services to meet unmet medical needs" as its mission, and puts a high value on product liability. It strictly abides by applicable national and local laws and regulations in terms of product and service quality, product specification and labels, product complains, pharmacovigilance, product recall etc.

The Group has established an internal product quality management system that covers the entire process from clinical research and development, registration and evaluation, manufacture management, launch and medication, post-approval supervision. The Group leverages the digital drug tracing and pharmacovigilance system throughout the product life cycle to comprehensively control over risks related to product quality and safety. The Group continuously improves its quality assurance system through regular self-inspection and external monitoring, including product lifecycle quality risk identification and control, safety review, alteration management, deviation management correction and prevention management, supplier management, etc.

During the Reporting Period, the Group did not violate any applicable laws or provisions that would significantly impact the Group in product quality and security, pharmacovigilance, product recall, specification and labels, etc.

Moreover, the Group provides regular trainings on product quality and safety management for employees involved in drug R&D, production and operation annually, including but not limited to interpretation of relevant laws and regulations, improvement of professional knowledge and skills, as well as learning of quality management system related documents, etc., to enhance their awareness of quality risk.

Product Quality and Safety Related Trainings

100%

Covered Employees Involved in Drug R&D, Production and Operation

Research and Development Quality Management

The Group has established a research and development quality control system covering clinical trial operation, quality assurance and pharmacovigilance. On the basis of strict compliance with relevant national laws and regulations, the Group has continued to improve its internal product research and development quality management system and standard workflow as guided by industry standards such as the *Good Clinical Practice* ("GCP") to support the compliance and efficient execution of product research and development. During the Reporting Period, the Group invited experts in quality, medical and clinical fields as consultants to review and inspect the construction of internal quality system, and actively carried out targeted improvements, so as to enhance the effectiveness of control over product research and development quality.

The Group has established a Medical Center to carry out strict quality control over the entire process of product research and development, which covers product evaluation, trial design, clinical operation, statistical analysis of trial data, and archives management for clinical reports. Taking into account the type and complexity of clinical trials, the Group develops audit plans for the corresponding projects through prospective risk assessments and performs audits at different stages of clinical trials, so as to dynamically identify potential risks and implement rectification in a timely manner, and ensure that various clinical trials fully comply with the requirements of national regulations and industry practices. Moreover, all human clinical trials of the Group have passed the ethical review as required by law and follow the ethical principles in the *Declaration of Halsinki*. Before participating in a clinical trial, all subjects are required to sign the *Informed Consent Form of Subjects* which clearly stipulates that they shall have the right to be informed and the right to choose, and that they can refuse or withdraw from the clinical trial at any time, thereby protecting their rights and interests.

During the Reporting Period, the Medical Center has carried out self-inspection on all ongoing clinical trials on a monthly basis and has also accepted 5 external inspections from partners such as drug suppliers on the Group' s research and development quality management system and the implementation of product clinical trials, with no general or major research and development quality risks and serious deficiencies noted.

Product and Service Quality Management

The drug products promoted and sold by the Group are mainly manufactured in countries of manufacturing origins (the suppliers) such as China, Germany, Denmark, the United Kingdom and France, which have stricter code for quality management and higher quality standards. A small fraction of the rest products are self-produced (During the Reporting Period, the sales contribution from self-produced products only accounted for around 2.1% of the Group's turnover in the case that all medicines were directly sold by the Group). All drugs promoted and sold by the Group have been registered and approved by relevant drug regulators (e.g., NMPA). In addition, the subsidiaries with their core business in pharmaceutical promotions and sales have complied with Good Supply Practice of Pharmaceutical Products (GSP), and the subsidiaries with their core business in pharmaceutical manufacturing have complied with Good Manufacture Practice of Pharmaceutical Products (GMP), and also undertaken drugs promotion and sales as well as manufacture in strict accordance with relevant practices. In accordance with *Regulations on Internal Audit of Quality Management System* and *Operating Procedures for Internal Audit of Quality Management System*, the Group designates Quality Management Department of subsidiaries with their core business in pharmaceutical promotions and sales as well as manufacturing to organize all departments to perform comprehensive internal audits, and to rectify the defects in time. Meanwhile, the Group actively embraces supervision and inspections from external regulators. During the Reporting Period, the Group has embraced and successfully passed 8 rounds of supervision and inspections concerning drug promotions and sales as well as manufacture quality management from drug regulators, where neither major risks nor severe defects concerning product quality have been found inside the Group.

Product quality and safety management

Quality and safety management of self-produced products

The subsidiaries with their core business in pharmaceutical manufacturing of the Group have established a quality control system that includes material supply, product manufacturing, inspection, product launch and recall, and other core operational aspects for the self-produced products. In order to strengthen the quality control of raw materials for self-produced products, the Group's subsidiaries involved in manufacturing have established an internal system covering supplier assessment, selection, maintenance and updates, and on the basis of preparing a list of qualified suppliers for raw materials, such qualified suppliers are categorized and managed according to the importance of the materials supplied. Material suppliers, which have important impact on drug quality and medication safety, are required to undergo on-site inspection and quality audit on a yearly basis, with supply quality of the previous year evaluated and list of qualified suppliers updated based on evaluation results. The Group gives priority to purchasing materials from qualified suppliers with high comprehensive scores, and controls the quality of self-produced products from the source. In addition, the Group strictly inspects the incoming materials by checking the appearance of products, verifying product-related information, etc., with samples taken according to *Sampling Management Procedures*, and releases them for production after the materials are accepted as qualified. It has also built a traceable material information database to further standardize the material control process.

During the product production process, the Group regularly checks the status of production equipment, strictly records the production parameters and the operation process, and has dedicated personnel to monitor the entire manufacturing process. For finished products, the Group inspects each batch to ensure the products are qualified and well-packed before entering the market. For specific products, samples are taken strictly according to national standards to test stability before outbound delivery, to ensure that products quality align with national standards. In addition, the Group has established the *Quality Policy, Target and Plan Management Regulations*, which explicitly includes the product qualification rate, evaluation score for production equipment maintenance and quality training completion rate into employees' annual performance assessment, so as to strengthen the awareness of internal product quality.

Additionally, the Group has developed a *Product Quality Review and Analysis Management Procedure* which requires to summarize and analyse all data related to production and quality inspection within a specific time frame annually and conduct a review of product quality management practices, including but not limited to quality training, deviation analysis, goods return and recall, complaints and adverse reaction reports, etc. The Group constantly reviews the internal product quality control system through annual product quality review, rectifying and preventing potential issues and risks accordingly.

Quality and Safety Management of Finished Products

For imported drug products, including the first imported batch of drugs, biological products, products of standard change or manufacture process alteration and when the company deems necessary, strict inspections are carried out by official professional institutions in accordance with the requirements of national regulations and Import Inspection Report shall be issued. The Quality Management Department of the Group conducts the inspection as per GSP requirements once the imported drug products and domestic drug products arrive, and examines the inspection reports to ensure that they are in line with national standards on drug or product quality approved by the National Drug Administration. In case of any product quality issues, the Group will process in accordance with *Unqualified Product Management Procedure* and feedback the written reports and relevant evidence to the supplier in a timely manner. The unqualified products will be transferred to the "unqualified zone" and returned to the supplier, or applied to be discarded or destroyed if necessary.

Furthermore, the Group has established a Product Quality Review Mechanism whereby the Group' s Quality Management Department conducts an annual review about the quality and safety as well as supply stability of historical product acceptance, forming an *Annual Product Inbound Quality Review Form*, which shall be reviewed and approved by the person in charge of the Quality Management Department and then filed for management.

Warehousing and Storage of Products

The Group attaches great importance to the storage and warehousing safety of products, and has 16 warehouses with well-equipped storage facilities according to different product characteristics. The Group has formulated *Regulations on Drug Storage* and *Regulations on Warehouse Handling Area Working Safety Management* to ensure that the on-duty personnel understand their responsibilities and work content, and clarify the warehousing process and handling requirements. The Group has also formulated *Regulations on Warehouse Fire Safety Management, Regulations on Warehouse Hygiene, Regulations on Inspection, Maintenance and Servicing of Equipment and Facilities* and *Regulations on Drug Maintenance* to give comprehensive guidance on fire safety management, hygiene conditions, equipment maintenance and drug maintenance. The Group has drug maintenance personnel in the warehouse to have real-time monitor on the equipment and the storage condition of the drugs in accordance with GSP and management system as well as operating procedures, and quarterly summarize and analyse the drug storage and warehousing status.

Product Traceability Management

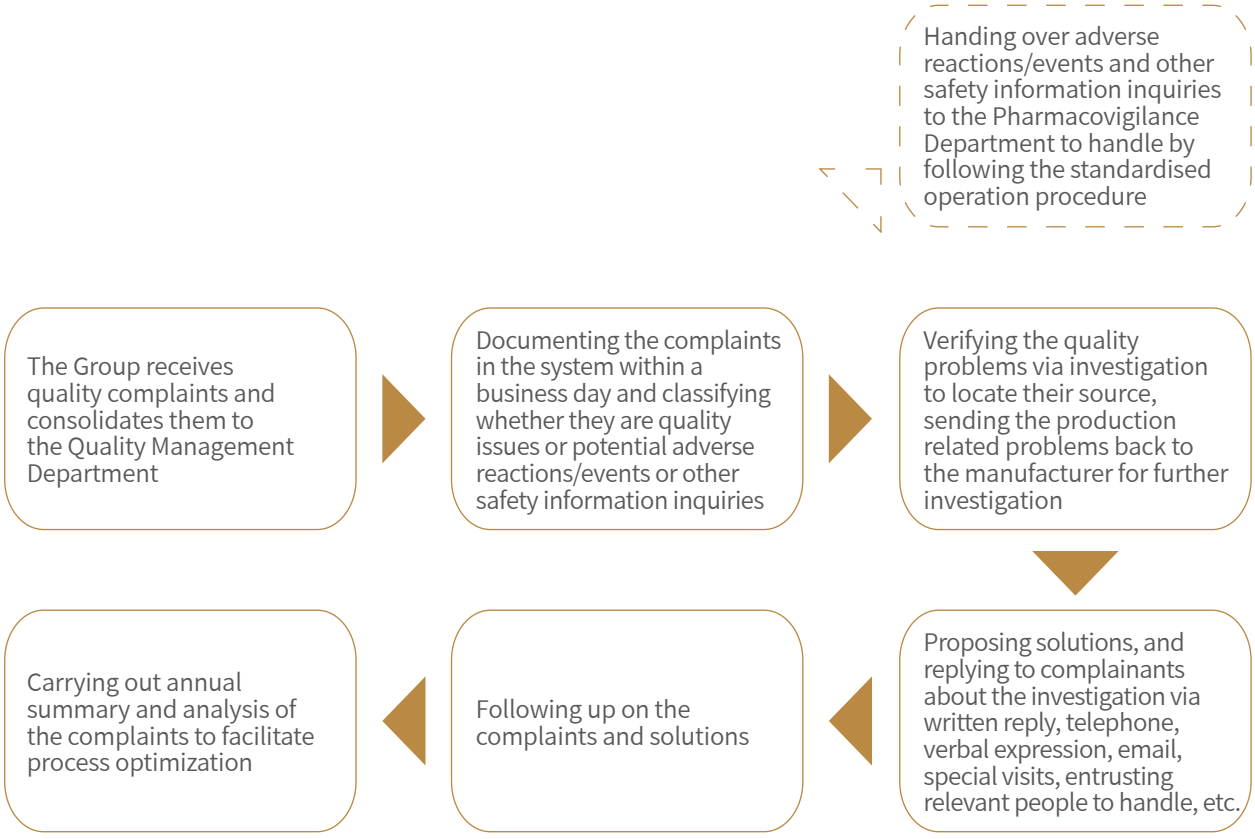
The Group has formulated the *Drug Traceability Management System* and established a complete product information database within the digital system conforming with GSP requirements with the help of the electronic trace code. The electronic trace code of the drug packaging box provides a unique traceable marker for the minimum packaging unit, which realizes the information-based traceability of the minimum packaging unit of drugs, ensuring that the drugs are "traceable in both source and end use" and providing more effective and comprehensive quality control support for the drug procurement, storage, sale, transportation, and others. In addition, the Group has been enrolled in the "Mashangfangxin Platform" to share drug traceability information with its customers.

Drug Insert Sheet and Label Management

The Group strictly abides by the laws and regulations such as *Provisions for Drug Insert Sheets and Labels* and has established relevant internal management policies and procedures such as *Procedure for Administration of Pre-marketing Drafting/Post-marketing Alteration of Drug Insert Sheets and Labels* and *Procedure for Revision, Review and Approve of Design Draft of Drug Insert Sheets and Labels*, so as to clearly define the control requirements on drafting, altering, modifying, auditing and approving product insert sheets and labels. In the event of updates of laws and regulations related to drug insert sheets and labels, approval of drug marketing applications, re-registration of drugs and changes in matters, the Registration Management Center of the Group will take the lead in initiating the drafting or revision of drug insert sheets and labels, and submit applications for alteration to regulatory authorities after the Medical Center and other relevant departments have jointly reviewed and approved the reporting materials on product insert sheets and labels. Once the application for alteration is approved by regulatory authorities, the Registration Management Center of the Group will revise and modify the product insert sheets and labels in accordance with the official approval documents, and the person in charge of the Registration Management Center will review and approve before putting them into use.

Product Complaints Management

The Group has established a complete customer complaint handling system. For that, the Group has formed the *Regulations on Quality Complaints* and *Operating Procedures for Quality Complaints* to specify the processes of receiving and handling customer complaints, communication and feedback, providing overall guidance for efficient handling of after-sales complaints. The Group offers diverse customer complaining and reporting channels, including telephone, email, official website, etc. After receiving quality complaints, any department or the employee of the Group shall collect relevant materials as much as possible, and transfer complaints to the Quality Management Department of the Group in time via internal communication methods. After receiving complaints, the Quality Management Department will timely record relevant information into the system. Through the investigation and evaluation, follow-up handling, timely feedback, subsequent tracking, archiving and documentation and other processing procedures, the problems verification, effective handling and timely feedback can be realised.



Customer Complaint Handling System

100%

Response and Handling Rate for Product and Service Quality Related Complaints

Pharmacovigilance and Product Recall

The Group stresses on the establishment and optimisation of pharmacovigilance (PV) and product recall mechanism. The Group has established a comprehensive pharmacovigilance and product recall management system, operating procedures and handling plans in accordance with regulations, industry guidelines and other requirements, so as to fully deploy and implement quality and safety assessment, risk identification and control throughout the product life cycle from research and development to post-marketing, safeguarding the medication safety of the public.

Pharmacovigilance

Following the *Measures for Reporting and Monitoring of Adverse Drug Reactions, Good Pharmacovigilance Practice* and other relevant laws and regulation as well as guidance, the Group has developed *Operating Procedures for Drug Safety Report Handling, Pharmacovigilance Training and Personnel Qualification Management* and other applicable pharmacovigilance system to clarify the management process.

