康哲药业
CHINA MEDICAL SYSTEM

康哲®

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED
(STOCK CODE: 867)

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ABOUT THE REPORT

The Report is the eighth 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 1 January 2023 to 31 December 2023 (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 C2 *Environmental, Social and Governance Reporting Guide* of Main Board Listing Rules issued by the Stock Exchange of Hong Kong Limited ("HKEX"). Meanwhile, the 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 *2023 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

> LOOKING FORWARD TO THE FUTURE, CMS WILL STICK TO ITS MISSION OF "PROVIDING COMPETITIVE PRODUCTS AND SERVICES TO MEET UNMET HEALTHCARE NEEDS" AND ACTIVELY EMBRACE CHANGES AND OPPORTUNITIES OF THE TIMES. WITH A DEEPLY-ROOTED AWARENESS OF SUSTAINABLE DEVELOPMENT CONCEPTS, WE WILL CONTINUE TO STRENGTHEN OUR RESILIENCE AND RISK RESISTANCE WITH LONGTERMISM MINDSET, AND WORK TOGETHER WITH OUR STAKEHOLDERS TO CREATE GREATER VALUE FOR THE INDUSTRY AND SOCIETY.

Dear stakeholders and readers,

In 2023, with the challenges posed by the pandemic and its aftermath, climate crisis, economic volatility and geopolitical issues, the progress towards the United Nations SDGs remained stagnant. The United Nations made a strong call for joint efforts of the world to form a global alliance to eliminate inequality and protect the earth. As a responsible corporate citizen, CMS adheres to the ESG vision of "becoming a world-leading sustainable pharmaceutical enterprise" , incorporates the United Nations SDGs into its strategic decisions and day-to-day operations to fulfil its corporate responsibilities with practical actions, and endeavours to improve the health and quality of life of human beings.

We are committed to bringing equal health benefits to all relevant patients. To achieve this goal, we focus on unmet clinical needs and collaborate with global innovative R&D forces to develop accessible, affordable and high-quality innovative products, and continue to bring cutting-edge medical and biotechnologies and achievements to China and other developing countries to benefit more patients. Meanwhile, we adhere to high ethical standards of business operations, and implement compliance management at all operational processes through systematic organisational construction. We collaborate with our supply chain partners and control the quality of entire-life-cycle of pharmaceutical products, to provide customers with high-quality products and services. We also attach great importance to the well-being of our employees and take practical and effective measures to safeguard the interests, rights and safety of employees. Adhering to the philosophy of "Caring for Talents, Cultivating Talents" , we provide employees with equal, diversified and professional development channels to empower employees' continuous growth.

CHAIRMAN'S MESSAGE- continued

We also endeavour to support the sustainable and healthy development of the industry and society by building an international platform for medical academic information exchange to facilitate improvement and breakthrough in diagnosis and treatment, and provide assistance to patients and conduct health knowledge publicity to increase disease awareness and treatment rate. We also pay attention to the needs of our surrounding communities, take practical actions to care for the vulnerable groups and contribute to rural revitalisation, and offer timely help in case of disasters and emergencies, so as to benefit a wider range of people.

Moreover, increasingly frequent and serious extreme weather circumstance have aroused close attention from all sectors of society. We also take initiatives to seek for a development pattern that has less impact on the environment, invest resources to promote green and low-carbon operations and actively respond to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), to steadily promote climate risk assessments, early warning and response work from the aspects of corporate governance, strategy, risk management and target planning, in an effort to contribute to decelerate global climate deterioration.

Looking forward to the future, CMS will stick to its mission of "providing competitive products and services to meet unmet healthcare needs" and actively embrace changes and opportunities of the times. With a deeply-rooted awareness of sustainable development concepts, we will continue to strengthen our resilience and risk resistance with longtermism mindset, and work together with our stakeholders to create greater value for the industry and society.

Chairman
Lam Kong
Hong Kong, China

ABOUT CMS

Company Profile

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

The Group focuses on the clinical needs of patients, and links global innovation forces via its platform for innovative product incubation. The Group also efficiently boosts the clinical development and commercialisation of innovative products, generating a steady pipeline of globally first-in-class (FIC) and best-in-class (BIC)[1] innovative products. As of the end of the Reporting Period, the Group has possessed a pipeline of approximately 30 innovative products with differentiated advantages, three of which have been approved for marketing in China and included in China' s National Reimbursement Drug List, which greatly enhanced the accessibility and affordability of innovative products and benefited more patients.

The Group has been working in the fields of specialty diseases, including cardiocerebrovascular, gastroenterology, central nervous system, dermatology and ophthalmology. With the continuous promotion of the in-depth development in advantageous specialty fields, the Group has established a widely-covered academic network, accumulated abundant resources, and formulated a differentiated product portfolio with high academic value and quality standards. Leveraging on its strengths, the Group is committed to business operation with high ethical standards, continues to promote improvement and transformation in diagnosis and treatment practices, thereby empowering quality development of the pharmaceutical industry. The Group also pays close attention to the medical needs of other developing countries, and has built an platform integrating "research, manufacture and sales" in the Southeast Asian market to enhance the accessibility of quality medical products to local patients.

Upholding the vision of "becoming an innovation-leading, trustworthy specialty pharma" , CMS is committed to bringing more quality innovative and effective pharmaceutical products to patients worldwide and continuously improving its internal governance through the profound integration of the Group' s sustainable development concept, its strategies and business operation. The Group is also committed to participating actively in public welfare and environmental protection activities to promote healthy, harmonious and sustainable development among the enterprise, environment and society.

[1] Best-in-class (BIC): An innovative product with innovative preparation, innovative dosing, etc., to achieve the best therapeutic effect, or the safest or most cost-effective among its class.

ESG Awards

The Group's efforts and results in ESG governance have been widely recognised. During the Reporting Period, the Group has been rated "AA" by MSCI-ESG, the world's largest index company, and scored at 54 for S&P Global ESG Score, the world's leading corporate rating agency, surpassing 91% of global peers.

S&P Global
54
S&P Global ESG Score

MSCI
AA
MSCI-ESG Rating

In addition, the Group has received a number of awards in terms of ESG management, including:

being listed in the first volume of **Sustainability Yearbook (China Edition) 2023** of S&P Global

being listed again among the **"Top 20 Chinese Pharmaceutical Listed Companies in ESG Competitiveness"**

being awarded the **"Pioneer in Corporate Governance Award"**

being awarded the **"Most Socially Responsible Listed Company Award"**

ESG GOVERNANCE STRATEGY

Statement of the Board of Directors

The Board of Directors of the Company is the supreme supervisory body for ESG strategy, management and execution, and is responsible for overall supervision, direction and review. The Group has set up scientific and effective ESG governance structure by establishing the ESG Committee under the Board of Directors. The Company' s executive director chairs the ESG Committee to take charge of ESG management work, and two independent non-executive directors are appointed as the committee members. Under the ESG Committee, the Group has established the organisation-wide ESG Working Group to comprehensively promote and execute ESG-related work. Moreover, in order to facilitate the systematisation, standardisation 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 fulfilment of relevant tasks.

Based on the United Nations SDGs, the Board of Directors of the Company has developed comprehensive ESG strategies and guidelines in line with the Group' s vision and mission. Moreover, in order to ensure that the Group' s strategic decisions meet the expectations and requirements of stakeholders, the Group has established a routine communication mechanism for internal and external stakeholders to proactively learn their demands and concerns, which is an important reference for the effectiveness assessment of the ESG strategy and business management. During the Reporting Period, the Group carried out a comprehensive survey among stakeholders and reviewed the ESG strategy to ensure that the strategy is aligned with the Group' s business development strategy and stakeholders' concerns.

The Board of Directors of the Company also actively promotes the effective integration between the ESG concept and the Group' s daily operation management. By holding quarterly ESG Committee meetings, the Board of Directors of the Company tracks and reviews ESG management goals, the corresponding work plans and the implementation of the work plans. During the Reporting Period, under the guidance of the ESG strategy and the effectively supervision of the Board of Directors, the Group improved its internal management and policies in multiple operation segments, covering compliant operations, product liability, employment, supply chain, environmental protection, and community support, etc., to provide more comprehensive guidance for the advancement and implementation of ESG management and to safeguard the Group' s sustainability development.

In addition, the Board of Directors of the Company recognises the significance of the impacts of climate change, and has further clarified its responsibilities and oversight on climate change. The Board of Directors continues to gain relevant professional knowledge, via climate change-related trainings, so as to better understand the climate change management and to make more precise management decisions. During the Reporting Period, the Board of Directors of the Company has reviewed the Group's work plans for climate information disclosure, identification and management of climate-related risks and opportunities, and related target-setting and implementation.

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

ESG Strategy

As a committed practitioner of sustainable development, the Group makes continuous efforts to promote the deep integration between ESG governance and the Group' s development strategies. The Group also proactively responds to the United Nations SDGs and develops its sustainable development vision, strategy and objectives on the basis of its business, vision, mission and value, as well as the importance ranking of ESG issues by the management and other stakeholders.