The Group has established compliant and smooth channels for the collection of information on product adverse events, including telephone, email and official website, and has taken the initiative to search and collect information on suspected adverse drug reactions from the public' s spontaneous reports, clinical applications, post-marketing clinical studies, academic literature, etc. to achieve effective monitoring of product safety information. After being informed of adverse reactions/events and other safety information on a product, the departments in relation to pharmacovigilance of the Group will follow the *Operating Procedures for Drug Safety Report Handling* to collect information, conduct investigation, analysis, handling, evaluation and summarization on individual adverse reactions/events, timely and truthfully record them using the digital pharmacovigilance system, and then report to the regulatory authorities within the specified time frame.

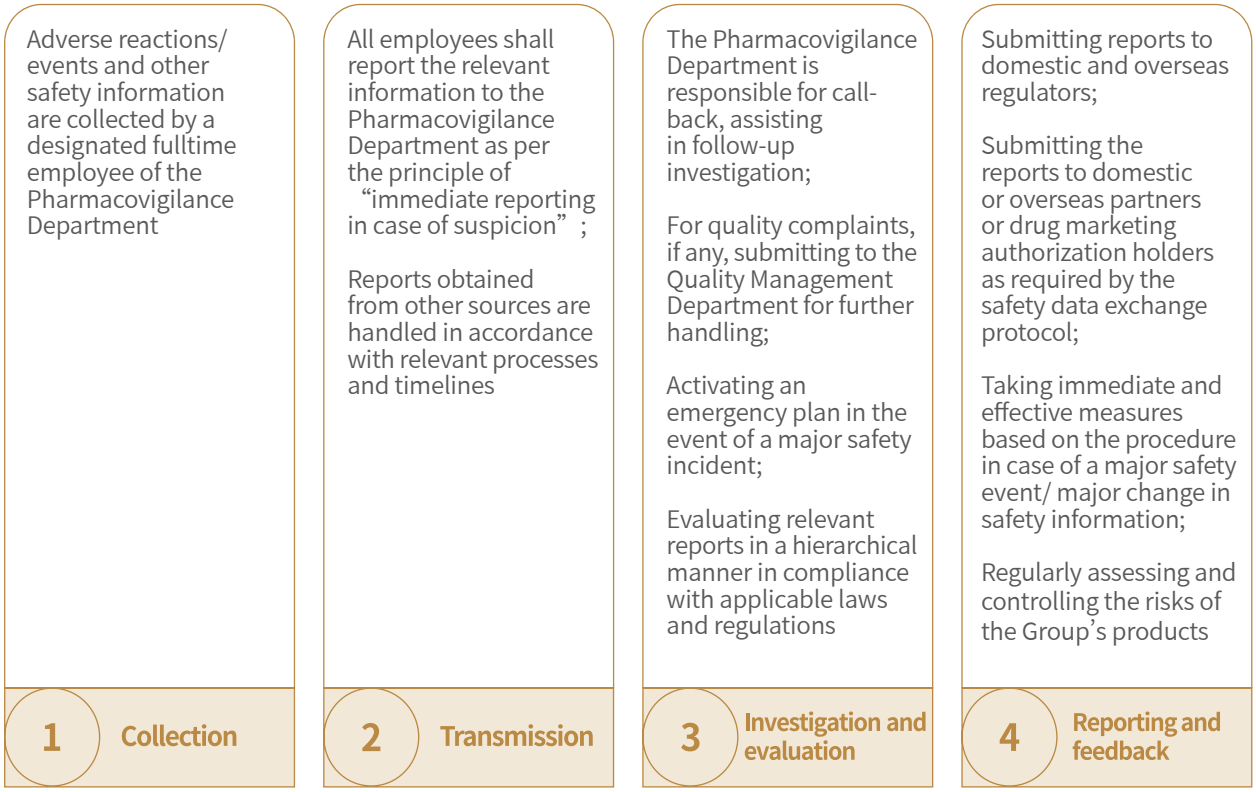
100%

The Pass Rate of Reported Suspected Product Adverse Reactions/ Events

Meanwhile, the Group regularly assesses safety risks of products, including drugs approved for clinical trials and authorized for marketing in China, and generates the *Development Safety Update Report* or *Periodic Safety Update Report*. In addition, the Group regulates the emergency plan for drug safety event according to the *Operating Procedures for Product Safety Event Handling Plan*, to timely monitors, evaluates and identify potential risks, and takes immediate and effective measures to deal with and control the risk to prevent the spread of harm.

Additionally, the Group has actively responded to the supervision and audit of the Group' s pharmacovigilance system from product suppliers. During the Reporting Period, the Group has received and successfully passed 3 external audits with no significant risks or serious deficiencies related to pharmacovigilance noted.

The Group actively promotes pharmacovigilance-related trainings. During the Reporting Period, the Group has conducted a total of 15 pharmacovigilance-related trainings, covering 100% of the staff involved in pharmacovigilance-related work internally, and the content of which includes but not limited to the interpretation of pharmacovigilance-related laws and regulations, the enhancement of position-related professional knowledge and the popularization of operation regulations for pharmacovigilance database, etc.

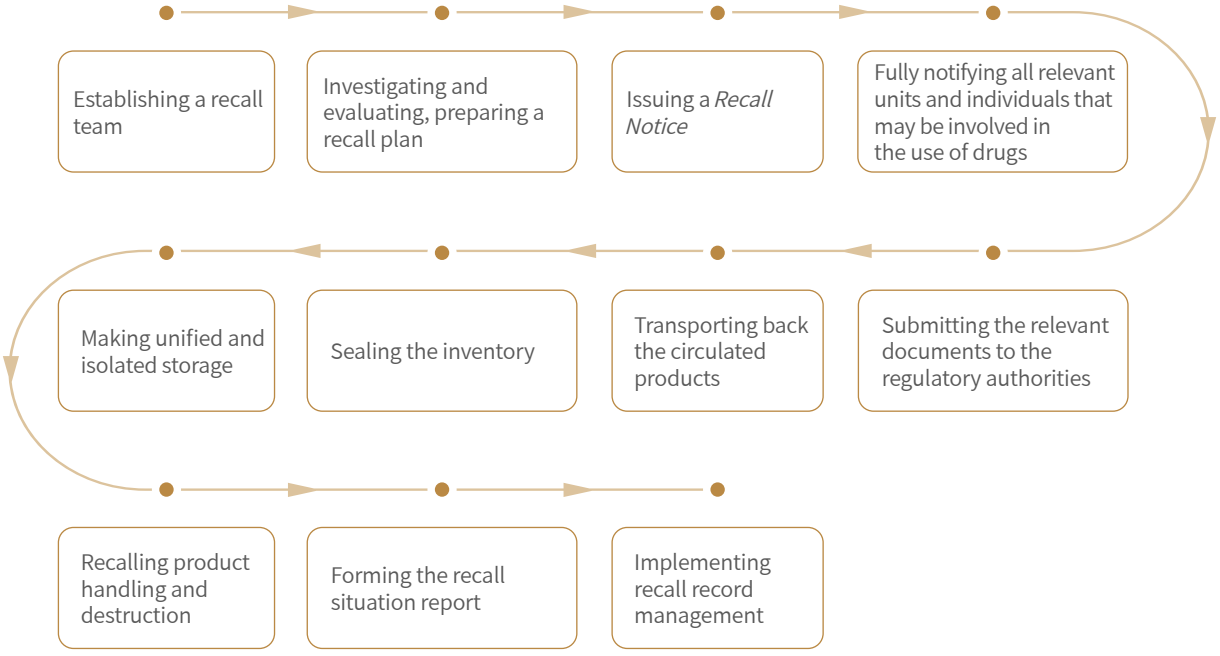


Adverse Reaction/Event Handling Process

Product Recall

The Group has formed relatively complete and mature recall mechanisms and operating procedures, including *Regulations on Drug Recall* and *Operating Procedures for Drug Recall*. If any quality problem and hidden safety hazard occurs to products, the Group will immediately initiate the recall process. The subsidiaries of the Group involving holders of marketing authorization regularly hold mock recall drills to ensure effective recall of defective products in the shortest time in case of an emergency, so as to protect customers' rights and interests.

During the Reporting Period, the Group did not receive any sold or delivered product recalls due to safety and health issues.



Drug Recall Process

Cooperation and Mutual Benefit

The Group pays high attention to the supply chain management, strictly abides by relevant national and local laws and regulations, and has gradually established a systematized supply chain management system. Moreover, the Group actively takes a variety of measures to encourage and advocate compliance operation, environmental protection and social responsibilities among its domestic and overseas supply-chain partners, and strengthen the identification and control of risks in each segment of the supply chain, in order to work together with its partners to establish an efficient, stable, clean, fair and green supply chain, and to protect the product quality and safety and achieve win-win results.

Supply Chain Management

The Group strictly abides by laws, regulations and management procedures, and carries out risk control and management of all suppliers from admission, stable cooperation to elimination by means of admission review, hierarchical management, regular evaluation and assessment, etc. It actively maintains long-term cooperative relationships with its suppliers, realises stable and efficient two-way communications and lays a foundation for mutual trusts with them by phone, e-mails and exchange visits, and achieves common progress through mutual supervision and experience sharing.

Moreover, the Group conducts all-round appraisal and examination of distributors in terms of qualification and capacities, to ensure product quality during the distribution process, and minimise the potential impacts of goods circulation on the surroundings.

The Group has established the *Regulations on First-time Supplier Qualification Review, Regulations on Supplier Management, Provisions for Material Supplier Management* and other internal regulations and policies to guide and standardize the supplier selection and monitoring, the procurement and other processes, and regularly reviews and optimizes relevant systems on a yearly basis.

Product Supplier Management

Shenzhen Kangzhe, a subsidiary of the Group which is mainly responsible for promoting and selling imported drugs, is certified as an advanced "Authorized Economic Operator (AEO)" by the customs, representing the high-level general supply chain management as well as the excellent internal governance and trade safety control.

The Group adheres to strict admission criteria for its suppliers and examines several aspects of the supplier, including but not limited to company qualification, competitiveness, production conditions, product quality management, logistics and transportation capacity, customer service, environmental protection and social responsibility, to ensure that qualified products are purchased from suppliers that are legally qualified and take corporate responsibility. The Group further standardizes supplier admission requirements and examination procedures by continuously optimizing supplier due diligence and evaluation processes.

Moreover, the Supply Chain Management Department of the Group has continuously improved the supplier grading system. New suppliers and stable suppliers are subject to weighted evaluation, significance rating and hierarchical management according to quantitative indicators such as annual purchase amount, percentage of purchase amount in suppliers' turnover as well as suppliers' performance levels. Suppliers are then divided into important suppliers (including partner suppliers and key commercial suppliers) , as well as general suppliers (including prior suppliers and commercial suppliers) and risk assessment and control are carried out annually or once every 18 months from the aspects of operational risk, product pricing, operational performance and service quality. When the assessment results indicate higher risks, regular meetings with suppliers will be held to review the supply situation in stages, solutions will be discussed to develop a response plan to identify and control supply risks in a timely manner. In addition, the Supply Chain Management Department of the Group has established a formal communication channel for all suppliers, and conducts regular cooperation satisfaction surveys for important suppliers to promote the healthy development of supply chain management.

The Supply Chain Management Department of the Group, together with relevant departments, implements strict qualification report inspection and product acceptance for imported and domestic finished products to ensure that the products meet the quality standards approved by the national regulatory authorities. Once any quality issue is found, the Group will immediately provide feedback to its suppliers, understand the causes, urge the suppliers to make corrections and give necessary supports. If any supplier fails to pass the sampling inspection of its drugs held by the drug regulatory authorities, has any major quality problem, is ordered to recall its drugs, or has a poor reputation for quality, etc., the Group' s Quality Management Department will pay a field visit focusing on whether the supplier' s quality management system is sound, the reason for the quality problem and whether the corrective measure is effective, and will make an all-round risk assessment. For unqualified suppliers, the Group has established the relevant exit mechanism to ensure the product quality is above the baseline.

The Group also actively promotes common progress with its partners. The Registration Management Center of the Group takes the initiative to provide trainings to suppliers in case of any amendments or changes to the China registration standards and legal and regulatory requirements, the content of which includes the interpretation of relevant systems and policies, to help suppliers understand the latest registration processes and regulations in the China market in a timely manner.

Material Supplier Management

For materials required for production, the Group conducts strict admission review on potential suppliers in accordance with internal regulations, and their scales, qualifications, states of operations, production capacities, product categories, quality management, reputation history, conditions of carriage, etc. are reviewed in detail, with the *Manufacturer Questionnaire* distributed in the preliminary supplier screening stage for more efficient communications and decision-making. The Group also ensures the standardization of supplier admission through open and fair bidding to avoid potential commercial bribery. Before concluding a cooperation agreement with a supplier, the Quality Management Department and other relevant departments will jointly conduct comprehensive qualification review and on-site quality audit and, in the meantime, inspect the samples provided by the supplier according to the material purchase management requirements, with a small batch trial production conducted when necessary. Only suppliers who have passed the full review are eligible to be included the Group's qualified supplier list. The Group expressly maintains at least two qualified suppliers for any production material to ensure the supply of materials in emergency. Moreover, the Quality Management Department conducts annual quality assessment on all qualified suppliers regularly on a yearly basis. The Group further implements hierarchical management for qualified suppliers according to the impact and importance of materials on product quality and safety, and performs risk control procedures such as on-site quality audits in a targeted manner.

Grading of Suppliers	Definition	Frequency of On-site Quality Audit
Grade A Material Suppliers	Materials that have a significant impact on drug quality and safety	At least once every two years
Grade B Material Suppliers	Materials that do not have a direct impact on the drug quality or the impact of which can be remedied by subsequent process steps	At least once every three years
Grade C Material Suppliers	Other auxiliary materials related to product quality	Based on actual situation

The Quality Management Department updates the list of qualified suppliers annually based on the results of audits on suppliers and the quality of supplies over the past year, and gives priority to suppliers with higher ratings under the same conditions. If the materials provided by a qualified supplier do not meet the requirements, the Group will first re-inspect the samples to eliminate errors caused by inspection problems. If the sample fails the re-inspection, a non-conformity report will be issued and sent to the supplier in time, and the supplier will be notified that the unqualified goods will be returned. Supplier who fails to meet the Group's requirements twice a year will be disqualified. If goods with any severe defect or significant quality risks are found, the purchasing will be suspended, so as to prevent and reduce product quality risks.

The Group's finished products and material suppliers are 100% managed in accordance with above standards. During the Reporting Period, there was no significant product supply delay from the Group's suppliers.

Sustainable Development of Supply Chain

The Group aims to work with its upstream and downstream partners in an attempt to build a green and sustainable supply chain system. While strictly controlling quality and safety, the Group makes all efforts to identify, monitor and control the environmental and social responsibility risks in the three parts of the supply chain, namely supplier selection, procurement and production, and distribution.

For potential risks in each part of the supply chain, including social and environmental risks such as corruption, bribery, unfair competition, illegal operation, inconformity to standard of products or raw materials, pollution in transportation process to the environment, the Group has formulated corresponding prevention and control measures, including but not limited to the followings:

Supplier selection	• Adhering to the principle of openness, impartiality and fairness, preventing and controlling possible corruption risks in the bidding process with participation of multiple departments • Including human rights, environmental and social factors into the supplier review; encouraging and tending to choose suppliers advocating the green environmental protection concept or with relevant qualifications, including but not limited to: ISO 14000, ISO 45001, SA8000, AEO, TAPA , etc. • If the candidates are on a par, the one in closer proximity will be preferred for more convenient transportation, to reduce the potential pollution to the environment during the shipment
Procurement and production	• Clearly stating quality credibility, supply integrity, anti-corruption and other compliance requirements in agreements signed with suppliers, and requiring suppliers to comply with national and industry standards related to product operations and production • Suppliers are required to use packaging materials in compliance with the environmental protection standards. The inner packaging in contact with drugs is required to be at least the food-grade packaging to realize green packaging
Distribution	• Including environmental and social factors in distributor selection criteria, including enterprise qualification, warehousing and distribution capacities, staffing, operations management, channel coverage, responsiveness, reputation in the industry, and dedication to environmental protection • Prioritizing distributors that are Technology Asset Protection Association (TAPA) certified, GSP compliant and socially responsible with comprehensive distribution channels coverage and dedication to environmental protection, so as to reduce the negative social and environmental impacts in logistics • Making a series of internal management regulations available to distributors, to ensure that partners are aware of and comply with the Group's requirements and criteria for quality safety, anti-corruption, intellectual property protection, data privacy protection, compliant employment, environment protection, etc.

To further promote sustainable development of supply chain, during the Reporting Period, upon completion of supplier training on *CMS Anti-fraud Management Policy*, more than 60% of the suppliers have signed the *Proposal for Suppliers*, and suppliers are advocated to comply with compliance operation, business ethics, human rights and labour standards, protect the environment and respect community culture.

Field	Abstract
Compliance operation and business ethics	• Complying with applicable laws, regulations, standards, guidelines and criteria, including but not limited to the GSP, advertising law and patent law, etc. • Providing high-quality, safe and effective products and services that comply with applicable laws, regulations, quality requirements and standards • Resolutely resisting on bid rigging, bidding collusion, acceptance of kickbacks and other unfair competition, and keeping zero tolerance for any form of corruption, extortion or bribery • Valuing business partners' privacy and confidential information, and ensuring no data or intellectual property right is abused
Human rights and labour standards	• Respecting the protection of internationally recognized human rights and avoiding human rights violation • Avoiding all forms of child labour, forced and compulsory labour • Respecting personal dignity, privacy and rights, abiding by the maximum working hours stipulated by relevant laws, and providing fair remuneration • Promoting equal opportunity and treatment of employees, and rejecting discrimination or harassment for any reason • Complying with laws and standards related to occupational health and safety, and providing safe working environment
Environmental protection	• Complying with environmental laws and standards • Establishing a reasonable internal environmental management system
Community culture	• Facilitating the economic and social development of the community • Ensuring full respect for human rights, dignity, culture, and the survival by reliance on natural resources

Abstract of *Proposal for Suppliers*

Undertaking Community Responsibilities

As a responsible corporate citizen, CMS always cares about the development of the surrounding communities, continuously pays close attention to and responds to community needs and carries out series of public welfare activities such as donation, poverty alleviation, care for vulnerable groups, assistance with pandemic prevention and control, giving back to the society with practical actions.

In order to continuously fulfill social responsibilities and provide management standards for various public service activities, the Group has formulated *External Donation Management Policy* to define the principles of public donations, types of donations, internal approval procedures and rules. The Group inputs certain manpower, fund and materials for community dedication every year, and requires that donations be made for legal, compliant, voluntary and non-profit purposes, that continuous attention be given to recipients of donations or their communities and the influence of donations be tracked. By preparing an annual quantitative tracking summary, the Group ensures that its donations serve the intended purposes and play a role in promoting community development.

2.69 million RMB
Total Donations for Public Services in Communities

Poverty Relief and Rural Revitalization

- The Shenzhen subsidiary of the Group actively promoted the "Guangdong Poverty Alleviation Day" activity by donating RMB500,000 to Shenzhen Nanshan District Charity Association as the targeted assistance to Jiaoqi Village, Sanmen Town, Longsheng Ethnic Autonomous County, Guilin City, Guangxi Zhuang Autonomous Region, Muchang Village, Chetian Miao Nationality Township, Ziyuan County and Yanzhu Village, Liangshui Miao Nationality Township for a period of three years. The donation will be fully used in poverty alleviation, infrastructure construction, industry expansion, etc. of aforementioned target villages to help improve local development environment and contribute to the rural revitalization. As of 31 December 2022, the donation of RMB150,000 for the first year has been paid up and fully used in upgrading and construction of the target villages in terms of industry, talent and infrastructure.

- The Shenzhen subsidiary of the Group contributed to the national strategy for rural revitalization through "Consumption to Aid Agriculture", purchasing gift box of agricultural products of local specialty from Linquan County in Anhui province, and the amount of procurement totalled to RMB 1,695,000.

Care for Vulnerable Groups

- On Children's day, the Shenzhen subsidiary of the Group made a targeted donation of RMB38,000 to two rehabilitation centers for exceptional children via Shenzhen Nanshan District Charity Association. The donation will be used to purchase learning and living materials such as creative teaching appliances, sports equipment and tools. The Shenzhen subsidiary also played interactive games with the children, accompanying the children to have a warm holiday.

- In February, the Hunan subsidiary of the Group actively responded to call of Hunan Medical Products Administration by donating drugs for three consecutive years with total value of RMB32,000 to poor families to relieve the medical burden on the patients and their families.

- Since 2003, the Hunan subsidiary of the Group and local educational institutions in Li County carried out long-term education donation activities. As of 31 December 2022, the accumulated funding for local education bureau and schools is about RMB1,270,000, where the donated education fund amounted to RMB120,000 which has been fully used as incentive and funding for prominent teachers and poor students during the Reporting Period.

- Since 2016, the Hunan subsidiary of the Group promotes the re-employment of surrounding farmers, employing an average of 3,000 surrounding farmers per year.

- Since 2017, the Hunan subsidiary of the Group continuously implement nursing home assistance program, regularly providing gift benefits to local nursing home of Li County, Hunan Province. During the Reporting Period, the Group provided free seasonal fresh fruits for over 40 seniors in the nursing home, with donation value of RMB 65,000.

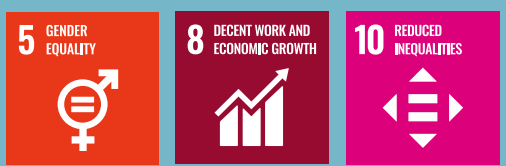
Assistance with pandemic prevention and control

- In March, the Shenzhen subsidiary of the Group donated cash, anti-epidemic supplies and living supplies with total value of RMB150,000 via Shenzhen Nanshan District Charity Association to support the pandemic prevention and control work.

- In August, the Tibet subsidiary of the Group actively participated in the pandemic prevention and control work and donated anti-epidemic supplies including medical protective clothing, N95 mask, medical glove and ethanol disinfectant to local government, schools and communities, with total donation value of RMB 86,000; and timely organized employees to join in the group of volunteers to assist with handling of anti-pandemic supplies, nucleic acid testing and pandemic prevention and publicity.

PEOPLE-ORIENTED PRACTICE, GROWING WITH EMPLOYEE

The Group regards employees as its most valuable assets and always adheres to legal and compliant employment. It attaches great importance to employees' development and protection of their rights and interests and actively constructs a cultural atmosphere of diversity and integration, and drives the mutual growth of employee and enterprise, to build a high-quality team of talents with strong "centripetal force" while providing employees with a safe and comfortable working environment.



KEY TARGETS AND PROGRESS

Talent absorption and management

Targets for Year 2030:

- The total employees training expenditure increase 40% compared with year 2022

Progress in Year 2022:

- Actively organize training for employees of various levels, covering all employees (incl. new employees, core business departments, management, etc.). The per capita training time of the Group's employees is 26.1 hours, with a year-on-year increase of 44.7%, and the total employees training expenditure reached RMB4.8 million.

Attaching great importance to employee diversity

Targets for Year 2030:

- No less than 50% female among employees
- No less than 30% female among mid-level and senior management
- Maintain gender diversity among the board members

Progress in Year 2022:

- Newly established *Human Rights and Employee Diversity Policy* and employee appeal channel, encouraging employees to be brave to speak up when they suffer from discrimination, unfair treatment, and etc. and fostering an organizational atmosphere of diversity and integration. The proportions of female in employees, mid-level and senior management as well as board members are 53.8%, 35.0%, and 33.3% respectively.

Ensuring the occupational health and safety of employees

Targets for Year 2030:

- Provide psychological health counselling programs for all employees
- Provide annual occupational health examination benefits for all employees

Progress in Year 2022:

- Carried out EAP (Employee Assistance Program) and the employee coverage rate of this program has reached 100%
- The employee coverage of occupational health examination benefits has maintained at 100%.

On the basis of strictly abiding by relevant laws and regulations of the place of operations, the Group continuously optimizes the internal management policies and measures for talent absorption and management, diversified development and occupational health and safety of employees, and etc. The Group has established a well-developed human resource management framework to comprehensively support the Group's needs for talent management; meanwhile, by coordinating and guiding the human resource management of each subsidiary from the perspective of the headquarters, the Group ensures smooth development of its overall human resource management.

During the Reporting Period, the Group did not violate any applicable law and regulation that have significant impact on the Group in terms of employment, occupational health and safety, and employees' rights and interests; Meanwhile, there have been no major layoffs, or major mergers/acquisitions affecting a substantial portion of the workforce.

Talent Absorption and Management

Legal and Compliant Employment

The Group persists in legal and compliant employment and follows the procedures for signing, amending, revoking or terminating the labour contracts with all employees, and highlights that employment relationship must be based on the principles of legality, fairness, honesty, mutual consent and willingness. Moreover, the Group has established *Human Resource Policy, Personnel Management Policy and Measures for Background Check Management* to standardise processes of employees' background check, on-boarding, dismissal and file management. The *Personnel Management Policy* expressly stipulates "prohibition of child labour/forced labour", requiring the Human Resource Department to ensure that candidates' identities are true and valid and meet legal employment requirements, by means of inquiry, ensuring information verification and candidate's confirmation signature during the recruitment process, with an aim to eliminate child labour and forced labour.

If any violation such as child labour or forced labour is found, the employment will be identified as invalid, the labour contract will be immediately rescinded, and the payable wages and other remuneration prescribed by law will be paid. Meanwhile, the relevant responsible persons will be punished according to the severity of the circumstances. In addition, the Group encourages supply chain partners to follow the labour standards of the place of its operation through the signing of the Proposal for Suppliers so as to avoid all forms of child labour, forced and compulsory labour.

During the Reporting Period, the Group employed no child labour or forced labour.

Protection of Employees' Rights and Interests

Recruitment

The Group's human resource recruitment plan is always based on the strategic needs for business development. Through the analysis of existing staffing arrangement and talent demand feedback from each department, the Group regularly makes judgment in advance on talent demand and turnover of employees and develops and continuously improves talent deployment strategy and corresponding recruitment plan to build a sound basis for the scientific and systematic talent team building of the Group. Aiming to ensure an organized recruitment process, the Group has established the internal management procedures such as *CMS Recruitment Management Measures, Social Recruitment Practice Manual* and *Campus Recruitment Practice Manual*.

The Group has established a mature human resource introduction and reserve channel combining social recruitment and campus recruitment. As campus recruitment is an important source of the Group's talent pool, the Group is actively exploring diversified campus recruitment methods. By providing scholarship and sharing professional pharmaceutical industry trends and information, the Group strengthens its communication and interaction with colleges and universities to build a sustainable reserve pool of professional talents. During the Reporting Period, the Group vigorously carried out programs for trainees and interns, held more than 248 online/offline campus recruitment seminars across the country and issued offers to over 488 graduates.

In addition, in order to further expand the sources of talents for certain core positions, on the basis of common social recruitment channels (such as professional human resource website and head hunters), the Group encourages internal transfers, supports its employees to give full play to their talents, and develops the channels for recommending excellent talents supported by an attractive incentive mechanism that motivates employees and the public to actively recommend suitable talents. Meanwhile, in order to further attract potential talents and to assist job seekers to obtain recruitment information conveniently, the Group opened official recruitment accounts on multiple social networking sites and platforms to actively show the style of the Group and communicate the latest recruitment information.

Working Hours

The Group strictly forbids forced labour and implements standard working hours according to laws and regulations. On the basis of satisfying standard working hours requirements, the Group implement flexible hours system for the employees' convenience to balance work and life, i.e. employees may reasonably arrange working and leisure time according to their job content and the work arrangement of their departments. The Group does not encourage employees to work overtime. The employees who work overtime as demanded and with the Company's approval will be compensated. Meanwhile, all employees are entitled to statutory holidays and paid leave (including but not limited to annual leave, marriage leave, maternity leave, paternity leave and funeral leave) according to law and their posts will be 100% kept during the leave.

Remuneration and Benefits

The Group established a series of internal management system in accordance with relevant laws and regulations and developed a remuneration system inclined to strivers. The employees' remuneration and benefits depend on the Company's performance and employees' own performance. The Group, on a yearly basis, engages external human resource consultation company to conduct market remuneration research and comprehensively reviews internal remuneration level through the analysis of post salary competitiveness to ensure that employees receive fair and competitive salaries and remuneration in the industry. Meanwhile, it conducts qualification refinement and person-post matching evaluation to maintain a fair and effective remuneration evaluation system and adjustment rules of the Company.

According to the strategic planning and deployment, the Group establishes the evaluation basis for performance appraisal and incentive system by decoding and dividing strategies to each department. The Group has established the short-term, medium-term and long-term multi-level incentive systems covering performance bonus, milestone rewards and stock option plan. All departments may apply for the equity incentive plan according to the actual circumstances. The Group, on the basis of the employees' performance and contribution, carries out quarterly routine performance review to ensure the incentives and bonus are objective and fair. In addition, the result of performance appraisal will be sent to employees via the Group's online digital tool in a timely manner. In case of any disagreement regarding the performance appraisal, employees can raise appeals within 5 working days upon receipt of the appraisal results, and the Human Resource Department will organize independent interviews to obtain in-depth understanding of the employees' doubt, and comprehensively review the performance appraisal results and respond timely.

In terms of employee benefits, the Group provides employees with five statutory social insurance schemes (basic endowment insurance, basic medical insurance, employment injury insurance, maternity insurance and unemployment insurance) and the housing provident fund. Besides, the Group continuously optimizes its employee relationship management by actively planning employee activities and providing caring benefits to enhance organizational cohesion.

During the Reporting Period, comprehensive employee benefits were provided to our staff, including but not limited to:

- √ Providing allowances to subsidize employees' travel expenses for family visit once a year;
- √ Providing accident insurance to employees to give them a peace of mind;
- √ Providing high-quality health check to help employees understand their health conditions;
- √ Setting an employee gym for free use, to support them to exercise;
- √ Setting up an employee book bar, and subscribing to newspapers and books for free reading;
- √ Providing a variety of free afternoon refreshments and overtime dinners;
- √ Establishing a culture and sports association with multiple branches including badminton, swimming, basketball and yoga branches, and cooperate with large-scale stadium to regularly organize activities to enrich employee entertainments;
- √ Appropriating special funds for team-building activities, supporting the departments to organize leisure-time activities and enhancing friendships among employees;
- √ Setting up mother-and-infant rooms to provide convenience for female employees with breastfeeding needs;
- √ Providing employees with "Covid-19 infection insurance", epidemic prevention and control supplies and door-to-door nucleic acid testing during the epidemic;
- √ Providing EAP (Employee Assistance Program), providing psychological counselling and stress relief channels for employees;
- √ Providing festival gifts or holding festival activities.