Group's Mission

Providing competitive products and services to meet unmet healthcare needs

Group's Vision

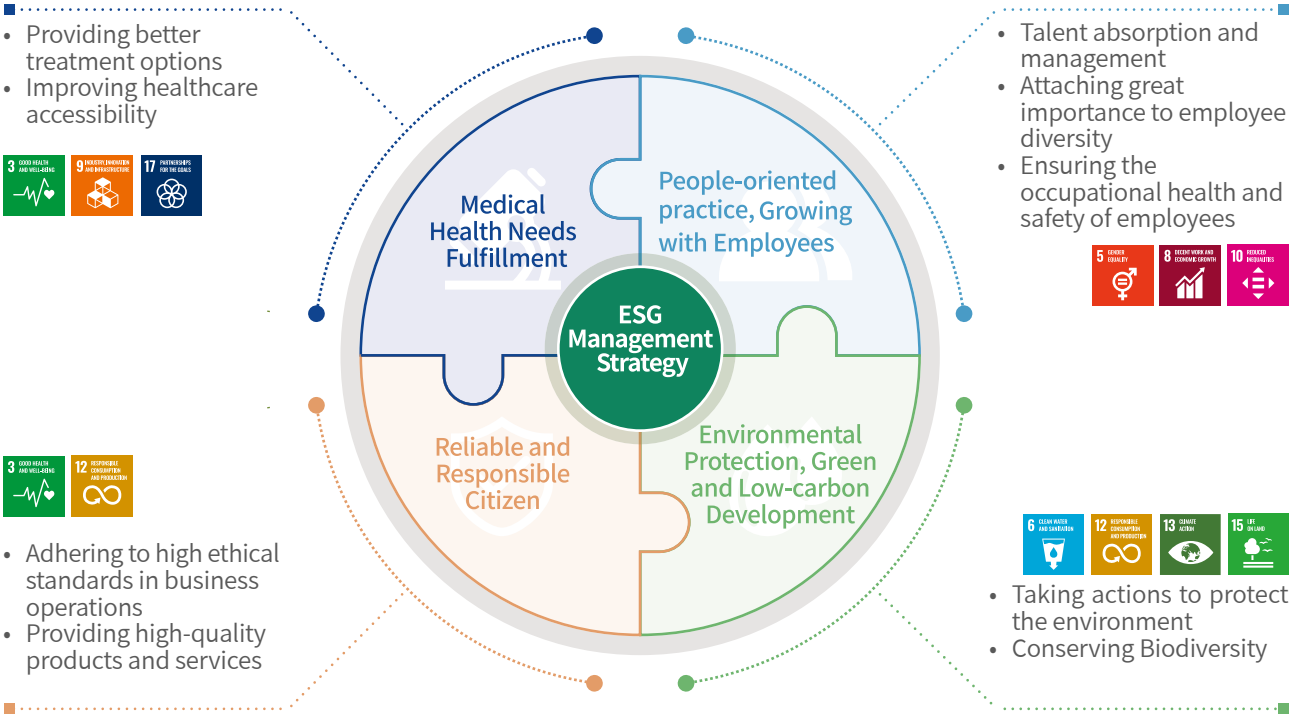
Becoming an innovation-leading, trustworthy specialty pharma

ESG Vision

Becoming a world-leading sustainable pharmaceutical enterprise

ESG Strategy

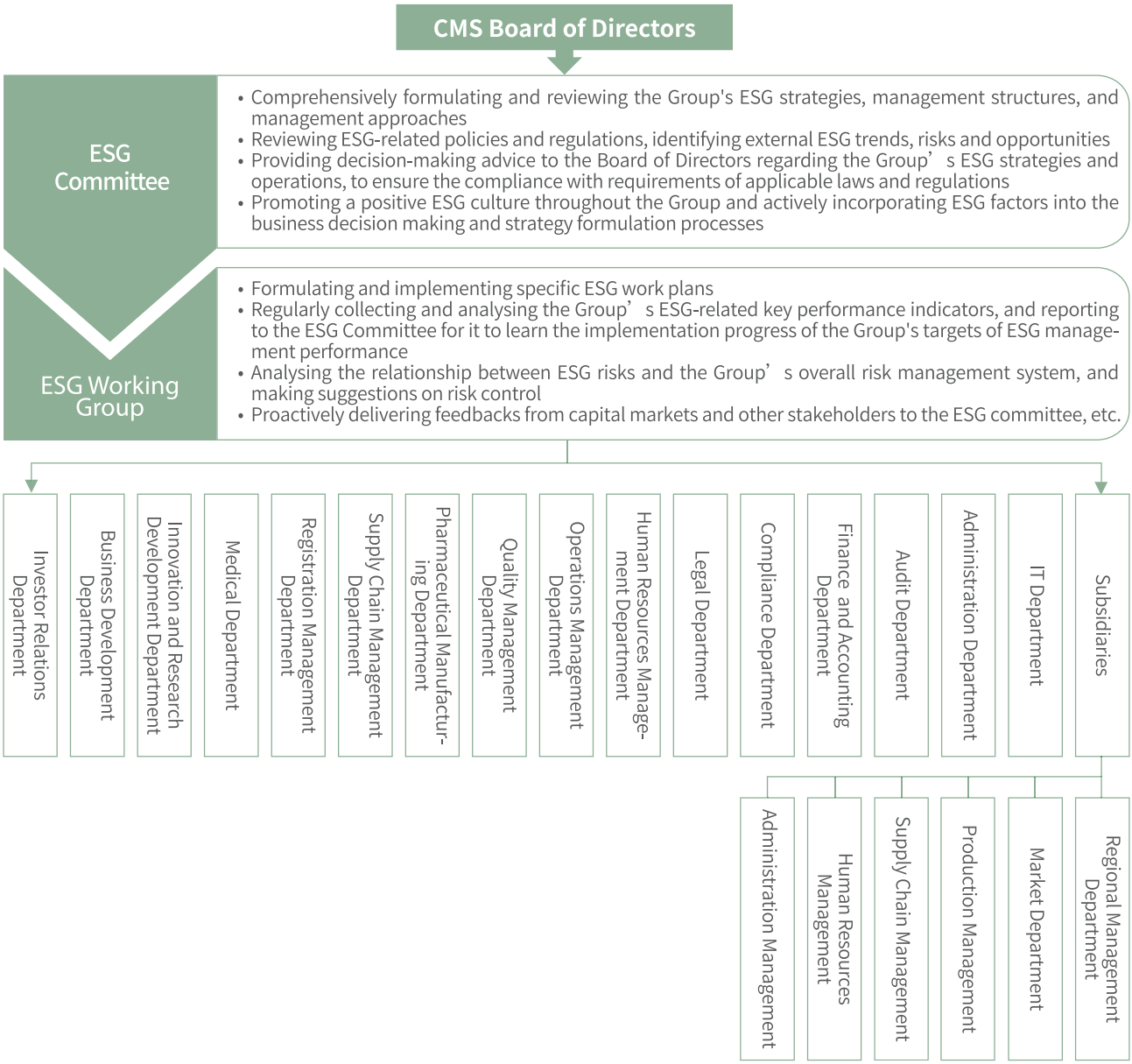
Cooperating with global innovation forces via the Group' s platforms and jointly developing differentiated innovative products to meet clinical needs and benefit the patients; promoting healthy, harmonious and sustainable development of the society and environment with responsible development



CMS's ESG Strategy

Structure and Process of ESG Governance

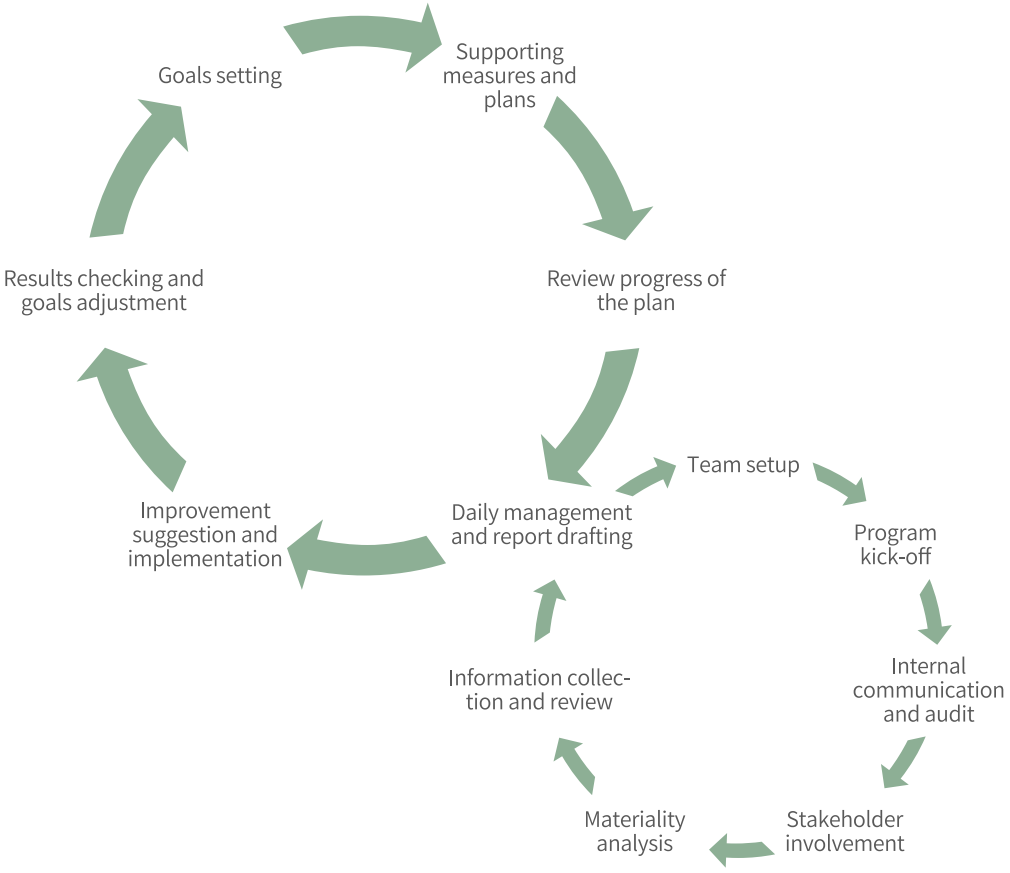
After years of ESG management practicing, the Group has formed a three-tier ESG governance framework consisting of the Board of Directors, the ESG Committee and the ESG Working Group to systematically carry out ESG management from the governance level of the Board of Directors to the ESG implementation 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 stakeholders' reference.



CMS's ESG Governance Structure

Closed-loop ESG Management Mechanism

- Reviewing the progress of ESG management goals of the previous year, and proposing and implementing improvement solutions to the issues existing in ESG management through audit, ESG best practice benchmarking, professional third-party recommendation, etc;
- Reviewing ESG management goals and making adjustment or setting new goals according to the Group's internal and external environment updates and the improvement plans;
- Decomposing the ESG management goals to formulate corresponding ESG management supporting measures and plans;
- Supervising the implementation of the measures through daily ESG management and dynamic monitoring of ESG information, and regularly reviewing the progress of the plan fulfilment;
- 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 mechanism to maintain efficient interaction with all stakeholders through diverse and targeted channels, and actively responds to the stakeholders' requirements, in order to facilitate the implementation of 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, and job creation	• Government-company seminar • Supervision and inspection • Work reports and researches
Investor/ shareholder	• Standardised governance and rigorous risk control • Prudent operation and value creation • Disclosure compliance, openness and transparency	• General meeting, and results announcement • Company news, announcements and periodic reports • Telephone, email, and voting at general meeting • Company official website and WeChat official account • Investor visit, conference and presentation • Road show
Supplier	• Open and fair procurement • Timely communication, and 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, and win-win developments	• Work meeting, and communication via telephone and email • Company official website and WeChat official account • Customer service hotline • Meeting and visit
Patient/ consumer	• Product safety, protection of rights and interests • Privacy protection, and business ethics	• Product labelling and other information disclosure • Processing of customer complaint and feedback • Medicine and health related knowledge popularisation
Employee	• Protection of rights and interests • Employee caring, and demand communication • Remuneration and benefits, and training and development	• Team building activity • Employee training • Feedback and appeal platforms • Employee satisfaction and engagement survey
External practitioner in the pharmaceutical industry	• Product safety, protection of rights and interests • Privacy protection, and business ethics	• Product labelling and information disclosure • Academic conference and forum • Processing of customer complaint and feedback
Community and public	• Good interaction, and information disclosure • Product safety, protection of rights and interests • Privacy protection, and business ethics • Inclusive health and charity • Community development and social value	• Product labelling and information disclosure • Processing of customer complaint and feedback • Participation in Public welfare activities in communities • Medicine and health related knowledge popularisation • Company official website and WeChat official account

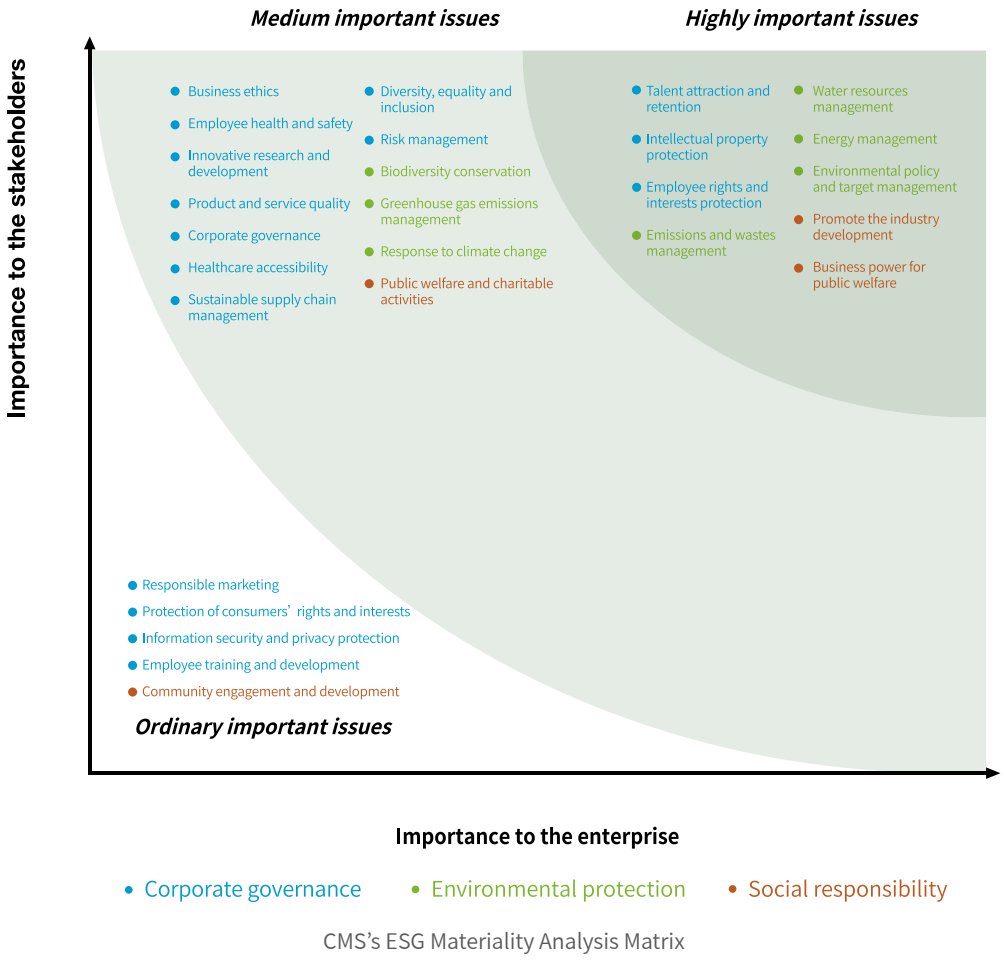
ESG Material Issues

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 has formulated the material issues list as critical basis for the preparation of the Report, ESG strategy and corporate development management.

The Group makes materiality assessment through the following steps:

- Establishment of the ESG issues database: CMS's ESG management issues library in 2023 has been completed and updated with reference to the Appendix C2 *Environmental, Social and Governance Reporting Guide* of Main Board Listing Rules issued by HKEX, the focuses of the capital market, the development trend of the pharmaceutical industry and the Group's operations.
- Identification and ranking of material issues: Stakeholders were invited to assess the importance of CMS's ESG issues in 2023, covering the government and regulatory institutions, investors/shareholders, patients/consumers, suppliers, distributors, directors of the Company, management members and employees of the Company, external medical practitioners, communities and the public, and 880 pieces of effective questionnaire responses were collected. After the research, the Group analysed the feedbacks of all stakeholders, assessed the importance of each issue from the aspects of "importance to the enterprise" and "importance to the stakeholders", and concluded the 2023 important issues matrix and list of CMS.
- 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 optimisation of ESG work: Dynamically adjust and optimise 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 2023 as follows:



CMS's ESG Materiality Analysis Matrix

The materiality assessment of CMS 2023 ESG issues resulted in 9 highly important issues, 13 medium important issues, and 5 ordinary important issues, the details of which are listed below:

Importance of issue	Issue scope	Issue
Highly important issue	Social responsibility	Promote the industry development
	Corporate governance	Talent attraction and retention
	Environmental protection	Emissions and wastes management
	Environmental protection	Water resources management
	Environmental protection	Energy management
	Social responsibility	Business power for public welfare
	Corporate governance	Intellectual property protection
	Environmental protection	Environmental policy and target management
	Corporate governance	Employee rights and interests protection
Medium important issue	Corporate governance	Business ethics
	Environmental protection	Biodiversity conservation
	Social responsibility	Public welfare and charitable activities
	Environmental protection	Greenhouse gas emissions management
	Environmental protection	Response to climate change
	Corporate governance	Employee health and safety
	Corporate governance	Innovative research and development
	Corporate governance	Product and service quality
	Corporate governance	Corporate governance
	Corporate governance	Healthcare accessibility
	Corporate governance	Sustainable supply chain management
	Corporate governance	Diversity, equality and inclusion
	Corporate governance	Risk management
Ordinarily important issue	Social responsibility	Community engagement and development
	Corporate governance	Responsible marketing
	Corporate governance	Protection of consumers' rights and interests
	Corporate governance	Information security and privacy protection
	Corporate governance	Employee training 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 the development of research findings into clinical use as well as diagnosis and treatment practice improvement, to offer better choices for disease treatment, and strive to further promote accessibility and affordability of innovative pharmaceutical products.

KEY TARGETS AND PROGRESS

	Targets for Year 2030:	Progress in Year 2023:
Providing better treatment options	• Increasing R&D investment in differentiated innovative drugs for serious diseases/chronic diseases.	• Continuously promoted deployment, clinical development, registration and market access of innovative products for serious diseases and chronic diseases as well as orphan drugs. Total R&D expenditures (including both capitalised and expensed amounts) of the Group increased by 11.7% to RMB 815.9 million in Year 2023. In the case that all medicines were directly sold by the Group, total R&D expenditures as a percentage of turnover increased by 1.6 percentage points to 8.6% in Year 2023 comparing to the Year 2022.
Improving healthcare accessibility	• Improving healthcare accessibility in China and other developing countries.	• Together with Chinese industry associations, public welfare foundations and domestic and overseas medical experts，proactively promoted leading diagnosis and treatment practices exchange, disease knowledge popularization and education, patient care program, etc. • The Group's 3 innovative drugs and 1 orphan drug approved for marketing during the Reporting Period were all included in the National Reimbursement Drug List, which significantly improved the accessibility and affordability of products. • The Group continued to improve its "R&D, manufacture and commercialisation" business structure in Southeast Asia. By introducing more quality products that meet local clinical needs and accelerating the progress of formulation CDMO business, the Group empowered emerging market pharmaceutical R&D, production and improved the accessibility of high-quality pharmaceutical products in the market.