Training

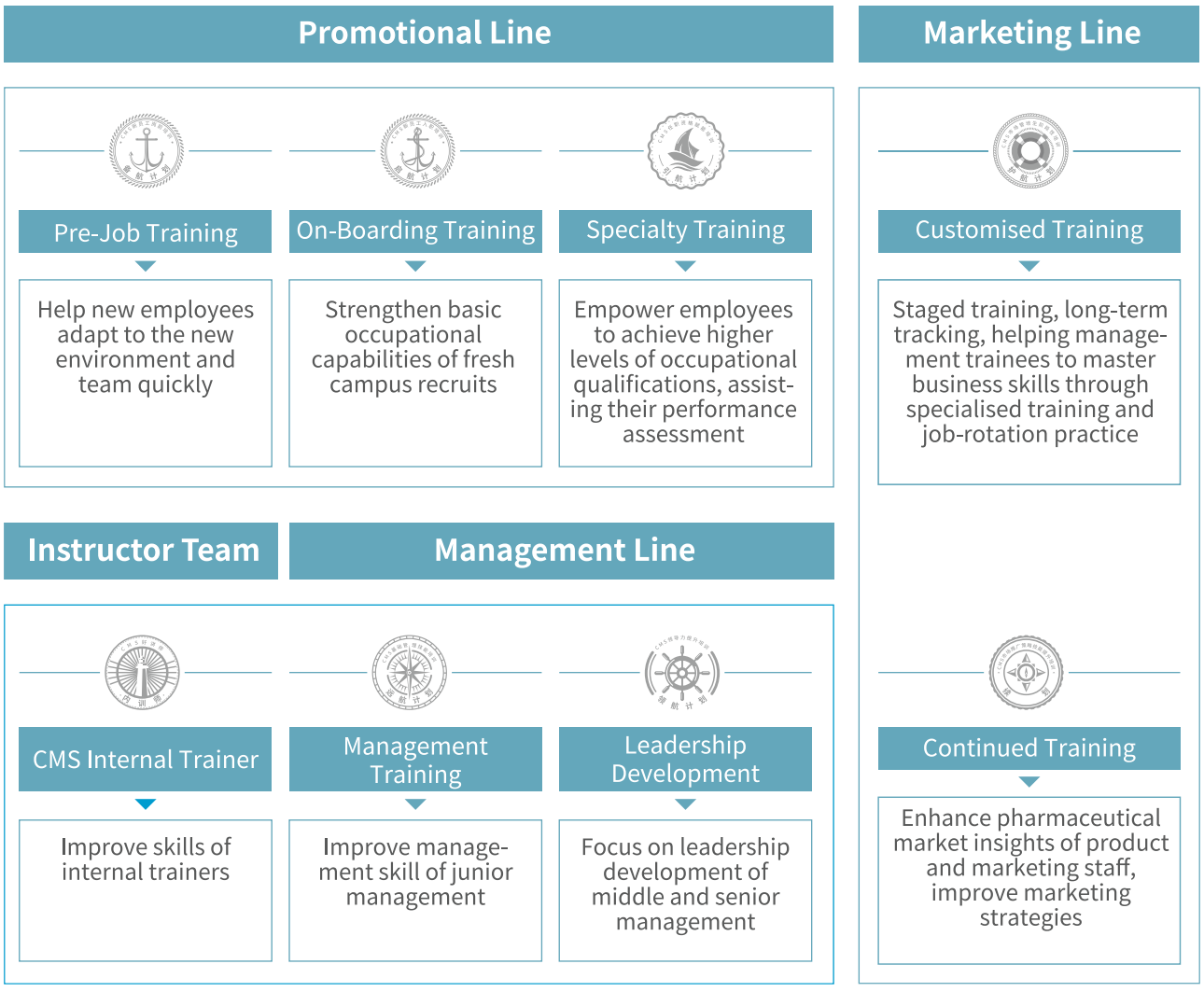
100%
Employees' Training Coverage Rate

26.1 Hours
Average Training Duration Per Capita

Training is an important way to achieve mutual growth and development of employees and the Company. The Group organizes diversified training activities to systematically improve the professional competence of employees. The Group has established the *Provision on Employee Training Process* and *Internal Trainer Management Policy* to support the implementation and management of training plans.

The Group has set up a dedicated training base in Pingshan, Shenzhen, which provides employees with a good centralized training environment and atmosphere. In order to further improve the accessibility and convenience of training, the Group makes full use of digital tools to make available on-site, telephone-access, live streaming, and other ways for employees to participate in training courses. The Group is also active in constructing a digital training management system in an attempt to manage all kinds of training plans, appraisal records, suggestions and feedback systematically and efficiently, so as to further boost its training management efficiency. Moreover, the Group continually improves and leverages internal instructors and course resources, proactively expands cooperation with professional training institutions, and establishes pools with abundant resources of instructors, courses and training institutions, to further underpin the foundation of the Group' s sustainable talent training.

The Group has set up the "Navigation" training system for full coverage of corporate strategy, corporate culture, professional skill and knowledge, job qualification assessment, management skill and leadership development, policy and regulation, etc. Through the combination of internal and external training, the Group provides all employees with all-round assistance to improve their comprehensive capability. Therein, the Group established "Management Training" and "Leadership Development" training systems for management to empower the expansion of management thinking and promotion of leadership skills.



"Navigation" Training System

In addition, the Group' s Human Resource Department makes training arrangement that matches the characteristics of different business lines on the basis of the annual business development goals of the subsidiaries and departments as well as the refined talent training plans. For key business departments and posts, the Group carries out diversified training to help employees improve their professional qualifications and working skills.

R&D related posts

Sharing knowledge on clinical research management, Good Clinical Practice (GCP) and carrying out trainings on use of clinical research information system.

Sales related posts

Carrying out trainings on compliant marketing policies/system interpretation, product knowledge, etc.

Quality related posts

Carrying out trainings on quality related policies/system interpretation, promotion of quality awareness, etc.

Production related posts

Carrying out trainings on safety production, operation of production equipment, etc. and providing qualification training for special posts to ensure the employees of relevant posts are certified.

During the Reporting Period, the Group has set up "Morning Star" training system for product system management trainee, providing comprehensive training in terms of post skills, product knowledge, compliance requirements, etc. to ensure the trainees' cognition on post and corporate culture is enhanced rapidly and to accelerate the team integration.

Meanwhile, the Group actively propels the improvement of professional skills of all employees and provides fund and resources to support the employees to obtain professional qualifications related to their posts. During the Reporting Period, aiming to comprehensively improve the employees' efficiency and assist them with self-growth, the Group carried out "Energy Star – General Force Training" for all employees, providing employees with online and offline general occupational trainings such as data analysis and Office software skills.

Promotion

The Group adheres to the promotion mechanism that was oriented by competence and integrity and follows the talent promotion principle of "internal selection, step-by-step promotion, classified training, spiral rise, and anomalous promotion in special period" . In accordance with the guidelines and requirements of the promotion evaluation mechanism and the performance management system, the Group matches different positions with clear development paths. Meanwhile, the Group puts in place a promotion application system, by which employees can apply for promotion certification on their own initiative. Successful promotion certification will be made public regularly in the form of an appointment and removal announcement. Any employee objecting to the certification process or results may appeal to the Human Resource Management Department, and the latter will make further verification and feedback within 5 working days to ensure promotion channels and opportunities are fair, impartial, open and effective.

Dismissal

Employee dismissal within the Group is subject to the *Human Resource Policy, Personnel Management Policy* and other internal management regulations. The Human Resource Management Department assists employees who leave the Group in handling transference of social insurance, files, and registered permanent residence as well as other relevant formalities. In addition, the Group holds a demission interview with all resigning employees to figure out their reasons for leaving and generate internal improvement plans, in a bid to further optimize the internal human resource management.

Communication with Employees

The Group values employees' thoughts and constantly improves the mutual communication mechanism between employees and the management to ensure smooth flow of communication channels and create an open and fair communication environment. The Group encourages employees to communicate with the management through the internal ERP platform, email, and online or face-to-face conversation in a timely and effective manner. The Group also actively communicates with employees in forms of interviews after probation/resignation and regular questionnaire surveys. In addition, the Group has established the mailbox of Congress of Workers and Staff, aiming to support employees to speak up.

During the Reporting Period, the Group's Human Resource Department conducted an employee satisfaction survey for all employees, in a bid to fully understand the needs and expectations of employees. Improvement measures will be developed and promoted based on the survey results to further protect employees' rights and interests.

>80%
Employee Satisfaction Survey Coverage Rate

In addition, the Group has an employee appeal channel for all employees: the Group encourages employees to speak up when they suffer from workplace bullying, abuse of authority, discrimination, unfair treatment or any other actions that may violate the Group's policies, and to promptly report to their supervisors, Human Resource Department, or through the digital employee appeal channel, so that the Group can investigate and handle the relevant events in a timely manner. Meanwhile, the Group will take measures to protect the legal rights and demands of the complainants and deal seriously with those who report/complain with the purpose of fabricating facts or framing others. The Group adopts a zero-tolerance attitude towards illegal and non-compliant events, and if the relevant reports/complaints are confirmed, the Group will take necessary disciplinary measures to reduce the recurrence of such events. If it is suspected of constituting crimes, it will be transferred to judicial authorities for handling.

Attaching Great Importance to Employee Diversity

The Group believes that the corporate atmosphere of diversity and integration is one of the key elements to enhance employees' sense of belonging and sense of identity. The Group adheres to the principles of equal opportunity and anti-discrimination to ensure that employees' employment, holidays, working hours, remuneration, incentives, training and promotion are not affected by their race, nationality, ethnicity, region, gender, religion, age, sexual orientation, political faction, marital status, fertility status, disability and other factors.

53.8%
The Proportion of Female among Employees

35.0%
The Proportion of Female among Mid-level and Senior Management

33.3%
The Proportion of Female among Board Members

The Company has adopted a *Board Diversity Policy* to ensure that all board appointments will be based on merit and fully takes diversity into account. The Nomination Committee under the Board of the Company will review the Policy each year on a regular basis, make revision as necessary and continuously monitor the implementation of the Policy. The members of the Board of the Company are of professional and diversified background: the Board consists of 6 members, including 2 female directors. They have rich working experience in the industries of pharmaceuticals, financial accounting, investment and legal and can make scientific and effective recommendations on the Group's forward-looking strategic layout and high-quality business development.

Meanwhile, the Group's *CMS Code of Conduct* provides guidance for all employees including the management, to respect, be kind and cooperate with each other, and to foster a positive, equal, diverse and inclusive working environment together. During the Reporting Period, the Group newly developed *CMS Human Rights and Employee Diversity Policy* that is applicable to all employees, specifying that the Group respects and does its best to strictly follow the series of United Nations declarations and conventions such as *Universal Declaration of Human Rights, The Convention on the Elimination of All Forms of Discrimination against Women* and *International Convention on the Elimination of All Forms of Racial Discrimination* to further cultivate the internal organizational atmosphere of diversity and integration; and has established complaint and punishment mechanisms, showing zero tolerance for prejudice, discrimination and harassment. During the regular interviews with employees, the Group inquires and understands employees' opinions and satisfaction feedback on diversification and protection of human rights, and makes optimization and adjustment accordingly.

In addition, in order to ensure that female employees enjoy legal rights and interests and receive reasonable care and consideration, the Group carries out yearly "Women's Day" activities and has set up mother-and-infant rooms and other amenities to further provide female employees with support in life and work.

In 2022 "Women's Day", the Group carried out an "Image of Women in the Workplace" activity to enhance the female employees' confidence in workplace by giving advices on workplace makeup.

The Group also encourages the stakeholders such as supply chain partners and customers to promote the protection of human rights and diversified development of employees together, and actively adds relevant binding provisions in the cooperation agreements signed with suppliers.

Ensuring the Occupational Health and Safety of Employees

The Group attaches great importance to the health and safety of its employees, putting in place *Provisions on Production Safety, Provisions on Fire Safety Management, Provisions on Workplace Safety Management, Employee Health Management Procedure, Regulations on Governing Safety Prevention Responsibility, Emergency Plan, Office Building Emergency Plan* and other safety regulations and management procedures. Moreover, the Group constantly improves the internal management of safety production and employee occupational health to create a healthy, safe and comfortable working environment for employees.

Production Safety

Safety Record	Safety Protection
Occupational safety and health documents for employees are established; safety assessment of storage and use of hazardous chemicals is completed timely and reported to the safety supervision authority.	Production safety bulletin boards are set up at the plant area and relevant places, and prominent safety warning signs and safety tips are put up to emphasize the operation safety and promote production safety awareness of all employees. In addition, first-aid kits are reasonably set, and employees at posts involving health and safety risk are supplied with appropriate personal protective devices such as earplugs, protective gloves, protective mask and protection suit; the placement, use and disposal of hazardous chemicals are strictly managed and supervised.
Safety Inspection	**Safety Drills**
The relevant subsidiaries have set up leading groups for production safety inspection, regularly hold production safety meetings and implement production safety inspection, organize and implement the "Production Safety Month" campaign, timely investigate the potential accident and potential violations and urge timely rectification; conduct the assessment of safety production performances and safety production rewards and punishment; carry out regular assessments of major hazard risk in factories and offices, make production safety inspections before and after holidays, and monthly safety inspections of the workplace to prevent accidents.	During the Reporting Period, the Shenzhen subsidiary of the Group worked with relevant property management companies to conduct safety and fire drills; the Hunan subsidiary conducted emergency drills for safety production and fire proof; and the Hebei subsidiary conducted emergency drill for ethanol spill accident and boiler fuel leakage accident.
Safety Training	
The Group has set up a comprehensive production safety training system, which forms a training model with the combination of teaching and assessment by experts from the Ministry of Emergency Management and internal experts. During the Reporting Period, the Group has carried out multiple safety trainings for all employees (including interns) or employees at special posts, including but not limited to: production safety training for resuming work, production safety knowledge education and training, fire-fighting knowledge training, hazardous chemicals management training, training on knowledge of health and occupational disease prevention. Moreover, employees at special posts are required to attend internal and external professional training and assessment on a regular basis, and to work with appropriate license.	

Occupational Health

Daily Maintenance	Reassuring Fight against Pandemic
Employees' health and safety are protected starting from daily trifles, for example: conducting maintenance and potential risk identification of corporate vehicles as scheduled, and providing regular physical examination of drivers; timely changing drinking water filters, and disposing household garbage of each floor by category; regularly cleaning and disinfecting the central air conditioning and carpets, and regularly exterminating insects and rats; and regularly inspecting and optimizing access control equipment to safeguard the safety of the Group's employees and property.	External professional institutions are engaged to conduct overall disinfection of the Company's offices on a regular basis during the pandemic; consultation service and information sharing on pandemic prevention and control are provided, and employees are encouraged and organized to receive COVID-19 vaccines; on the basis of responding to government policies, implement work from home and telecommuting accordingly to reduce the cluster infection risk.

Health Check
Annual health check is provided for all employees.