Adhering to the original aspiration, the Group insists on the operation mission of "offering competitive products and services to meet unmet medical needs" . The Group is committed to providing patients with more and better treatment options and takes practical actions to improve the accessibility and affordability of pharmaceutical products, so as to contribute CMS' s strength to the healthcare accessibilities.

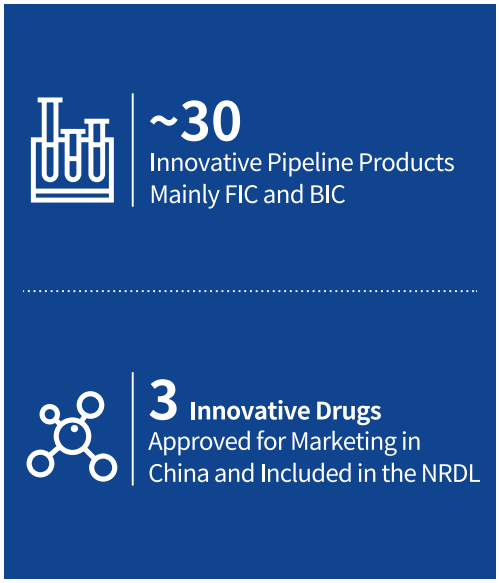
The Group initiates various business collaborations globally to provide high-quality pharmaceutical products to benefit more patients in developing countries. This contributes to the enhancement of healthcare practices and standards in these countries. The Group supports the *Doha Declaration on TRIPS Agreement and Public Health*, recognizing its significance in helping less-developed countries in need to gain access to medicines under certain circumstances. The Group recognizes and supports reasonable generic competition and makes its best efforts to improve healthcare accessibility across different geographies, especially in less-developed countries, contributing to global sustainable development.

The Board of Directors of the Company is the highest responsible body for matters related to healthcare accessibility, and the ESG Committee under the Board of Directors regularly reviews and supervises the implementation of related strategies, policies, and works to enhance healthcare accessibility on an annual basis.

Providing Better Treatment Options

Innovative Products

Focusing on unmet clinical needs, the Group continues to invest in R&D of innovative products that can resolve clinical difficulties of serious diseases/chronic diseases. With a developed innovative product incubation platform and extensive cooperation with global innovative forces, the Group rapidly introduces new and good drugs from around the world into the Chinese market through equity investment, strategic cooperation and self-developed methods, etc., and efficiently promotes the transformation of research findings into clinical applications, improving the accessibility of cutting-edge medical technologies and providing better treatment options to patients in China. Meanwhile, the Group constantly deepens cooperation with first-class medical colleges and institutions in China, enhancing innovative R&D capabilities to facilitate breakthroughs in local biotechnology.



With the expansion of innovative products, the Group has developed a pipeline of ~ 30 short-, medium- and long-term innovative products with a relatively high level of innovation and differentiation, as well as >10 clinical trials are ongoing, mostly are Registrational Randomized Controlled Trials (RCTs).

During the Reporting Period, the Group added 2 quality products:

- In September, the Group gained an exclusive commercialization right in Mainland China of Cidine (Cinitapride Hydrogen Tartrate Tablets). Cidine, an exclusive and marketed product in China, is a new generation of oral gastrointestinal prokinetic agents with good efficacy in relieving the symptoms of dyspepsia.

- In August, the Group gained a permanent exclusive promotion right in Mainland China, Hong Kong and Macao of Y-3 Injection, a class 1 innovative brain cytoprotection agent for anti-ischemic stroke under the R&D stage. The product has a clear mechanism of action, which is conducive to exerting brain cytoprotection efforts. Meanwhile, the product has a rapid anti-depression and anti-anxiety function, and is expected to become the first new type of brain cytoprotectant that treats both stroke and post-stroke depression.

Meanwhile, the Group has efficiently promoted the clinical development, market access and clinical application of its innovative products. During the Reporting Period, 3 of the Group's differentiated innovative products were approved for marketing in China, all of which have been included in the National Reimbursement Drug List("NRDL") and have been entered into commercialization stage to initiate the large-scale clinical application, benefiting more patients:

Diazepam Nasal Spray (VALTOCO)

In June, the first Diazepam Nasal Spray was approved for marketing in China, it is the first product approved for cluster seizures in China. The product has the differentiated advantage of seizure rescue, convenient administration, and it can be administered at anywhere and anytime, meeting the current clinical need of acute treatment of domestic epilepsy patients 6 years of age and older with cluster seizures.

Tildrakizumab Injection (ILUMETRI)

In May, Tildrakizumab Injection, targeting the p19 subunit of IL-23, was approved for marketing in China. The product provides a new treatment option for adults with moderate-to-severe plaque psoriasis with a lower administration frequency.

Methotrexate Injection (METOJECT)

In March, Methotrexate Injection was approved for marketing in China, it is the first Methotrexate (MTX) pre-filled injection for subcutaneous administration in China. The product provides an effective, convenient, and accurate MTX dosing regimen for patients and can meet the drug needs of psoriasis patients for systemic treatment. Previously, it has been included in the *Urgently Needed Drug List* in China as an urgently needed clinical drug with short supply.

Orphan Drugs

The Group pays close attention to the interests and treatment needs of patients with rare diseases, providing this special group with better quality and more diversified treatment options. As at the end of the Reporting Period, the Group's Tetrabenazine Tablets, a generic drug was approved for marketing in China in May 2023 for the treatment of an orphan disease named Huntington's disease, and it was included in the China NRDL. As a first-line drug for Huntington's disease, Tetrabenazine Tablets is expected to provide more accessible and affordable treatment options for patients with rare diseases. The Group owns the exclusive license of this product in the Mainland China.

R&D Investment

Innovative R&D is one of the key drivers for the sustainability of the pharmaceutical industry. Focusing on patients' needs, the Group continuously increases R&D investment and promotes related work such as deployment, clinical development and commercialisation of products for serious diseases, chronic diseases and rare diseases. In 2023, the Group had a turnover of RMB 9,472.2 million in the case that all medicines were directly sold by the Group, and its total R&D expenditures (including both capitalized and expensed amounts) increased by 11.7% to RMB 815.9 million in 2023. In the case that all medicines were directly sold by the Group, total R&D expenditures as a percentage of turnover increased by 1.6 percentage points to 8.6% in 2023 comparing to last year.

Improving Healthcare Accessibility

Chinese Market

The Group attaches great importance to the needs of patients in different regions, of different ages and suffering from different diseases and is committed to providing them with safe, effective, accessible and affordable treatment options. The major marketed products of the Group have sufficient medical evidence, good reputation and relatively low daily treatment costs.

The Group takes accessibility improvement of pharmaceutical products in the entire country as its mission and actively promotes the expansion and penetration of the county-level and lower-tier markets, as well as economically backward areas. In the product pricing process, the Group conducts fair pricing through regional tendering procedures before sales. Meanwhile, the Group actively participated in the NRDL negotiation with its innovative products and promoted the implementation of medical insurance and drug access, further improving the affordability and accessibility of medicines for patients. During the Reporting Period, the Group's 3 innovative products approved for marketing, including Diazepam Nasal Spray, Tildrakizumab Injection and Methotrexate Injection (Psoriasis), were included in the NRDL, which have significantly improved the accessibility and affordability of innovative products. In addition, the Group's orphan drug, Tetrabenazine Tablets, was also included in the NRDL. Furthermore, among the Group's core marketed products, over 60% of which were included in the NRDL, and nearly 20% of which were included in the National Essential Drug List, which effectively relieved the burden of medication on patients.

In order to improve the efficiency of the pharmaceutical supply, the Group supplies the pharmaceutical products to the local distributors, and provides reasonable packaging planning in advance for the delivery and transportation of the pharmaceutical products. The Group also offers suggestions on the most optimal transportation solutions to maximize the efficiency of the supply chain, so as to minimize the procurement costs for customers as far as possible and to ensure the timeliness of the pharmaceutical supply.

Together with industry associations, public welfare foundations, domestic and overseas medical experts, medical personnel and other industry participants, the Group organizes academic interactions among countries, regions and hospitals at different levels, exchanging and discussing cutting-edge medical technologies, academic information and outstanding clinical practice experiences, which not only strengthens the sharing of knowledge and experience but also enhances the quality and efficiency of medical services, jointly promoting the development of the medical and healthcare industry in China.

Meanwhile, the Group enhances the popularization and publicity of disease and health knowledge through diversified methods to raise public health awareness. During the Reporting Period, actively cooperating with industry associations and public welfare foundations in the relevant disease fields, the Group conducted disease knowledge promotion and charity clinics for patients via patient caring programs:

Epilepsy patient caring program

The Group reached strategic cooperation with China Association Against Epilepsy (CAAE) to establish the "CAAE-CMS Patient Caring Fund" . In conjunction with CAAE, the Group encouraged using innovative ways to empower the management and education of people with epilepsy, launching disease education and popularisation activities, improving the understanding and cognition of epilepsy among patients and the public.

Public lecture on inflammatory bowel disease (IBD)

The Group co-organized a large-scale public lecture on the theme of "Working Together to Build Health" with the Gastroenterology Branch of Chinese Medical Association and Beijing Medical Award Foundation to raise public awareness and concern about IBD, which attracted more than 420,000 online viewers and more than 100 hospitals organised patients to attend.

Science-publicity activity for vitiligo patients

The Group, in collaboration with the Hainan Boao Lecheng International Medical Tourism Pilot Zone Administration, held a special education program on vitiligo, inviting a number of dermatologists to introduce the disease, with a total of more than 20,000 viewers of the live streaming.

Charity clinic visits for glaucoma patients

The Group joined hands with the AIER EYE Group to organize 4 clinic visits in Shanxi Province to provide on-site charity services for glaucoma patients, helping improve the healthcare accessibility for local patients.

In addition, the Group launched a disease knowledge popularization column "CMS Sees" on its Wechat official account to further promote the popularization of disease knowledge. During the Reporting Period, the Group published 6 articles on its Wechat official account to disseminate the knowledge of diseases related to psoriasis, arthritis, epilepsy, vitiligo, eye diseases and IBD to the public in an easy-to-understand format.

Southeast Asian Market

The Group is gradually expanding its business from China to emerging markets such as Southeast Asia. Focusing on the unmet clinical needs in the region, the Group has established a Southeast Asia business, Rxilient Health, to develop high-quality and relatively affordable products with differentiated advantages. Rxilient Health is steadily promoting the construction of its systematic platform covering product "introduction, R&D, manufacturing, formulation CDMO (Contract Development and Manufacturing Organization), commercialization" . During the Reporting Period, the Singaporean joint venture of the Group with Pharmaron and others, completed the purchase of certain production machines and equipment from a Singapore manufacturing plant. It will serve as the plant and site for the joint venture to carry out pharmaceutical formulation, finishing, and packaging business, accelerating the formulation CDMO business development in Singapore, facilitating the rapid entry of global pharmaceutical enterprises into Southeast Asia and enabling more efficient internationalization of Chinese pharmaceutical enterprises. The series of progress is expected to accelerate the commercialization of global quality products in emerging markets such as Southeast Asia and further improve the capabilities of pharmaceutical research, production and supply in the region.

Rxilient Health has branch offices in Singapore, Malaysia, the Philippines, Thailand, Indonesia and Vietnam, and employs local talents from Southeast Asia to run the business, providing employment opportunities and positions for local people.

Rxilient Health also actively promotes the re-education of local healthcare professionals in Southeast Asia. During the Reporting Period, Rxilient Health actively organized or participated in interactive exchanges and academic activities that were held for healthcare professionals to discuss cutting-edge medical technologies and outstanding clinical practices, which empowered local healthcare practitioners to build up their professional competence and treatment capabilities.

Meanwhile, Rxilient Health is committed to bringing more quality and affordable pharmaceutical products to emerging markets such as Southeast Asia. The Group has quality products resources and has actively licensed out products that meet the clinical needs of the Southeast Asian market to Rxilient Health, with the ownership for multiple products has been changed to Rxilient Health. At the same time, with its rich industry resources, the Group supports Rxilient Health to reach collaborations with global pharmaceutical or biotechnology companies in Southeast Asia. During the Reporting Period, Rxilient Health and Junshi Biosciences jointly set up a joint venture in Southeast Asia and entered into a cooperation agreement on Toripalimab, the first China-originated innovative anti-PD-1 monoclonal antibody approved for marketing in China and the U.S., providing high-quality China-originated innovative products to Southeast Asia patients. As at the end of the Reporting Period, Rxilient Health had established a diversified product matrix in Southeast Asia covering oncology, metabolism, dermatology, ophthalmology, central nervous system and other disease fields, and several products had either entered the registration stage or had been approved for marketing and commercialisation in Southeast Asia.

For products that have been approved for marketing in the Southeast Asian market, the Group adopts fair and appropriate pricing strategies based on the affordability of the products for different markets between and within countries, taking into full consideration the level of economic and industrial development of different countries, so as to improve the accessibility of products in developing countries at reasonable and affordable prices. The Group' s considerations include the local manufacture and supply level, competitor' s price, economic growth rate, per capita income level, and healthcare system level. Meanwhile, the Group supports suppliers to deliver their products directly to the Southeast Asian market, helping improve the efficiency of the drug supply chain in Southeast Asia and benefiting more patients.

RELIABLE AND RESPONSIBLE CITIZEN

China Medical System always adheres to the principle of “Compliance First”, carries out responsible business operations with high business ethics standards, constantly improves internal governance and operation efficiency, 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:	Progress in Year 2023:
• Maintain 100% employee coverage of business ethics training every year.	• A Group-wide study and training of the 2023 revision of *CMS Compliance Management Policy* was conducted, covering all executive directors and employees (including interns), with employee coverage of 100%.
	• The Group required all employees (including interns) to study and sign the *CMS Self-discipline Commitment*.

Providing high-quality products and services

Targets for Year 2030:	Progress in Year 2023:
• Constantly improve the quality management in the entire process of product life cycle.	• The Group actively organised product quality and safety related trainings.
	• The Group conducted internal and external audits related to the quality of products and services and optimised the internal quality management system and measures accordingly.
	• The Group conducted emergency drills for drug safety incidents and enhanced responsive measures for drug safety risk management.

Adhering to High Ethical Standards in Business Operations

Business Ethics

CMS adheres to high-standard business ethics and resists various forms of improper and unethical business practices. On the basis of strict compliance 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 endeavours to establish a scientific and effective risk identification and management system. The purpose of this system is to comprehensively monitor, prevent and control risks related to compliance and business ethics that may occur in different segment of operation, so as to ensure the robust and sustainable development of the Group.

The Audit Department of the Group is responsible for conducting internal audits among the Group and its subsidiaries, including audits related to business ethics and anti-corruption. The Group's audit plan covers all the operating entities in at least annually, and the audits on business ethics cover all the business lines. For issues identified in audits, the Audit Department of the Group will report to the executive directors as stipulated in the *CMS Internal Audit Policy*, determine the rectification measures, and dynamically track on the progress of corrective measures and rectification of the audited units. In cases where the issue involves corruption, fraud or other violations of business ethics, the Group will investigate and handle it according to the *CMS Anti-fraud Management Policy*.

Each year, the Group's annual audit plan, audit findings, risk alerts, improvement measures and work progress will be reported to the Board of Directors. The Audit Committee under the Company's Board of Directors is responsible for assessing the work plan and results of internal and external audits, in order to sufficiently assist the Board in supervising and reviewing the effectiveness of the Group's risk management and internal control system, and to timely identify significant risks that may affect the Group's operation.

During the Reporting Period, the Board of Directors of the Company has assessed and reviewed the results of internal and external audits related to business ethics and anti-corruption, the improvement measures, work progress and related matters.

The Group continuously improves its risk control system, policies and work procedures to fully identify and control risks related to business ethics, including anti-trust, anti-competition, and anti-corruption/bribery, etc. The Group has established a Compliance Management Committee chaired by Mr. Lam Kong, the Chairman and Chief Executive and President of the Group, and the committee members include executive directors and key management personnel of the Group, such as the Chief Operating Officer, the Chief Financial Officer, general managers of centres and department heads. The Compliance Management Committee is responsible for coordinating and supervising the issues related to compliance and business ethics in the Group' s marketing and promotion activities, and the committee holds meetings to systematically review the compliance management, including the review on the establishment and update of compliance system, and the plans and results of compliance special inspections and unannounced inspections, etc. Meanwhile, the Compliance Department of the Group reports directly to executive directors and senior management on the potential compliance risks and the progress of internal control, to further enhance the prevention and control of internal system risks.

Anti-corruption Management

Anti-corruption management is one of the core elements of the Group' s compliance management system. The Group has established an inter-departmental anti-corruption supervision system and systematic management policies and employee training mechanism to comprehensively improve the capability of preventing and controlling corruption risks within the Group.

During the Reporting Period, the Group did not report any concluded legal cases regarding corrupt practices. In terms of prevention of bribery, extortion, fraud and money laundering, the Group did not violate any relevant laws and regulations that have significant impact on the Group' s business operations.

Regulations and Policies

The Group has established *CMS Anti-fraud Management Policy*, *CMS Internal Audit Policy*, *CMS Compliance Management Policy* and other regulations and policies, which explicitly require all employees to refrain from engaging in any improper practices such as bribery, corruption, fraud, extortion, money laundering, paying or accepting of any forms of facilitation payment within the Group or during the interaction with stakeholders such as affiliated companies, media, governments, distributors, suppliers, customers, and medical personnel.

The Group evaluates and analyses the latest laws and regulations and regulatory trends for the pharmaceutical industry at least once a year, and assesses, reviews, and updates the internal regulations and policies related to anti-corruption and compliance management after a retrospective review of the historical work. The relevant policies and regulations can only be issued and applied after the inter-departmental modification and review and the approval and signing by the executive directors. During the Reporting Period, by referring to the latest regulatory requirements of the industry, the Group made comprehensive revision to the *CMS Compliance Management Policy*, and updated and revised the relevant policies of the subsidiaries at the same time to enable the top-to-bottom implementation of the changes.

Education and Training

The Group has established a regular training mechanism on business ethics and anti-corruption, which covers members of the Board, management and all employees (including interns). The Group attaches importance to the anti-corruption training for board members and keeps enhancing their awareness of compliance and related ability. The Group also supports directors to participate in various trainings organised by professional institutions. During the Reporting Period, the Group has provided training to all members of the Board on anti-corruption and business ethics, including regulatory requirements of the industry, industry news, the Group' s compliance system and management strategy, directors' responsibilities, etc.

The Group also actively provides training and publicity related to anti-corruption and business ethics to all employees, and has established a complete training system. In the annual meeting of the Compliance Management Committee, the Compliance Department actively provides training on anti-corruption and business ethics to the executive directors and the senior and middle management team, and convey the latest compliance requirements of the industry and the regulatory authorities. Since 2019, the Group has organised study and training on policies related to anti-corruption and business ethics for all employees for five consecutive years. Moreover, the Group has included anti-corruption related content in multiple regular employee trainings, including trainings for new employees; and the Group also includes compliance-related quizzes in the training for employees in promotion and sales business, and links the quiz results to the team appraisal, in order to enhance employees' attention. Meanwhile, the Group releases monthly compliance news letters to all employees, provides training on policy interpretation, and makes on-line videos for the interpretation of policy revision or update. In addition, the Group provides a digital database for all employees to enquire and gain compliance knowledge.