Mental Health

Professional Counselling	Work Stress Relief
Established the EAP (Employee Assistance Program), which provides free psychological counselling to all employees and their families by professional psychological counsellors, and shares psychological knowledge and communication skills applicable to work and life, etc. During the Reporting Period, the coverage rate of employees benefit from EAP was 100%.	Providing employees with entertainment venues and various types of leisure activities, to encourage employees to keep fit and relieve stress from work; arranging interviews and learning and development partners for new employees, and obtain an understanding of their work adaptation and emotional needs.

ENVIRONMENTAL PROTECTION, GREEN AND LOW-CARBON DEVELOPMENT

As challenges resulting from climate change are ever increasing and the conservation of resources and ecological environment is raising considerable concern, the Group proactively implements the concept of environmental protection, intensifies green and low-carbon innovation as well as transformation and invests in environmental projects, so as to reduce the impact of operations on environment and ecology and contribute CMS' strength to the world's sustainable development.

KEY TARGETS AND PROGRESS

Taking actions to protect the environment

Future targets:	Progress in Year 2022:
(1) Greenhouse gas(GHG) • Scope 1+2 GHG emission intensity to be reduced by at least 5% by the end of 2030, as compared to 2022, with scope 3 GHG emission data gradually disclosed; • The GHG emission intensity to be reduced by at least 5% by the end of 2023, as compared to 2020	• Improve the climate change governance framework, with the board of directors as the highest governing body; in 2022, the GHG emission intensity was reduced by 16.7% from 2021, and 44.7% from 2020.
(2) Solid waste • The hazardous waste intensity to be reduced by at least 5% by the end of 2023, as compared to 2020; • The non-hazardous waste intensity to be reduced by at least 2% by the end of 2023, as compared to 2020.	• The hazardous waste intensity was reduced by 56.7% from 2021, and 74.3% from 2020; • The non-hazardous waste intensity was reduced by 12.7% from 2021, and 30.8% from 2020.
(3) Use of resources • The electricity consumption intensity to be reduced by at least 2% by the end of 2023, as compared to 2020; • The water consumption intensity to be reduced by at least 5% by the end of 2023, as compared to 2020.	• The electricity consumption intensity was reduced by 13.6% from 2021, and 26.6% from 2020; • The water consumption intensity was reduced by 24.1% from 2021, and 55.6% from 2020.

Conserving biodiversity

- All business operations, products and services have no significant impact on biodiversity

Taking Actions to Protect the Environment

The Group sustains environmental protection actions in all parts of production and operations, and requires its subsidiaries related to pharmaceutical production business, agriculture and livestock business, sales and marketing business, and others to implement the concept of green and low-carbon. Furthermore, the Group is committed to mitigating impacts of business operation on environment and ecology, continuously improving the environmental management system, promoting efficient energy utilization and resource recycling, and protecting ecological environment, in an effort to achieve mutual sustainable development of the enterprise and the environment.

The Group's highest governance organization for environmental management is the Board of Directors. As assisted by the sub-committee, ESG Committee, the Board of Directors oversees management guidelines, policies and structures in connection with environmental protection, guarantees the compliance of the Group's environmental performance with legal and regulatory requirements. It also identifies ESG related risks and opportunities, and joins hands with the Audit Department in risk management and coping. The ESG Working Group ensures the execution of environmental management activities, and develops specific environmental management work plans. In addition, the ESG Working Group conducts regular statistics and analysis of the environmental performance, sets environmental goal, tracks its accomplishment progress quarterly, and reports that to the ESG Committee on a regular basis. During the Reporting Period, the Group constantly kept an eye on progress of environmental targets regarding hazardous waste intensity, nonhazardous waste intensity, electricity consumption intensity and water consumption intensity, which has been approved by the Board of Directors.

To ensure standardized environmental governance, the Group strictly controls environment-related compliance risks by conducting an internal audit on a yearly basis, and is subject to unscheduled external inspections and audits. During the Reporting Period, the Group's Audit Department conducted a comprehensive environment and energy consumption audit on its pharmaceutical production subsidiary, focusing on environmental issues such as production energy consumption, environment assessment, hazardous wastes disposal and environmental protection equipment, and formulated a *Special Environmental Audit Report* to elaborate the environmental governance and gave risk alerts in details. The Group's Audit Department works with relevant department heads to assess each risk point and develop an improvement plan which is submitted to the management for review and approval, and then continuously follows up on and ensure the implementation of corrections. Hunan Agriculture and Livestock is subject to unscheduled relevant enforcement inspections by local environmental protection authority. The local agricultural quality and safety authority and the green food office periodically inspect agricultural quality and the environment of plantation base. During the Reporting Period, no major environmental issue was found in all the inspections.

Climate Change Response

As challenges resulting from climate change are gradually increasing, the 2030 Agenda for Sustainable Development adopted by the United Nations has listed taking urgent actions to address climate change and relevant impacts as one of its targets. Accordingly, the Group has gradually included addressing climate change in its corporate strategies. In accordance with requirements of the Task Force on Climate-Related Financial Disclosure (TCFD), the Group discloses climate change-related risks and opportunities to offer more open and transparent details to stakeholders. Aligned with recommendations of the TCFD, the Group voluntarily discloses climate related information for four sections of governance, strategy, risk management and metrics as well as targets through the consistent, comparable, reliable, clear and efficient framework.

Governance

The ESG Committee is set up under the Board of Directors of the Company. Its major duties include establishment and review of the Group' s policies, strategies and framework regarding climate change, identification of climate change related trend, risk and opportunities, and monitoring of the formulation and implementation of the Group' s targets associated with climate change. With the guidance from the ESG Committee, the Board of Directors regularly reviews the climate-related issues and risks on a quarterly basis, ensuring a sound integration of those issues and risks into the Group' s strategies, business layout and current governance framework. In addition, in order to ensure the Board of Directors understands the latest trend of climate-related issues and to better serve the decision-making process, the Board of Directors may also seek for professional opinions from external experts when necessary.

CMS's Climate-related Governance Framework

Strategy

The Group acknowledges that climate change will bring a variety of risks and opportunities to the Group' s business. The Group identified physical risks and transition risks with significant impacts and likelihood by referring to the Task Force on Climate-Related Financial Disclosure (TCFD), explored potential business opportunities, and actively took into account the results of analysis in making the Group' s strategic decisions. Climate-related risks identified are as follows:

Risk type	Implication	Potential risks	Potential financial impact
Physical Risk			
Acute risk	Extreme weather, such as typhoons and heavy rains, is intensified.	• Damage to the Group's fixed assets such as office properties, plant buildings, equipment and office facilities; • Operation and production interruption, and threats to normal operations and labor safety of enterprises and the supply chain.	• Write-offs and early retirement of existing assets; • Reduced revenue due to diminished operation and production capacity.
Chronic risk	Long-term shifts in climate patterns, such as rising global temperatures, rising sea levels and reduced water resources.	• Change in the supply of raw materials for pharmaceutical production, as a result of the animal and plant growth environment change caused by climate change.	• Reduced revenue due to supply chain interruption; • Increase in cost due to change of raw materials suppliers; • Increased use of resources and energy, and increase in operating cost.
Transition Risk			
Policy risk	Risks arising from policy regulations, such as energy efficiency requirements and guidelines, more aggressive carbon reduction strategies adopted by countries, carbon pricing or carbon tax regimes implemented in the markets in which the Group operates, and stricter public disclosure requirements.	• Gradually stricter existing regulatory requirements and supervision system; • Potential lawsuit risk.	• Increased compliance costs resulting from penalties and losses; • Write-off, impairment and early retirement of existing assets due to policy changes.
Market risk	Change in supply and demand of existing products and services.	• Changes in incidence and infection rates of certain diseases; • Changes in customer behavior; • Uncertain market demand; • Increased cost of raw materials.	• Increased emerging diseases and R&D costs; • Order losses resulting from inadequate disclosure of carbon neutrality target and data; • Increased production and operating costs.
Reputation risk	If enterprises fail to take timely measures, the production and operation process will have a long-term destructive impact on the climate, which will in turn have a negative impact on the reputation of enterprises.	• Potential risks of failing to meet expectations of customers, staff, business partners, and investors.	• Reduced revenue due to reduced demand for products/services; • Additional costs resulting from transition to low-emission production processes; • Damage to reputation and increase in cost resulting from regulatory penalties due to inadequate information disclosure; • Decrease in available funds.

Climate-related opportunities identified are as follows:

Opportunity type	Implication	Potential opportunities	Potential financial impact
Resource opportunity	With the development and iteration of technology and the optimization of operation processes, utilization efficiency of various resources in the operation process of enterprises is improved.	• In the process of operation, improve the efficiency of resource utilization through implementation of resource management system and upgrading equipment and effective management of the use of resources in production, agriculture and animal husbandry breeding, and office work.	• Reduced operating costs; • Increased revenue due to improved production capacity.
Energy opportunity	Opportunities brought by transformation of energy sources and supply methods for enterprise energy consumption.	• Change in the energy use structure and carbon market trading opportunities brought by vigorous promotion of the new energy industry by the policy and technological environment and establishment of the carbon market under the "dual carbon" goal.	• Reduced operating costs due to lowered unit energy cost; • Lowered carbon costs or additional profit through carbon trading; • Reduced financing difficulty and increased availability of capital for low-carbon enterprises; • Improved reputation leading to increased consumers' demand for products and services, which contributes to higher revenue.
Product opportunity	Consumers' willingness to pay for added value of products and consumer preferences.	• Changes in consumer preferences, with more importance attached to value transmission of the purchase behavior. Low carbon emission control and low-carbon branding, and additional meaning of environmental protection cater for consumers' demand.	• Increased consumers' demand for low-emission products and services.
Market opportunity	Changes in the market landscape due to climate change, including the changes in the volumes of existing product and service markets and the emergence of new markets.	• The infection rates and incidence of diseases change, which leads to changes in demand for different pharmaceutical products and services, and emergence of the demand for innovative drugs.	• Increased demand for existing products results in revenue growth; • Sales of innovative drugs drives additional revenue.

Risk Management

In accordance with the classification of climate-related risks and potential financial risks, the Group carries out the climate-related risk identification work based on its business type and its operations. The Group has formulated relevant management regulations on addressing climate change, such as *Emergency Response Plan for Environmental Incident* and the *Regulations on Environmental Protection,* with an aim to adapt to climate change and mitigate disaster risks. Meanwhile, the Group's manufacturing subsidiary engages external professional third party to review *The Emergency Response Plan for Environmental Incident* and make revision according to relevant management requirements every three years. During the Reporting Period, Kangzhe Hunan updated *The Emergency Response Plan for Environmental Incident* and *the Regulations on Environmental Protection*, incorporating the scenarios and response management regarding significant climate changes. To effectively address the identified climate-related risks, the Group has taken a number of measures:

Address physical risks

- √ Increase the investment in energy conservation and emission reduction (e.g., Increasing the proportion of renewable energy used, and reducing waste of fossil fuels and water);
- √ Developing a complete supervision system, and checking that equipment is in good operation regularly, e.g., strengthening routine inspection, and taking further thermal insulation measures for water pipes in cold winter.

Address transition risks

- √ Complementing category of products and services, and offering environment-friendly products and services as required by customers and corporate strategies;
- √ When selecting construction sites, the Group improves quality of construction materials, and change for high-quality equipment to reduce or avoid the impact of extreme weather;
- √ Continuously tracking changes in diseases worldwide, including pandemics, and adjusting production of drugs and layout planning of new drugs on the basis of results of analysis.

Metrics and Targets

The ESG Working Group will be responsible for setting the Group' s climate change-related targets and conducting regular follow-up reviews after they are checked and approved by the Board of Directors. To supervise and review the Group' s performance on climate change management, the Group will disclose climate-related quantitative indicators in its annual reports.

Metrics	Year 2022	Target	Progress
Direct GHG emission (Scope 1)	5,391.4 Ton CO_2e	(1) scope 1+2 GHG emission intensity reduced by at least 5% by the end of 2030, comparing with 2022; (2) The GHG emission intensity reduced by at least 5% by the end of 2023, comparing with 2020	In 2022, the GHG emission intensity reduced by 16.7% from 2021, and 44.7% from 2020
Indirect GHG emission (Scope 2)	4,470.2 Ton CO_2e		
Total GHG emission (Scope 1 + 2)	9,861.6 Ton CO_2e		
Total GHG emission (Scope 1 + 2) intensity	0.94 Ton CO_2e /million RMB		

Climate Change-related Metrics and Targets

The GHG emission from the Group' s operations mainly include direct emission from consumption of energies such as natural gas, petrol and diesel (scope 1) and indirect emission from use of purchased electricity (scope 2). In response to the national "dual carbon" goal and SDGs, the Group has set up short-term and long-term targets on GHG control.

Emissions and Wastes Management

Ecological environment protection is of great significance to sustainable development, and pollution prevention and control is an integral part of environmental protection, hence the Group vigorously invests in environmental protection projects, and dedicates itself to reducing pollutant emission during operation and mitigating environmental effects.

The Group' s business mainly includes pharmaceutical promotion and marketing business, pharmaceutical production business, and agriculture and livestock business[1]. The Group has small-scale pharmaceutical production business. During the Reporting Period, the sale of self-produced products only accounted for around 2.1% of the Group' s turnover in the case that all medicines were directly sold by the Group. Due to the Group' s business characteristic, the total amount of environmental pollutants produced was limited, and the impact on the environment and natural resources was insignificant.

To properly manage emissions involved in the production and operation process, the Company and its affiliates have formulated a series of internal management regulations such as *Regulations on Environmental Protection, Operation Regulation of Exhaust Gas, Standard Operation Procedures for Use, Maintenance*, and *Overhaul of Wastewater Treatment Facility*, covering requirements for management of emissions in the production and operation process, including exhaust gas, wastewater, solid waste, and noise pollution. During the Reporting Period, the Group' s manufacturing subsidiary updated management regulations such as the *Regulations on Environmental Protection* and the *Regulations on Hazardous Waste*, which further refined the requirements for management.

[1] The pharmaceutical production business is mainly carried out by Kangzhe (Hunan) Medical Co, Ltd. ("Kangzhe Hunan"), Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Hebei Xili"). The agriculture and livestock business is mainly carried out by Hunan Kangzhe Agricultural and Livestock Development Co., Ltd. ("Hunan Agriculture and Livestock"). The products provided by Hunan Agriculture and Livestock are for internal consumption only.

The Group constantly explores pollutant emission reduction, and communicates the concept of green development with its suppliers, and requires the manufacturing subsidiary to take into consideration of the factor of environmental protection by including waste reduction (exhaust gas, waste water and wastes) as a compulsory or incentive screening factor in selecting suppliers, and takes the waste reduction (exhaust gas, waste water and wastes) as one of the dimensions of concern during annual audits of suppliers.

During the Reporting Period, the Group did not have any significant pollution incident.