During the Reporting Period, the Group has organised various trainings on anti-corruption and business ethics for approximately 40 times, in which the training contents covered the interpretation of compliance policies, work regulations, compliance Q&As and guidance, to infuse the compliance concept and constantly create an organisational atmosphere of integrity and efficiency.

100% Employees Coverage of Business Ethics and Anti-corruption Training

Monitoring and Assessment

The Group has also constructed a business ethics and anti-corruption monitoring system covering the entire process of business operation, and the Company' s Board of Directors is responsible for overseeing the effectiveness of the compliance risk control procedures, as well as directing, supervising and approving the relevant work on anti-corruption and business ethics of the Group.

The Group has a well-established inter-departmental coordination system to comprehensively monitor and prevent risks in anti-corruption in the Group and to ensure the effective implementation of various policies.

The Compliance Department

The Compliance Department is responsible for maintaining the Group's management regulations and policies related to anti-competition, anti-bribery, anti-corruption and business ethics, improving and optimising the working framework, code of conduct and systems, monitoring the daily implementation of the relevant policies and conducting close-loop management;

The Legal Department

The Legal Department is responsible for controlling the legal risks of each stage of the Group's 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 defense for the Company's risk management, the Audit Department has established the risk-management-oriented audit system, covering the aspects of finance, internal control, operation management, information system, fraud investigation of the Group.

The Audit Department conducts internal audit for all the operating entities of the Group at least annually, to identify and control the compliance risks in operations. During the Reporting Period, the Audit Department carried out business ethics and anti-corruption audits for the Group and its subsidiaries, to identify and assess the risks in the operation process of procurement, promotion, marketing and investment, and continuously tracked the implementation of improvement measures.

13 Internal Audits Related to Business Ethics and Anti-corruption

Additionally, during the Reporting Period, the Group was subject to regular annual compliance specialised audits by international partners, and no significant risks related to business ethics and anti-corruption were identified from the internal or external audits above.

If an employee is suspected of improper acts in business activities, such as corruption, bribery, etc., upon investigation and confirmation, the Group will issue a warning to the employee and impose the corresponding disciplinary action according to the severity of the act. The punishment may affect the employee' s promotion, and in serious cases, the employment relationship may be terminated. If the act constitutes a crime, the employee will be transferred to the judicial authority for criminal responsibility in accordance with the law. The Group has required all employees to study and sign the *CMS Self-discipline Commitment* for four consecutive years to keep them more alert to improper commercial acts.

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 bribes from any affiliated units or suppliers
- Not offering bribes to or soliciting bribes from any business-related personnel

Responsible Marketing

The Group always adheres to high-standard business ethics to practise responsible marketing, and conducts promotion, marketing and interactions with healthcare professionals as well as medical institutions in a legal and compliant, objective, scientific and professional manner. The Group has formed a set of comprehensive and consistent control mechanism for responsible marketing, which realises the whole-process of "before, during and after" control of marketing and promotion activities through system and policy formulation, education and training, monitoring and assessment, communication and complaints/appeal.

During the Reporting Period, there was no litigation cases against the Group regarding providing overstated/misleading information of promotion or cheating consumers.

Regulations and Policies

On the basis of strictly abiding by compliance promotion-related laws of the place of operation, the Group has established comprehensive internal management system and policies to regulate and guide the entire process of marketing and promotion activities. The Group has formulated the *CMS Compliance Management Policy*, which is applicable to all the full-time and part-time employees as well as interns of the Group and its subsidiaries, to explicitly prohibit any marketing and promotion with exaggerated, deceptive, false and misleading content, or the use of commercial bribery or other illegal means in marketing.

To guarantee that the marketing and promotion activities are conducted for the purpose of demonstrating the product efficacy objectively and precisely, all forms of marketing and promotion activities, contents and materials of the Group are subject to stringent internal review and receive approval before publish for use, so as to ensure the product information for promotion is consistent with the information required by laws and regulations and approved by national regulatory authorities. The Group files qualified academic promotion materials with unified serial numbers, and uploads the filed materials to a database for use in marketing and promotion activities. The Group also requires that all advertisements and promotions of prescription drugs are subject to application for advertisement approval from relevant government departments, which can only be published in the professional publications jointly designated by the Ministry of Health and National Medical Products Administration (NMPA) after approval is granted.

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 comprising regional managers and compliance specialists in each business regions to improve the efficiency of responsible marketing management and control through specialised posts and dedicated personnel.

25 Times
Responsible Marketing Related Trainings

100%
Employees (incl. interns) Coverage of Responsible Marketing Related Trainings

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

- Organising induction training and preparing quizzes for new employees in marketing and promotion business on a monthly basis, with the participation and passing rate of the quiz linked to the annual performance of the regional compliance management team;
- Holding monthly compliance communication meetings with the promotion business team, presenting and elaborating the latest control requirements and implementation status of responsible marketing;
- Providing knowledge training of all products to all employees in marketing and promotion business, to ensure that employees can convey compliant and accurate product information in the marketing process;
- Publishing and interpreting latest industry compliance policies on the Group's internal digital communication platform on a monthly basis, to facilitate the management level and employees to learn the relevant developments of responsible marketing more conveniently;
- Timely providing on-line training to all employees in case of updates on internal responsible marketing system or policies, and requiring all employees in marketing and promotion business to participate in the training and pass the relevant quiz;
- Setting the "I want to ask a compliance question" column to provide a convenient and timely channel for employees to ask questions about responsible marketing; the Compliance Department will reply within one week upon receipt of the relevant enquiries;
- Establishing a smart Q&A platform, to provide employees with a channel to gain compliance knowledge and a tool to acquire real-time answers to relevant questions.

Monitoring and Assessment

The Group has established a comprehensive monitoring and assessment mechanism for responsible marketing, whereby the Operation Management Department of the Group Operations Centre directly carries out systematic planning, control and early warning of operation objectives, product strategies and business progress of each operation responsibility centre of the Group. Meanwhile, the Compliance Department of the Group takes the lead in overseeing the implementation of responsible marketing, rigorously reviews activity plans, and performs unannounced inspections in the course of marketing and promotion activities. In addition, the Group has established stringent requirements for the application, payment and reimbursement of expenses for promotion activities. The Compliance Department, the Finance and Accounting Department and the Legal Department collaborate together in the verification of contracts, on-site photographs, invoices and other certificates related to the activities, so as to examine the compliance of the marketing and promotional activities from the source. After the completion of the marketing and promotion activities, the Compliance Department of the Group formulates the monthly analysis, examination and assessment report based on the monthly routine monitoring, special inspection and the compliance performance assessment, and report to the executive directors.

The Audit Department of the Group reinforces the monitoring of responsible marketing by auditing the compliance, authenticity and integrity of marketing and promotion expenses of all subsidiaries and operation responsibility centres in marketing and promotion business. Besides, the Group regularly engages third-party institutions to conduct extra special audits and issue audit reports on an annual basis, to ensure that the Group continues to operate with the high-standard compliance requirements.

During the Reporting Period, no significant risk related to responsible marketing was identified within the Group according to the related unannounced inspections and audits.

In addition, the Group conducts monthly assessments on compliance and responsible marketing of employees in marketing and promotion business, and the assessment results are included in the overall performance assessment of these employees and are linked to their performance bonuses and promotions. In case an employee is proven to have non-compliant behaviour, it may affect the employee' s bonus and result in a warning sanction which may affect his/her promotion, or in serious cases, the employee may be dismissed. To reflect the Group' s intention that compliance and responsible marketing related assessments are educational rather than punitive, the fines related to compliance will be transferred to the bonus pool to award compliance outperformers, and therefore to motivate all employees to align with positive behaviours. Besides, if the employees have any concerns about the assessment results, they could make an appeal through the employee grievance mechanism of the Group, or submit the assessment results to the Compliance Management 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.

During the Reporting Period, the Group opened a new whistleblowing channel to all employees on its internal communication platform.

Whistleblowing Channels

- Telephone: 0755-82416868 ext. Compliance Department
- Email: compliance@cms.net.cn
- Official website: www.cms.net.cn
- Internal communication platform: "Employee Voice" Platform
- 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 real name and anonymously, and has established a systematic process for whistleblowing handling, which can be forwarded to the Audit Committee under the Board of Directors for review as requested by the whistleblower.

Acceptance	Carry out detailed acceptance registration, and keep proper record of the whistleblowing materials and evidence.
Handling	After whistleblowing is accepted, the content of the whistleblowing and information will be verified and evaluated. If the whistleblowing content meets the conditions for investigation, investigations will be arranged according to the position of the person being reported, and the investigation results will be recorded. Based on the principle of avoidance, the person being reported 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 department/personnel to set up a working team to conduct the investigation. After verification, the investigation records will be submitted to the management or the Board of Directors for review. The whistleblowing case will be handled strictly in accordance with the evaluation results, and will be announced within the Group.
Result Notification	Within 3 working days after the completion of the case, the handling department will proactively provide feedback to the whistleblower in spoken or written, or in other proper forms. The whistleblower has the right to enquire about the handling progress of the whistleblowing and the handling personnel shall reply in a timely manner.
Archive Management	Anti-fraud personnel shall keep all the documents throughout the process of the acceptance, registration, investigation and reporting of the whistleblowing in a secure manner. After the end of the whistleblowing examination or investigation, the relevant whistleblowing materials shall be archived as confidential documents.
Remedial Measures	After the process is completed, remedial measures are taken in a timely manner to reassess the control of the affected business unit, 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. Anonymous reports are allowed, and the whistleblower's personal information and reporting materials will be kept confidential. The whistleblower's identity will not be disclosed without the whistleblower's consent.

In the case that any handling personnel intentionally disclose the whistleblower's information or the whistleblowing content, or take a negative and negligent attitude towards the reported matter, or fail to respond to the reasonable whistleblower's request for protection when the whistleblower is concerned about retaliation or unfair treatment, the whistleblower may directly report that to the Board of Directors. The Group will take disciplinary action against the relevant personnel in accordance with the seriousness of the violation. In addition, the Group strictly prohibits any form of harassment, harm and retaliation against the whistleblower, and such actions will be dealt with severely once confirmed and verified.

Privacy Protection and Information Security

The Group regards information security and privacy protection as an important foundation for stable operation, and protects the private information of customers and other stakeholders in accordance with the *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 require all employees to maintain strict confidentiality of the private information of customers.

The Board of Directors of the Company is responsible for monitoring the management and implementation of privacy protection and information security of the Group, including the latest work progress, audit results, risk identification and improvement. During the Reporting Period, the ESG Committee under the Board of Directors of the Company has reviewed the work progress of the Group related to privacy protection and information security.

The Digital Centre (including IT department) of the Group is responsible for the construction, maintenance and implementation of the information security management system, and it vigorously proceeds the improvement of regulations on information security management and data access management, to ensure the daily implementation of information security work. The Group protects the information and privacy data of employees, customers and other stakeholders through internal document separation, document encryption, and other methods. The Group also establishes an authorisation mechanism for access to customer information, and the employees are required to inquire and maintain customer data with authorisation, and unauthorised employees are not permitted to access, export or copy any customer information. Additionally, the Group has signed confidentiality agreements with employees to convey and emphasise the importance of confidentiality duties and the legal consequences of violations, to further enhance employees' awareness of confidentiality.

In addition, for suppliers who may have access to private information of consumers, the Group strictly restrains suppliers' behaviour through contracts and agreement signing, to protect customers' privacy rights. During the Reporting Period, the Group commenced an audit on information security for a third-party logistics service supplier, and conducted a comprehensive assessment of the data access management, cybersecurity, information management, hardware configuration, etc., to ensure that the supplier meets the Group' s high requirements on information security and privacy protection.

The Group also actively conducts self-inspection on information security risk points and has completed the deployment of several information security risk alert systems, which provides real-time detection and effective alerts for network anomalies, data backups, and equipment anomalies, etc. Since 2021, the Group has introduced a third-party professional institution to conduct information security audits annually, to help the Group identify the information security and privacy protection risks and timely formulate corresponding prevention and control measures. During the Reporting Period, the Group has completed the self-inspection on information security risks, and engaged a third-party professional institution to conduct vulnerability scanning of information security and verification of information asset security. Based on the audit results, the Group made targeted upgrading to the information security protection system to ensure that relevant risks can be fully prevented and resisted. To ensure audit quality and effectiveness, the Group conducted a comprehensive assessment of the qualifications of the auditors, including technical team, external qualification, and market rankings, etc.

In addition, the Group continuously improves the internal privacy protection and information security emergency response mechanism, and enhances its ability of internal risk control through emergency drills. During the Reporting Period, the Group conducted two data system disaster recovery drills, which simulated a sudden failure occurred in the business system and the disaster recovery system was activated for emergency response, to ensure that quick responses can be made after failures occur and the impact on business continuity can be minimised.

The Group continues to strengthen the construction of information security culture, and includes information security training in the induction training for new employees. In addition, since 2019, the Group has provided trainings to all employees on a yearly basis. regarding privacy protection and information security, together with the information security knowledge quizzes to help employees deepen their understanding and enhance their ability to prevent from and respond to information security incidents. The Digital Centre of the Group sends monthly reports on information security to all employees via the internal communication platform, shares the latest information security practices and status of the Group as well as the IT related practical tips, which further standardises the employees' operations on computer and network and prevents 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 also actively organises training for information security related technicians. During the Reporting Period, the employees of the Digital Centre have received trainings on system development and other professional skills required for the operation of business, which helped to enhance their professional competence.

Intellectual Property Protection

The Group regards intellectual property rights as its important assets, including but not limited to trademarks, patents, copyrights, and trade secrets, etc. The Group has established an internal database for intellectual property documents, covering trademarks, patents, copyrights, etc., which provides a basis for the management and maintenance of intellectual property of the Group. The Group' s intellectual property management permeates through key operation processes such as product investment, research, registration, promotion and sales, etc.

If any suspected infringement on intellectual property is detected, the Legal Department of the Group will protect the Group' s legitimate rights and interests through administrative and judicial approaches as appropriate, and will record the process of defense. In addition, the Group has incorporated the intellectual property management into the scope of internal control audits, regularly assesses and identifies the risk points in the acquisition, maintenance and renewal of intellectual properties on a yearly basis, and optimises the management measures accordingly.

The Group has formulated *CMS Intellectual Property Management Policy* to regulate the daily maintenance, risk identification, dispute settlement and other work related to intellectual property rights, and clearly stipulated that all employees of the Group should take effective measures or ask the Legal Department for assistance to actively identify, assess and avoid potential intellectual property risks. In addition, the Group also expressly forbids employees to disclose corporate trade or technical confidential information in *CMS Anti-fraud Management Policy*, to continuously raise their awareness of intellectual property protection through regulation implementation and related education.

While protecting its own intellectual property rights, the Group respects and safeguards the interests of all owners of intellectual property rights related to the Group' s business, and strictly complies with relevant laws and regulations, to avoid infringing on the intellectual property rights of others. The Group has opened multiple channels of whistleblowing to the general public and if any infringement is found, whistleblowing can 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 adheres to the mission of "offering competitive products and services to meet unmet medical needs" , and attaches great importance to product responsibility and ensure the provision of high-standard products and services with a comprehensive quality management system. The Group strictly abides by applicable national and local laws and regulations regarding product and service quality, product specification and labels, product complaints, 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, marketing application, and post-market surveillance. The Group also leverages the digital drug traceability and pharmacovigilance system throughout the product life cycle to comprehensively control the 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, change administration, deviation management and correction, prevention management, and 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 safety, pharmacovigilance, product recall, specification and label management, etc.

Moreover, the Group provides regular trainings on product quality and safety management for employees involved in drug R&D, production and sales and promotion, and the contents include 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 employees' awareness of quality risk.

~70% Employees Coverage of Product Quality and Safety Related Trainings

R&D Quality Management

The Group has established a quality control system for research and development, 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. The Group actively invited experts in quality, medical and medication safety fields as consultants to review and inspect the establishment of the internal quality system, and actively carried out targeted improvements to enhance the effectiveness of control over product research and development quality. Meanwhile, the Group has formulated the *CMS Management Standards for Compliance in Clinical Research*, which regulates the work related to clinical research in the Group, including clinical operation, quality assurance, medical strategy and pharmacovigilance.

The Group has established a Medical Department 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 archive 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 timely rectification, and to ensure that various clinical trials fully comply with the requirements of national regulations and industry norms. Moreover, all human clinical trials of the Group are conducted after obtaining approval from the drug administration authorities and were reviewed as required by law and follow the ethical principles in the *Declaration of Helsinki*. 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 freedom to choose, and that they can refuse or withdraw from the clinical trial at any time, thereby protecting their rights and interests.

The Medical Department of the Group carries out regular self-inspection on all ongoing clinical trials on a yearly basis and receives external training and assessment on internal clinical inspection capability. Meanwhile, the Audit Department of the Group also conducts internal audits on clinical research projects, covering research documents, process and safety risks, etc., to enhance its ability to prevent and control the quality risks in research and development. In addition, the Group also accepts external inspections from cooperative partners on the Group' s research and development quality management system and the implementation of product clinical trials.

During the Reporting Period, the Group has completed 1 relevant internal audit and 3 external inspections, and no significant quality risks in research and development and no serious deficiencies were noted from the audit and inspections.

Product and Service Quality Management

The drug products promoted and sold by the Group are mainly produced by manufacturers (suppliers) located in China, Germany, Denmark, the United Kingdom and France, in which the manufacturers are in strict compliance with the production quality management regulations of the countries where the drugs are produced and have high quality standards. A small fraction of the products are self-produced (During the Reporting Period, the sales contribution from self-produced products only accounted for around 0.9% 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 administration authorities (e.g., China NMPA). In addition, the Group' s subsidiaries which are mainly involved in business in drug promotions and sales business have all complied with the *Good Supply Practice of Pharmaceutical Products* ("GSP"). The subsidiaries which are mainly involved in drug manufacturing business have complied with the *Good Manufacture Practice of Pharmaceutical Products* ("GMP"), and have also strictly complied with relevant regulations regarding drug promotion and sales and manufacturing. In accordance with *Regulations on Internal Audit of Quality Management System* and *Operating Procedures for Internal Audit of Quality Management System*, the Group designates the Quality Management Department of subsidiaries involved in drug promotion and sales business as well as manufacturing to organise comprehensive internal audits of each department on a yearly basis. In case of significant changes to the quality system, special audits are organised and deficiencies are timely rectified.

During the Reporting Period, the Group has completed 2 thematic audits and 1 annual audit on quality management among the promotion and sales-related departments, as well as 4 self-inspections towards manufacturing-related departments on the production quality management system, to ensure that the quality assurance and risk control procedures of the Group are effectively implemented. Moreover, the Group has formulated corresponding corrective and preventive measures to address the relevant issues, and the correction has successfully completed according to the plan.