Water Pollutant Management

The Company and its affiliates standardize management of wastewater discharge, and have formulated internal management regulations such as the *Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility, Regulations on Environmental Protection*. The wastewater produced by the Group mainly includes domestic and production wastewater, of which domestic wastewater mainly enters the municipal sewage network through sewage pipes after multi-stage treatment of septic tanks till it meets the standard, and its discharge is reduced at the root mainly through daily water conservation measures as well as water conservation publicizing and implementation; production wastewater is discharged after treatment by the wastewater treatment station till it meets the standard. The Group has installed automatic wastewater monitoring system in the wastewater treatment station and connected with the provincial environmental supervision platform to achieve real-time and transparent management of production wastewater. The Group' s management measures for wastewater include but are not limited to:

Office areas	√ Issuing *Proposal for Energy Conservation and Emission Reduction for 2022*, setting up bulletin boards for promoting environmental protection and resource conservation to raise the awareness of all employees on water conservation; √ Strengthening the inspection of pantries and washrooms, promoting and upgrading water-saving devices and appliances; √ Conducting commissioning of auto flush facilities in office areas to shorten the automatic flushing time.
Pharmaceutical production areas	√ After production wastewater treatment by the self-built integrated wastewater treatment station, the wastewater that meets regulatory standards is discharged into the municipal pipe network and finally flows into the municipal wastewater treatment plant.
Agricultural and livestock areas	√ Manure water from agricultural farms is collected through sedimentation ponds and then dried animal dung is made into organic fertilizers using dung scrapers to achieve the purpose of recycling. √ Plants such as turf are grown around animal enclosures and parks to absorb animal manure water left outdoors. √ Reasonable wastewater treatment processes are adopted to ensure that treated wastewater that meets regulatory standards before discharged, so that secondary pollution to surroundings is avoided.

Air Pollutant Management

The Group strictly complies with relevant laws and regulations such as the *Law of the People' s Republic of China on the Prevention and Control of Atmospheric Pollution*, and has formulated internal management policies such as the *Regulations of Boiler Management, Exhaust Gas Emission Management Procedures* to strengthen the management of air pollutant emission and ensure that the exhaust gas emission complies with national and local laws and regulations. During the Reporting Period, most air pollutants of the Group were from the pharmaceutical production business, and pollutants included nitrogen oxides/sulfur dioxide/ particulate matter generated by boilers due to complete and incomplete combustion. To minimize the negative impact of exhaust gas emission on the environment, we took measures including but not limited to:

Kangzhe Hunan

- √ Long-term use of natural gas-fueled boilers;
- √ Boiler exhaust gas is first adsorbed by activated carbon to remove nitrogen oxides, sulfur oxides and particulate matter from the smoke, then wetsprayed, and discharged at a specified altitude after the standard is reached. The wastewater generated after the wet-spray enters the self-built sewage treatment station of factories for treatment and recycling;
- √ Cutting and shredding equipment for "pretreatment" in the Chinese medicine extraction workshop was upgraded, with a built-in dust collector, and large whirlwind bag-type dust removers were added to allow dust and exhaust gas to meet the standard and be discharged at a high altitude after multi-stage treatment;
- √ In 2022, the new sewage treatment plant used an "alkaline water spraying + photooxidation + 15m exhaust funnel" deodorization system, the Chinese medicine extraction workshop used "fan collection + plasma + 15m exhaust funnel" smell and odor treatment system, which jointly further perfect exhaust gas treatment;
- √ In 2022, depending on production tasks of workshops, boiler operations were regulated reasonably, and unnecessary uses were reduced for less exhaust gas emission;
- √ A third-party professional inspection agency is engaged to sample the organized exhaust gas emitted by steam boilers on a quarterly basis. During the Reporting Period, monitoring results showed that all exhaust gas emissions met the specified emission limits for atmospheric pollutants.

Hebei Xili

- √ The environment-friendly alcohol-based liquid fuel is used for boilers;
- √ Insisting on purchasing quality fuel to reduce the emission of exhaust pollutants;
- √ A third-party professional inspection institute is engaged to sample and test the organized exhaust gas emitted by steam boilers on a quarterly basis. During the Reporting Period, monitoring results showed that exhaust gas emissions met specified emission limits for atmospheric pollutants;
- √ Exhaust gas equipment in the wastewater treatment station was rectified and attached with an exhaust pipe, a secondary activated carbon adsorption treatment device was installed in the laboratory and passed the acceptance inspection of environmental protection facilities.

Noise Pollution Management

The Group promptly responds to requirements of national and local environmental protection authorities. In accordance with the *Law of the People' s Republic of China on Prevention and Control of Environmental Noise Pollution*, the Group exercises strict control over noise generated in the production and operation process, monitors noise regularly, and requires susceptible employees to wear protection equipment. Kangzhe Hunan strengthened control at the root by using horizontal centrifuges in its oral liquid powder workshop to reduce noise, set noise barriers outside the equipment room, and added sound insulation cotton inside; intensified production management, and developed production schedules for noise-related processes to further reduce the impact of equipment noise on employees and surrounding residents.

During the Reporting Period, noise monitoring results of the Group met the requirements and did not have a significant negative impact on the staff' s occupational health and the local ecological environment.

Solid Waste Management

The Group have formulated internal management regulations such as *Solid Waste Management Procedures, Regulations on Hazardous Waste* to control hazardous and non-hazardous waste by category. Hazardous waste is under strict management and transferred to qualified third parties for treatment, domestic waste is classified for treatment, and non-hazardous waste is recovered or recycled, thereby comprehensive waste reduction is achieved.

	Unit	Year 2022	Target	Progress
Hazardous waste	Ton	1.6	The hazardous waste intensity reduced by at least 5% by the end of 2023, comparing with 2020;	the hazardous waste intensity reduced by 56.7% comparing with 2021, and 74.3% comparing with 2020
Hazardous waste intensity	Ton/million RMB	0.00015		
Non-hazardous waste	Ton	1,504.8	The non-hazardous waste intensity reduced by at least 2% by the end of 2023, comparing with 2020.	the non-hazardous waste intensity reduced by 12.7% comparing with 2021, and 30.8% comparing with 2020
- Chinese herb residue	Ton	1,289.5		
- Sewage sludge	Ton	105.4		
- Household garbage	Ton	110.0		
Non-hazardous waste intensity	Ton/million RMB	0.14		

Solid Waste Related Metrics and Targets

During the Reporting Period, Kangzhe Hunan further strengthened its entity responsibility of preventing and controlling waste pollution by updating the *Regulations on Hazardous Waste*. The Company and its subsidiaries strictly control generation of solid wastes while actively implementing waste reduction measures. Measures to control non-hazardous waste:

Office areas	√ Formulating and issuing the *Proposal for Energy Conservation and Emission Reduction in Offices for year 2022*, advocating lifestyles such as energy saving, purchase on demand and waste utilization; √ Fetching canteen food as per needs; offering microwave ovens in canteens, and encouraging employees to bring their own lunch boxes for dining and use less disposable tableware; √ Encouraging the classification of garbage: non-recyclable garbage is regularly and centrally disposed by property companies; recyclable garbage such as paper, metal, plastic, and glass is recovered or recycled; √ Providing waste paper recovery bins in printing areas, and encouraging double-sided printing and waste paper utilization; √ Using rechargeable batteries as possible to achieve battery recycling
Pharmaceutical production areas	√ Chinese herb residues are mainly particle filter residues (lignin) and a small number of insoluble extractives, which are non-hazardous solid waste. The Company transports the residues to the compost workshop in Hunan Agriculture and Livestock as one of the ingredients for making organic fertilizers; the Hunan Agriculture and Livestock has set up storage tanks to receive waste medicine residues from Kangzhe Hunan, which will ferment after mixing with organic fertilizers in a certain proportion to produce efficient fertilizers for crops, realizing ecologic and organic recycling of non-hazardous waste; √ Recyclable waste such as waste paper, waste cartons, and waste plastic buckets produced by various workshops and departments is classified and collected for rational recycling or disposal; √ Recycling and cleaning rejected plastic barrels which have contained alcohol or bulk drugs in workshops, and then reusing those to contain laboratory waste residues, expired chemical reagents, etc. √ The operating procedure is strictly carried out in the wastewater treatment station to control impurities. In addition, oil separation tanks and septic tanks are established for the primary treatment of sludge.
Agriculture and livestock areas	√ Adopting automatic collection devices to collect animal excrement and making it into organic fertilizers for crops via biological fermentation.

Measures to control hazardous waste:

Hazardous waste is mainly from analytical inspections at laboratories in the pharmaceutical production business:

- √ Strictly complying with management requirements for the use of related chemicals reagents, ordering and using according to the needs;
- √ Standardizing the operation process of inspection and testing, and minimizing production of chemical waste residues and waste liquors;
- √ Used chemical reagents or expired chemical reagents are collected and stored in the temporary hazardous waste storage room in time, and a third-party specialized disposal company for hazardous waste is engaged to transfer and dispose of those hazardous wastes on a regular basis.

Energy Management

Disordered utilization of resources can have destructive impacts on the natural environment and accelerate environmental degradation. The Group attaches great importance to efficient utilization of resources, and always focuses on energy conservation and emission reduction in production and operation, and has formulated internal management systems such as the *Regulations on Environmental Protection* and the *Regulations on Resource Conservation Management* to manage resources such as energy, water, packaging materials, and paper. Besides, it is committed to reducing impacts on the environment and natural resources, in an effort to realize coordinated development of enterprises and environmental protection.

During the Reporting Period, the Group advocated a "green and low-carbon" office culture, issued the *2022 Proposal for Energy Saving and Consumption Reduction* to all of its employees, actively promoted energy conservation and emission reduction, and enhanced the awareness of all employees on environmental protection. In addition, Kangzhe Hunan established a leading group for energy conservation and emission reduction to monitor energy conservation work; and established an Energy Conservation and Emission Reduction Office and Safety & Environment Specialist under the leading group to take charge of implementing energy conservation and emission reduction, such as developing management requirements for energy conservation and emission reduction for each area of the Company, energy conservation publicizing and implementation as well as routine inspection.

	Unit	Year 2022	Target	Progress
Purchased electricity	kWh	7,831,428.4	The electricity consumption intensity reduced by at least 2% by the end of 2023, comparing with 2020	The electricity consumption intensity reduced by 13.6% from 2021, and 26.6% from 2020
Purchased electricity intensity	kWh/million RMB	746.03		
Water consumption	m^3	177,987.2	The water consumption intensity reduced by at least 5% by the end of 2023, comparing with 2020	The water consumption intensity reduced by 24.1% from 2021, and 55.6% from 2020
Water consumption intensity	m^3/million RMB	16.96		

Energy Consumption-related Metrics and Targets

Energy Conservation

The Group constantly promotes conservation and efficient utilization of energy for targeted energy conservation and improvement, diligently takes various measures to manage various energy consumption in the Group, reduces energy consumption and greenhouse gas emissions, and takes the following measures to manage the use of various energy sources:

Electricity

Electricity is mainly used for pharmaceutical production and daily office:

- √ Scheduling production reasonably to reduce the production time in hot summer and reduce the energy consumption of workshops;
- √ Assigning dedicated personnel to conduct routine supervision and inspection of the use of electricity, and shut down powered equipment in a timely manner to use electricity reasonably;
- √ Replacing old electric appliances, installing energy-saving lamps such as LED lamps in all lighting-required places, and adopting solar equipment for water heaters, street lamps and surveillance facilities;
- √ Setting air conditioning temperature to 26 degrees Celsius, and regularly maintaining air conditioners to reduce energy consumption; installing window shades to reduce direct exposure to summer sunshine and air-conditioning energy consumption;
- √ Rearranging unreasonable layout of electrical wiring that wastes electric power in office areas;
- √ Posting slogans to promote energy conservation and emission reduction, requiring staff to turn off lights when leaving working stations, enhancing the awareness of electricity conservation by reprimanding and punishing workshops and persons overusing electrical appliances and equipment if any.

Boiler fuel

Fuel is used mainly by boilers in the pharmaceutical production process:

- √ Small boilers have been put into use, and their use is reasonably adjusted according to production load to reduce unnecessary fuel consumption;
- √ Strictly preventing energy waste due to steam and liquid leakage or dripping, etc.;
- √ Maintaining boilers regularly to ensure reasonable and efficient use of gas boilers;
- √ Detecting and repairing the leakage of volatile organic compounds on a regular basis to reduce emission and leakage of sealing points;
- √ Purchasing high-quality clean fuels to ensure efficient fuel utilization.

Gasoline

Gasoline is used mainly by vehicles for business use:

- √ Strictly implementing the CMS *Regulations on Vehicles and Drivers' Management*, implementing vehicle registration and approval system for vehicle use, and encouraging employees to travel together to reduce the frequency of vehicle use; requiring drivers of corporate vehicles to do mileage registration and standardizing the use management of corporate vehicles;
- √ Regularly inspecting and maintaining vehicles to ensure their normal operation and reduce fuel consumption;
- √ Encouraging employees to walk or take battery-powered bicycles in the industry park as much as possible;
- √ Replacing vehicles that have been used for many years and consume excessive fuel with vehicles equipped with smaller engines, and preferring new-energy vehicles during purchase of new vehicles.

Diesel oil	Diesel oil is used mainly by greenhouses' insulation equipment and vehicles for the agricultural and livestock business, and standby power generators for the pharmaceutical production business: √ Pharmaceutical production departments reduce the frequency of diesel generator use through staggered production peak scheduling and reasonable regulation, and allow no arbitrary starting of diesel generators unless during outage and maintenance; √ Agricultural and livestock departments reasonably schedule transportation, to reduce the number of transportation times and the frequency of diesel engine use.

Water Conservation

The Group is well aware of the importance of water resources, hence it requires water resources to be utilized in a responsible manner during operations. Water consumption of the Group and its affiliates mainly derives from production and cleaning in drug plants, agricultural irrigation and livestock cultivation, as well as daily use by employees. By formulating internal regulations such as the *Regulations on Environmental Protection, Resource-conserving Management Regulations,* and *the Regulations on Green Agriculture and livestock*, we enhance the water conservation awareness of our staff and minimize water waste.

Furthermore, water-saving measures adopted by the Company are as follows:

Office areas	√ Promoting water conservation and punishing act of water waste from the source; √ Substituting water-saving taps in office, dormitories, canteens, and other places, and adjusting a properly interval of the auto-flushing; √ Upgrading some aged automatic flush valves to prevent water waste due to the aging of equipment.
Pharmaceutical production area	√ Installing water meters in each workshop to effectively monitor the water consumption of each segment, strengthening the management of water consumption by workshops; √ Carrying out comprehensive inspection of the pipeline network across the factory to prevent leakage and dripping, and fixing all identified leakage points as well as dripping to reduce water waste; √ Installing water-saving taps and valves to intensify control of water flow; √ Recycling and reusing cooling water for production in workshops; √ Collecting domestic wastewater and production wastewater to the self-built sewage treatment station for treatment, and then recycling; √ Avoiding excessive, irrigation water use, making the maximum use of the water treated by the sewage treatment station for watering, and extending the watering cycle properly.
Agricultural and livestock areas	√ Upgrading the livestock and poultry breeding water equipment to automatic water-saving equipment; √ Using drip water dispensers in chicken coops to reduce air drying, evaporation, etc. due to weather and so on; √ Replacing spray irrigation by drip irrigation in the greenhouse to reduce the water waste; √ Using reservoirs and pipeline ditches to store rainwater, and basically realizing the use of natural water for greenhouse irrigation.

Each affiliate of the Group regularly monitors and measures the risk of water use in operation; Kangzhe Hunan conducts a routine inspection of purified water once a week and a systematic verification once a year in accordance with the methods specified in the *Pharmacopoeia of the People' s Republic of China*; according to the requirements of national standards, drinking water is inspected once a month, and a qualified third-party institution is commissioned for audit and inspection every year. Hebei Xili engaged a third-party institution to inspect the tap water every year. Hunan Agriculture and Livestock formulated the *Hunan Agriculture and Livestock Water Testing Methods*, adopting the inspection methods of "seeing, smelling, observing, drinking, tasting and checking" , inspects the tap water every month, and invites health inspection and quarantine authorities to come to the site for centralized inspection and testing once a year, thereby ensuring that the water quality meets the standard and guaranteeing water safety.

Packaging Material and Paper Conservation

To minimize consumption of packaging materials and paper, the Group has formulated the *Regulations on Material Distribution* and *Regulations on Acceptance, Storage and Distribution of Labels, Insert Sheets and Packaging Materials* to intensify material management while encouraging relevant personnel to use as needed. In addition, the Group has taken following measures to reduce the use of packaging materials and promote the recycling of packaging provided that market and production demands are met:

Recycling packaging materials	√ Hunan Agriculture and Livestock stipulates that all packaging materials shall meet environmental protection requirements, and packaging recycling marks that meet national standards shall be clearly printed on them; √ Setting up packaging material recovery sites at warehouses, so that the recyclable packaging materials generated from returned goods and products, and packaging cases and materials generated in other processes are classified and recovered; √ Recovering reusable materials such as damaged and used cartons and separation films, and using them as other fillers; √ Integrating the concept of environmental protection into packaging design.
Reducing packaging materials	√ Using machines for packaging and carrying out training on packaging operations to reduce waste of packaging materials; √ Delivering goods in whole packages whenever possible and reducing the use of packaging materials.

The Group and its affiliates impose corresponding environmental requirements for packaging material suppliers, insist on choosing environment-friendly packaging materials with higher cost-effectiveness, and require cooperative packaging material suppliers to provide their environmental evaluation certificates and material quality inspection certificates for production materials. The amount of formaldehyde released from cartons, pearl cotton, blister boxes and adhesives of various packaging materials shall meet E2-level requirements of GB18580-2001 *Indoor Decorating and Renovating Materials - Limit of Formaldehyde Emission of Wood-based Panels and Finishing Products*.

The Group positively promotes paperless, digitalized and online office environment to reduce unnecessary paper consumption:

Paperless	√ Insisting on regulated paper use, and suggesting double-sided printing and diversified use of paper; √ Waste paper recovery bins are provided to encourage the secondary use of the paper not bearing confidential information; √ Vigorously promote substituting the previous paper document submission process with online administration process;
Digitalization	√ Issuing internal notices using digital tools; √ Promoting the use of electronic files when communicating with related parties.

Conserving Biodiversity

Biodiversity and ecological conservation is of great significance, the Group constantly explores the operation mode of harmonious coexistence with nature, develops its business in a sustainable manner, vigorously protects biodiversity, and promotes green, harmonious and sustainable development together with stakeholders. The Group' s operation process has not involved extraction and utilization of large quantities of natural resources, nor has had any material environmental impact. The Group has developed regulations such as *Factory Environment Sanitation Management Procedures* and *Comprehensive Contingency Plan for Environmental Emergencies* to implement internal management and protect the environment and natural resources.

The Group has been paying close attention to the effects of biodiversity in surrounding areas in pharmaceutical production business and agriculture and livestock business. During the Reporting Period, the Group' s business has not involved animal testing, none of its activities, products and services have had any significant impact on biodiversity, and none of its offices, operation sites and industrial plant areas have been set up in critical areas for nature conservation.

The Group' s subsidiary Hunan Agriculture and Livestock has formulated the *Regulations on Green Agriculture and Livestock* to actively drive the realization of harmless agricultural and livestock production technology, systematic conservation of ecological environment, and environmentally friendly agricultural and livestock products, in an effort to control and mitigate environmental pollution. The Group' s protection measures for environmental and natural resources include but are not limited to:

Office areas	√ Promoting green office program in a top-down manner, starting from daily trifles to reduce resource consumption; √ Effectively managing waste generated in daily work and life, proposing and practicing cyclic utilization to lower impacts on surrounding environment.
Pharmaceutical production areas	√ Standardizing procurement to prevent environmental damages such as over-harvesting and destruction of biodiversity, etc.; √ Strengthening greening project in factories to protect the surrounding water and soil resources.
Agriculture and livestock areas	√ Cleaning animal enclosure every day, and carrying out regular sanitary inspection to reduce the impact of the breeding area on the surrounding air and water area; √ Setting up double-layer protection in the breeding area to strictly prevent the pollution to the surrounding environment; √ Collecting and using natural precipitation for irrigation to reduce the consumption of purchased water sources.

Appendix 1: List of Laws, Regulations and CMS' Rules and Policies Listed

	Laws and Regulations	CMS' Rules and Policies
A.Environmental		
A1: Emissions	*Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution, Emission Control Standard of Volatile Organic Compounds for Industrial Enterprises, Discharge Standard of Pollutants for Livestock and Poultry Breeding, Emission Standard of Air Pollutants for Boiler, Integrated Wastewater Discharge Standard, Wastewater Quality Standards for Discharge to Municipal Sewers, Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants, Emission Standard for Industrial Enterprises Noise at Boundary, Standard for Pollution Control on the Storage and Disposal Site of General Industrial Solid Wastes, Standard for Pollution Control on Hazardous Waste Storage, Administrative Measures for Hazardous Waste Transfer, Regulation on the Administration of Permitting of Pollutant Discharges,* etc.	*Regulations of Boilers Management, Operation Regulation of Exhaust Gas, Exhaust Gas Emission Management Procedures, Operation Regulation of Exhaust Gas, Wastewater Management Procedures, Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility, Regulations on Hazardous Waste, Regulations on Hazardous Chemicals, Solid Waste Management Procedures, Provisions on Quality-Control Laboratory Waste Management,* etc.
A2: Use of Resources	*Law of the People's Republic of China on Conserving Energy, Law of the People's Republic of China on Promoting Clean Production, Circular Economy Promotion Law of the People's Republic of China,* etc.	*Management Regulations on Energy Conservation and Consumption Reduction, Regulations on Green Agriculture and Livestock, Regulations on Resource Conservation Management, CMS Management Regulations on Vehicles and Drivers, Regulations on Material Distribution, Hunan Agriculture and Livestock Water Testing Methods, Regulations on Acceptance, Storage and Distribution of Labels, Insert Sheets and Packaging Materials,* etc.
A3: The Environment and Natural Resources	*Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on Environmental Impact Assessment,* etc.	*Integrated Emergency Response Plan for Environmental Incidents, Regulations on Environmental Protection, Regulations on Sanitation Management in Plant Area,* etc.
A4: Climate Change	*Responding to Climate Change: China's Policies and Actions,* etc.	*Emergency Response Plan for Environmental Incident, Regulations on Environmental Protection,* etc.

Appendix 1: List of Laws, Regulations and CMS' Rules and Policies Listed- continued

	Laws and Regulations	CMS' Rules and Policies
B. Social		
Employment and Labour Practices		
B1: Employment	*The Special Rules on the Protection of Juvenile Workers, Provisions on the Prohibition of Child Labor, Law of the People's Republic of China on the Protection of Minors,* etc.	*Measures for Recruitment Management, Social Recruitment Practice Manual, Campus Recruitment Practice Manual, Measures for Background Check Management, Personnel Management Policy, Human Rights and Employee Diversity Policy, Board Diversity Policy,* etc.
B2: Health and Safety	*The Work Safety Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Regulations on Work-Related Injury Insurances, Regulations on Occupational Safety and Health, Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents,* etc.	*Provisions on Production Safety, Employee Health Management Procedure, Fire Safety Management Policy, Regulations on Governing Safety Prevention Responsibility, Emergency Plan, Office Building Emergency Plan, Provisions on Workplace Safety Management, CMS Management Regulations on Vehicles and Drivers,* etc.
B3: Development and Training	*Employment Promotion Law of the People's Republic of China,* etc.	*Rewarding Measures for Internal and External Talent Recommendation, Internal Trainer Management Policy, Provision on Employee Training Process,* etc.
B4: Labour Standards	*The Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Employment Promotion Law of the People's Republic of China, Regulations on the Implementation of the Labor Contract Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Minimum Wage Provisions, Regulations of the State Council on the Hours of Work of Employees, Special Rules on the Labor Protection of Female Employees,* etc.	*Human Resource Policy, CMS Employee Manual, Regulations on Holiday Management, Personnel Management Policy,* etc.
Operating Practices		
B5: Supply Chain Management	*Administrative Measures for the Import of Drugs, Provisions for Supervision of Circulation of Pharmaceuticals, Company Law of the People's Republic of China, Customs Law of the People's Republic of China,* etc.	*Provisions for Material Supplier Management, Operation Procedure of Material Supplier Evaluation, Regulations on Supplier Management, Regulations on Supplier Assessment, Standard Regulations on Supplier Management, Procedures on Supplier Audit Management, Code of Practice for Field Quality Audit of Supplier, Catalogue of Qualified Material Supplier, Regulations on First-time Supplier Qualification Review,* etc.

Appendix 1: List of Laws, Regulations and CMS' Rules and Policies Listed- continued

	Laws and Regulations	CMS' Rules and Policies
B. Social		
Operating Practices		
B6: Product Responsibility	*The Drug Administration Law of the People's Republic of China, Regulations for Implementation on Drug Administration Law of the People's Republic of China, Provision for Drug Registration, Good Manufacturing Practice of Medical Products, Good Clinical Practice, Measures for the Supervision and Administration of Pharmaceutical Production, Measures for the Supervision and Administration of Circulation of Pharmaceuticals, Good Supply Practice for Pharmaceutical Products, Administrative Measures for the Import of Drugs, Good Supply Practice for Medical Devices, Regulations for the Supervision and Administration of Medical Devices, Law of the People's Republic of China on Safeguarding the Consumer Rights and Interests, Provisions for Drug Insert Sheets and Labels, Measures for Reporting and Monitoring of Adverse Drug Reactions, Good Pharmacovigilance Practice, Personal Information Protection Law,* etc.	*Quality Risk Management Policy, Internal Audit Management Policy of Quality Management System, Regulations on Drug Procurement, Regulations on Drug Check and Acceptance, Regulations on Drug Maintenance, Regulations on Purchaser' Qualification Review, Management Procedures for Production Process, Regulations on Drug Storage, Derivation Management Procedures, Alteration Management Procedures, Management Procedures for Corrective and Preventive Measures, Regulations on Quality Responsibility, Management Procedures for Unqualified Product, Regulations on Drug Transportation, Regulations on Warehouse Fire Safety Management, Regulations on Inspection, Maintenance and Servicing of Equipment and Facilities, Drug Traceability Management System, Operating Procedures for Internal Audit of Quality Management System, Sampling Management Procedures, Quality Policy, Target and Plan Management Regulations, Product Quality Review and Analysis Management Procedure, Regulations on Warehouse Handling Area Working Safety Management, Regulations on Warehouse Hygiene, Procedure for Administration of Pre-marketing Drafting/Post-marketing Alteration of Drug Insert Sheets and Labels, Procedure for revision, review and approve of design draft of Drug Insert Sheets and Labels, Regulations on Quality Complaints, Operating Procedures for Quality Complaints, Operating Procedures for Drug Safety Report Handling, Pharmacovigilance Training and Personnel Qualification Management, Operating Procedures for Product Safety Event Handling Plan, Regulations on Drug Recall, Operating Procedures for Drug Recall, Regulations on Information Security Management, CMS Intellectual Property Management Policy,* etc.
B7: Anti-corruption	*Anti-Money Laundering Law of the People's Republic of China,Law of the People's Republic of China Against Unfair Competition,Criminal Law of the People's Republic of China, Interim Provisions of the State Administration for Industry and Commerce on the Prohibition of Commercial Bribery, Prevention of Bribery Ordinance,* etc.	*CMS Anti-Fraud Management System, CMS Code of Ethics for Employees, CMS Budget Management System, CMS Procurement Management System, CMS Internal Audit System, CMS Code of Promotional Conduct, Compliance Performance Assessment Policy, CMS Code of Conduct, CMS Confidentiality Regulations,* etc.
Community		
B8: Community Investment	*Charity Law of the People's Republic of China Charity Donation Law of the People' s Republic of China,* etc.	*External Donation Management Policy,* etc.

Appendix 2 ESG Reporting Guide Content Index

ESG Aspects, General Disclosure and KPIs			Chapter
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection, Green and Low-carbon development
	A1.1	The types of emissions and respective emission data.	Taking actions to protect the environment Appendix 3 Key environmental KPIs
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Taking actions to protect the environment
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Taking actions to protect the environment
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Taking actions to protect the environment
	A1.5	Description of emission target(s) set and steps taken to achieve them.	Taking actions to protect the environment
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and description of reduction target(s) set and steps taken to achieve them.	Taking actions to protect the environment

Appendix 2 ESG Reporting Guide Content Index - continued

ESG Aspects, General Disclosure and KPIs			Chapter
A. Environmental			
A2: Use of Resources	General Disclosure	Policies on efficient use of resources, including energy, water and other raw materials.	Taking actions to protect the environment
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Taking actions to protect the environment Appendix 3 Key environmental KPIs
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Taking actions to protect the environment
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Taking actions to protect the environment
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Taking actions to protect the environment
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Appendix 3 Key environmental KPIs
A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	Environmental Protection, Green and Low-carbon Development
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Taking actions to protect the environment
A4: Climate Change	General Disclosure	Identifying and mitigating policies of significant climate-related issues which have impacted, and those which may impact, the issuer.	Taking actions to protect the environment
	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.	Taking actions to protect the environment

Appendix 2 ESG Reporting Guide Content Index - continued

ESG Aspects, General Disclosure and KPIs			Chapter
B. Social			
Employment and Labour Practices			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	People-oriented Practice, Growing with Employees
	B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Appendix 4 Key social KPIs
	B1.2	Employee turnover rate by gender, age group and geographical region.	Appendix 4 Key social KPIs
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Ensuring the occupational health and safety of employees
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Appendix 4 Key social KPIs
	B2.2	Lost days due to work injuries.	Appendix 4 Key social KPIs
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Ensuring the occupational health and safety of employees
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. *Note: Training refers to vocational training. It may include internal and external courses paid by the employer.*	People-oriented Practice, Growing with Employees
	B3.1	The percentage of employees trained by gender and employee category (e.g. mid-level and senior management, general employees).	Appendix 4 Key social KPIs
	B3.2	The average training hours completed per employee by gender and employee category.	Appendix 4 Key social KPIs

Appendix 2 ESG Reporting Guide Content Index - continued

ESG Aspects, General Disclosure and KPIs			Chapter
B. Social			
Employment and Labour Practices			
B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	People-oriented Practice, Growing with Employees
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	Talent Absorption and Management
	B4.2	Description of steps taken to eliminate such practices when discovered.	Talent Absorption and Management
Operating Practices			
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Reliable and Responsible Citizen
	B5.1	Number of suppliers by geographical region.	Appendix 4 Key social KPIs
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Providing high-quality products and services
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Providing high-quality products and services
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Providing high-quality products and services

Appendix 2 ESG Reporting Guide Content Index - continued

ESG Aspects, General Disclosure and KPIs			Chapter
B. Social			
Operating Practices			
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and method of redress.	Providing high-quality products and services
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Providing high-quality products and services
	B6.2	Number of products and service related complaints received and how they are dealt with.	Providing high-quality products and services Appendix 4 Key social KPIs
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Adhering to high ethical standards in business operation
	B6.4	Description of quality assurance process and recall procedures.	Providing high-quality products and services
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Adhering to high ethical standards in business operation
B7: Anticorruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Reliable and Responsible Citizen
	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.	Adhering to high ethical standards in business operation
	B7.2	Description of preventive measures and whistleblowing procedures, and how they are implemented and monitored.	Adhering to high ethical standards in business operation
	B7.3	Description of anti-corruption training provided to directors and staff.	Adhering to high ethical standards in business operation

Appendix 2 ESG Reporting Guide Content Index - continued

ESG Aspects, General Disclosure and KPIs			Chapter
B. Social			
Community			
	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Undertaking community responsibility
B8: Community Investment	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Undertaking community responsibility Improving healthcare accessibility
	B8.2	Resources contributed (e.g. money or time) to the focus area.	Undertaking community responsibility Improving healthcare accessibility

Appendix 3 Key Environmental KPIs

KPIs	Unit	Year 2020	Year 2021	Year 2022
Air Pollutants				
Sulfur Dioxide (SO_2)[2]	Kg	0.0	103.2	209.0
Nitrogen Oxide (NO_x)[2]	Kg	2,046.1	1,693.7	1,219.7
Particulate Matter (PM) [2]	Kg	165.5	143.3	119.5
Wastewater and Pollutants				
Wastewater	m^3	71,298.0	84,294.4	79,375.6
Wastewater intensity	m^3/million RMB	9.64	9.13	7.56
Ammonia Nitrogen (NH_3-N)	Ton	0.1	0.2	0.2
Chemical Oxygen Demand (COD)	Ton	0.8	2.3	2.2
GHG[3]				
Total GHG emission (Scope 1 + 2)	Ton CO_2e	12,581.5	10,407.1	9,861.6
Total GHG emission (Scope 1 + 2) intensity	Ton CO_2e/million RMB	1.70	1.13	0.94
Direct GHG emission (Scope 1)[4]	Ton CO_2e	5,895.3	5,540.3	5,391.4
Indirect GHG emission (Scope 2)	Ton CO_2e	6,686.2	4,866.8	4,470.2
Solid Waste				
Hazardous waste[5]	Ton	4.3	3.2	1.6
Hazardous waste intensity[5]	Ton/million RMB	0.00058	0.00035	0.00015
Non-hazardous waste	Ton	1,531.3	1,515.6	1,504.8
Non-hazardous waste intensity	Ton/million RMB	0.21	0.16	0.14

[2] The annual emission of air pollutants is an estimated value, which is calculated from the total natural gas consumption of the boiler, the fixed gas consumption rate of the boiler, and the emission rate. The emission rate comes from the test report of a professional third party hired by the Group, so the emission rate is related to the production status and fuel quality at the test time point.
[3] The emission factors used in the calculation of GHGs in Hong Kong District in 2022 and 2021 come from the revised version of HKEX Appendix II: *Guidelines on Reporting Environmental Key Performance Indicators* in May 2021. The emission factors used in the calculation of GHGs in Hong Kong District in 2020 come from the version of HKEX Appendix II: *Guidelines on Reporting Environmental Key Performance Indicators* before May 2021 and after 2020. For issuers operating outside of Hong Kong, the relevant emission factors for the countries/regions are used.
[4] During the Reporting Period, the GHG emission (Scope 1) included the GHG reduction of newly planted 20 trees by Kangzhe Hunan in 2022.
[5] During the Reporting Period, the Hazardous waste was mainly generated from laboratory analytical tests in the pharmaceutical manufacturing business. The business demand change resulted in a year-on-year decrease in hazardous waste generated from laboratory analytical tests.

Appendix 3 Key Environmental KPIs - continued

KPIs	Unit	Year 2020	Year 2021	Year 2022
Energy				
Conversion of electricity for comprehensive energy consumption	kWh	31,675,959.7	31,030,740.3	28,539,856.0
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	4,283.31	3,361.87	2,718.73
Purchased electricity	kWh	7,520,182.0	7,970,635.2	7,831,428.4
Purchased electricity intensity	kWh/million RMB	1,016.90	863.54	746.03
Natural gas	m^3	1,057,711.0	1,101,296.0	966,963.0
Alcohol-based liquid fuel	Ton	1,914.8	1,664.4	1,763.7
Gasoline[6]	Liter	67,814.2	69,872.7	49,679.8
Diesel oil[7]	Liter	2,117.3	857.5	4,209.6
Liquefied gas[8]	Kg	435.0	855.0	595.0
Water Resources				
Total water consumption	m^3	282,658.0	206,317.2	177,987.2
Total water consumption intensity	m^3/million RMB	38.22	22.35	16.96
Packaging Materials/Office paper				
Total packaging materials	Ton	932.1	831.7	790.2
Total packaging material intensity	Ton/million RMB	0.13	0.09	0.08
Office paper	Ton	8.3	11.7	10.3

[6]During the Reporting Period, gasoline was mainly used in office vehicles. The decrease in gasoline usage compared to the same period last year was mainly due to the decrease in the use of office vehicles as a result of the COVID-19 epidemic control.
[7]During the Reporting Period, due to the business demand, Kangzhe Hunan added diesel trucks, thus the usage of diesel fuel increased compared to the same period last year.
[8]During the Reporting Period, all liquefied gas consumption was consumed by Hunan Agriculture and Livestock for cooking. Liquefied gas consumption decreased as a result of a decrease in cooking demand.

Appendix 4 Key Social KPIs

KPIs	Unit	Year 2020	Year 2021	Year 2022
Employment				
Total number of employees	Person	4,372	5,292	5,647
Number of male employees	Person	2,024	2,444	2,608
Number of female employees	Person	2,348	2,848	3,039
Number of employees in mid-level and senior management	Person	Non-disclosure	141	157
Number of male employees in mid-level and senior management	Person	Non-disclosure	97	102
Number of female employees in mid-level and senior management	Person	Non-disclosure	44	55
Number of contracted employees	Person	4,372	5,292	5,647
Number of dispatched employees	Person	0	0	0
Number of employees aged under 30	Person	2,180	2,108	2,435
Number of employees aged 30-50	Person	2,042	3,021	3,013
Number of employees aged over 50	Person	150	163	199
Number of Mainland China employees	Person	Non-disclosure	5,244	5,584
Number of HK, Macao, Taiwan and overseas employees	Person	Non-disclosure	48	63
Employee Turnover				
Turnover rate of employees	%	13.9	17.8	15.4
Turnover rate of male employees	%	14.2	17.8	15.9
Turnover rate of female employees	%	13.7	17.8	14.9
Turnover rate of employees aged under 30	%	19.3	22.3	18.0
Turnover rate of employees aged 30-50	%	7.9	15.3	13.7
Turnover rate of employees aged over 50	%	6.8	9.7	7.8
Turnover rate of Mainland China employees	%	Non-disclosure	17.9	15.3
Turnover rate of HK, Macao, Taiwan and overseas employees	%	Non-disclosure	14.3	20.8
Occupational Health and Safety				
Working days lost due to work-related injury	Day	240	375	43
Number of work-related fatalities	Person	0	0	0
Proportion of work-related fatalities	%	0	0	0
Proportion of employees with occupational health check benefit	%	100	100	100

Appendix 4 Key Social KPIs - continued

KPIs	Unit	Year 2020	Year 2021	Year 2022
Training and Development				
Total employees training expenditure	Million RMB	5.3	6.3	4.8
Training coverage of employees	%	70.7	73.2	100
Training coverage of general employees	%	98.1	97.2	97.2
Training coverage of mid-level and senior management	%	1.9	2.8	2.8
Training coverage of male employees	%	47.5	48.6	46.2
Training coverage of female employees	%	52.5	51.4	53.8
Employees training duration per capita	Hour	18.5	18.0	26.1
Training duration per capita for general employees	Hour	18.6	18.2	26.5
Training duration per capita for mid-level and senior management	Hour	12.6	12.3	8.6
Training duration per capita for male employees	Hour	20.2	19.0	25.1
Training duration per capita for female employees	Hour	17.0	17.2	27.0
Supplier Management[9]				
Total number of suppliers	Number	114	149	152
Number of Mainland China suppliers	Number	77	97	102
Number of HK, Macao, Taiwan and overseas suppliers	Number	37	52	50
Quality and Safety of Products and Services				
Response and handling rate for product and service quality related complaints	%	100	100	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0	0	0
Number of product and service related complaints	Number	137	160	151
Anti-corruption				
Corruption lawsuits	Number	0	0	0
Participation in Public Service Activities				
Total donation amount of public service activities	Million RMB	18.8	1.2	2.7

[9] During the reporting period, the Group adjusted the definition of suppliers such that upstream product partners who do not supply goods directly to the Group are no longer defined as suppliers to the Group, and the Group has restated the relevant data for 2020 and 2021 according to this new definition.

Appendix 5 Calculation of Key Environmental KPIs

Statistical targets: the Company, its wholly owned subsidiaries and majority owned subsidiaries
Intensity KPIs: the Group adopts the revenue "in the case that all medicines were directly sold by the Group" for the calculation of the intensity of environmental indicators, that is, the total amount of emissions or use divided by the revenue "in the case that all medicines were directly sold by the Group" (million RMB) during the corresponding reporting period.

Indicator	Unit	Data source	Calculation method	Parameter usage
Sulfur Dioxide (SO_2)	Kg	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission of SO_2	Rate of emission: average value of tests in the annual environmental test report
Nitrogen Oxide (NO_x)	Kg	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission of NO_x	Rate of emission: average value of tests in the annual environmental test report
Particulate Matter (PM)	Kg	Total natural gas consumption: calculated according to the environmental test report	Total natural gas consumption/rated gas consumption of boilers*rate of emission of PM	Rate of emission: average value of tests in the annual environmental test report
Wastewater	m^3	Office/domestic wastewater: Water consumption* estimated coefficient or calculated according to monitoring result Production wastewater: calculated according to the monthly ledger of sewage treatment amount	Wastewater = office/ domestic wastewater + production wastewater	/
Wastewater intensity	m^3/million RMB	/	Wastewater intensity = Wastewater / revenue (in the case that all medicines were directly sold by the Group)	/
Ammonia Nitrogen (NH_3-N)	Ton	Production wastewater: calculated according to the monthly ledger of sewage treatment amount	Ammonia nitrogen concentration*total amount of production wastewater discharged	Ammonia nitrogen concentration: average value of tests in the annual environmental test report
Chemical Oxygen Demand (COD)	Ton	Production wastewater: calculated according to the monthly ledger of sewage treatment amount	COD concentration*total amount of production wastewater discharged	COD concentration: average value of tests in the annual environmental test report

Appendix 5 Calculation of Key Environmental KPIs - continued

Indicator	Unit	Data source	Calculation method	Parameter usage
Direct GHG emission (Scope 1)	Ton of CO_2 equivalent	Consumption of fuels	Fuel consumption*(carbon dioxide emission coefficient + methane emission coefficient*methane GWP + nitrous oxide emission coefficient*nitrous oxide GWP)	Carbon dioxide emission coefficient/methane emission coefficient/ methane GWP/nitrous oxide emission coefficient/nitrous oxide GWP: Revised version of HKEX *Appendix II: Guidelines on Reporting Environmental Key Performance Indicators* in May 2021
Indirect GHG emission (Scope 2)	Ton of CO_2 equivalent	Purchased electricity	Electricity consumption amount*power grid carbon emission factor	The current emission factor used in Hong Kong is set out in the latest *Appendix II: Guidelines on Reporting Environmental Key Performance Indicators* by HKEX; for issuers operating outside of Hong Kong, the relevant emission factors for the countries/regions are used
Total GHG emission (Scope 1 + 2)	Ton of CO_2 equivalent	/	Total GHG emission = GHG emission (Scope 1) + GHG emission (Scope 2)	/
Total GHG emission (Scope 1 + 2) intensity	Ton of CO_2 equivalent/million RMB	/	Total GHG emission (Scope 1 + 2) intensity = Total GHG emission/ revenue (in the case that all medicines were directly sold by the Group)	/

Appendix 5 Calculation of Key Environmental KPIs -continued

Indicator	Unit	Data source	Calculation method	Parameter usage
Amount of waste chemicals generated in laboratories	Kg	Calculated based on hazardous waste transfer manifests	/	/
Household garbage	Ton	Estimated based on production days or working days	Household garbage per day*production days or working days	/
Sewage sludge	Ton	Estimated according to the work record ledger	The number of sludge bags produced per day *the weight of each bag	/
Chinese herb residue	Ton	Calculated based on total weight of the Chinese herb input	/	/
Hazardous waste	Ton	Calculated based on hazardous waste transfer manifests within the reporting period	/	/
Hazardous waste intensity	Ton/ million RMB	/	Hazardous waste intensity = hazardous waste /revenue (in the case that all medicines were directly sold by the Group)	/
Non-hazardous waste	Ton	/	Non-hazardous waste = household garbage + sewage sludge + Chinese herb residue	/
Non-hazardous waste intensity	Ton/ million RMB	/	Non-hazardous waste intensity = non-hazardous waste /revenue (in the case that all medicines were directly sold by the Group)	/
Electric quantity converted from comprehensive energy consumption	KWh	Total fuel consumption and purchased electricity	Electric quantity converted from comprehensive energy consumption = total fuel consumption *standard coal conversion coefficient * electric power equivalent value	Standardized coal coefficient and electric power equivalent value: National Standard of the People's Republic of China, *General Rules for Calculation of the Comprehensive Energy Consumption (GB/T2589-2020)*

Appendix 5 Calculation of Key Environmental KPIs -continued

Indicator	Unit	Data source	Calculation method	Parameter usage
Electric quantity intensity converted from comprehensive energy consumption	KWh/ million RMB	/	Electric quantity intensity converted from comprehensive energy consumption = Electric quantity converted from comprehensive energy consumption/ revenue (in the case that all medicines were directly sold by the Group)	/
Purchased electricity	KWh	Calculated according to the financial invoice	/	/
Purchased electricity intensity	KWh/ million RMB	/	Purchased electricity intensity = purchased electricity/ revenue (in the case that all medicines were directly sold by the Group)	/
Natural gas	m^3	Calculated according to the financial invoice	/	/
Alcohol-based liquid fuel	Ton	Calculated according to the financial invoice	/	/
Gasoline	Liter	Calculated according to the financial invoice	/	/
Diesel oil	Liter	Calculated according to the financial invoice	/	/
Liquefied gas	Kg	Calculated according to the accounting vouchers	/	/
Water consumption	m^3	Calculated according to the financial invoice	/	/
Total water consumption intensity	m^3/million RMB	/	Total water consumption intensity = total Water consumption/ revenue (in the case that all medicines were directly sold by the Group)	/
Total packaging materials	Ton	Calculated according to the actual amount used	/	/
Total packaging materials intensity	Ton/ million RMB	/	Total packaging materials intensity = Total packaging materials/revenue (in the case that all medicines were directly sold by the Group)	/
Office paper	Ton	Calculated according to the actual amount used	/	/