Meanwhile, the Group actively responds to supervisory inspections from external regulatory authorities. During the Reporting Period, the Group has accepted and successfully passed 11 supervisory inspections from drug administration authorities, concerning the quality management of drug promotion and sales as well as manufacturing. 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

For the self-produced products, the Group' s subsidiaries in pharmaceutical manufacturing business have established a quality control system covering material supply, product manufacturing, outgoing quality inspection, product launch and recall, and other core operational aspects. In order to strengthen the quality control of raw materials for self-produced products, the Group has established a comprehensive internal system covering supplier assessment, selection, continuous monitoring and updates. The Group establishes a list of qualified suppliers for raw materials, and categorises the qualified suppliers according to the importance of the materials supplied. Meanwhile, the Group pays close attention to the key material suppliers who have a significant impact on drug quality and medication safety, and conducts on-site inspection and quality audit among these key suppliers on a yearly basis. The Group also evaluates the material quality of the suppliers in the previous year, and updates the list of qualified suppliers based on the results. When purchasing materials, the Group prioritises qualified suppliers with high comprehensive scores, to control the quality of self-produced products from the source. In addition, for incoming materials, the Group conducts strict incoming inspection by checking the appearance of products and verifying product-related information, etc. The Group also conducts sampling inspection according to *Sampling Management Procedures*, and releases the materials for production after they are accepted as qualified, with a traceable material information database to further standardise the material control process.

During the product manufacturing process, the Group regularly checks the status of production equipment, strictly records the production parameters and the operation process, and assigns dedicated personnel to monitor the entire manufacturing process. For finished products, the Group inspects each batch of products to ensure the products are qualified and well-packed before entering the market. For specific products, samples are taken in strict accordance with national standards to test stability before delivery, to ensure that product quality aligns with national pharmaceutical standards. The Group regards production quality as one of the elements in evaluating the operation objectives of production-related departments. Led by the Quality Management Department, a Quality Management Team composed of heads of each production-related department, has been organised to inspect the achievement of quality objectives of each entity and conduct quality objective assessment at least once a year. Meanwhile, the Group has established the *Quality Policy, Target and Plan Management Regulations*, which explicitly include the product qualification rate, evaluation score for production equipment maintenance and quality training completion rate into the annual performance assessment of employees, so as to strengthen the internal awareness of product quality.

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

Quality and Safety Management of Finished Products

For imported drug products, the Group strictly follows the requirements of national laws and regulations and undergoes stringent inspections by the Institute for Food and Drug Control, including the first batch of imported drugs, biological products, products after standard change or manufacturing process alteration, and when deemed necessary by the Group. The Import Inspection Report shall be issued as well. Upon the arrival of the imported and domestic drug products, the Quality Management Department of the corresponding subsidiaries in drug operation business of the Group will conduct batch-by -batch inspections as per GSP requirements, and verify the product inspection reports to ensure that the reports comply with national product standards or product quality approved by the NMPA. In case of any product quality issues, the Group will process in accordance with the *Unqualified Product Management Procedure* and send 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 Quality Management Department of the relevant responsible subsidiaries of the Group conducts an annual review of 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 warehousing and storage safety of products, and has 13 warehouses with well-equipped storage facilities according to the characteristics of different products. The Group has formulated *Regulations on Drug Storage* and *Regulations on Warehouse Handling Area Working Safety Management* to ensure that staff on duty understand their responsibilities and work content, and are clear about the warehousing process and handling requirements. The Group has also formulated *Regulations on Warehouse Fire Safety*, *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 of warehouses. The Group has drug maintenance personnel in the warehouse to have real-time monitoring of the equipment and the storage condition of the drugs in accordance with GSP and management system as well as operating procedures, and quarterly summarise and analyse the drug storage and warehousing status.

The Group is highly aware of the storage and transportation safety of the pharmaceuticals under special control to ensure legal operation and safe management. During the Reporting Period, the Group has formulated the regulations on safety management of Diazepam Nasal Spray, which is a psychotropic drug of category II and has received NMPA approval in the Reporting Period, and has set up a separate warehouse for special drugs, with monitoring equipment installed and alarm device connected to the public security system, in order to enhance the quality and safety management of drugs.

Product Traceability Management

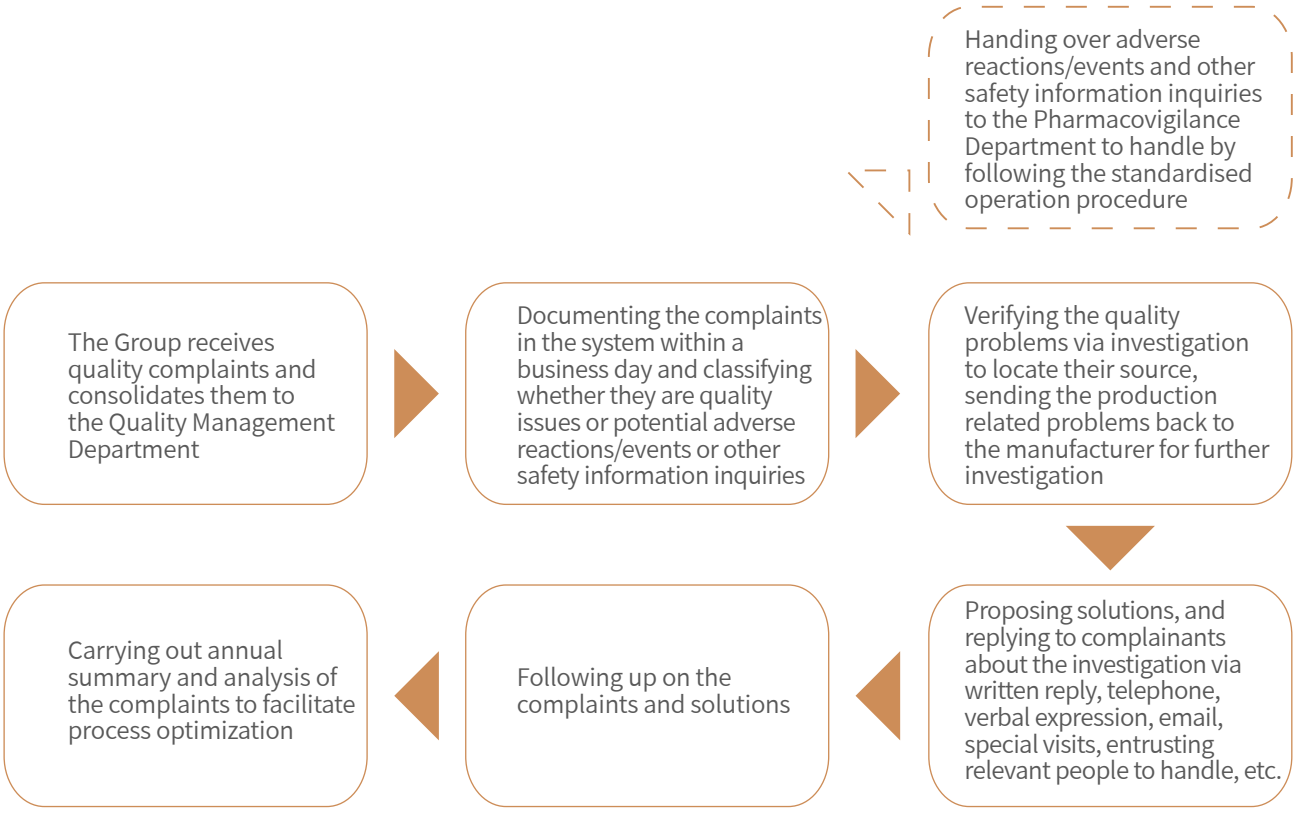
The Group has formulated *Drug Traceability Management Policy* and established a complete product information database within the digital system in compliance with GSP requirements with the help of the electronic traceability code. The electronic traceability code of the drug packaging box provides a unique traceable mark for the minimum packaging unit, which realises the information-based traceability of the minimum packaging unit of drugs, ensuring that the drugs can be "traced back to their origin and destination" and providing more effective and comprehensive quality control support for the procurement, storage, sale, transportation of the drugs. In addition, the Group has been enrolled in the "Mashangfangxin Platform" to share drug traceability information with its downstream 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 Approval of Design Draft of Drug Insert Sheets and Labels*, so as to clearly define the control requirements on drafting, altering, revising, reviewing 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 and other changes related to drug insert sheets and labels, the Registration Management Department 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 internal review and confirmation according to the procedures. Once the alteration application is approved by regulatory authorities, the Registration Management Department of the Group will revise and modify the product insert sheets and labels in accordance with the official approval documents. The modified product insert sheets and labels will be put into use after the review and approval from the person in charge of the Registration Management Department and relevant partners.

Product Complaints Management

The Group has established a complete customer complaint handling system, and has formed the *Regulations on Quality Complaints* and *Operating Procedures for Quality Complaints*, which 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. Upon receipt of complaints on product quality, all departments and employees of the Group shall collect relevant materials as much as possible, and forward the complaints to the Quality Management Department of the corresponding subsidiaries in time via internal communication methods. After receiving complaints, the Quality Management Department shall timely record relevant information into the system, and conduct investigation and evaluation, follow-up handling, timely feedback, subsequent tracking, archiving and documentation and other processing procedures.



Customer Complaint Handling System

100%

Response and Handling Rate for Product and Service Quality-Related Complaints

Pharmacovigilance and Product Recall

The Group emphasises the establishment and optimisation of pharmacovigilance (PV) and product recall mechanisms. The Group has established a comprehensive pre-marketing and post-marketing pharmacovigilance system and a complete product recall management system, operating procedures and handling plans in accordance with laws and regulations, industry guidelines and other requirements, and fully deploys and implements quality and safety assessment, risk identification and control throughout the product life cycle from research and development to post-marketing medication, so as to safeguard the medication safety of the public.

Pharmacovigilance

The Group strictly adheres to *Good Pharmacovigilance Practice*, *Measures for Reporting and Monitoring of Adverse Drug Reactions* and other relevant national laws and regulations, and continuously improves its management system of pre-marketing and post-marketing pharmacovigilance, which includes the *Emergency Plan for Drug Safety Incidents*, *Operating Procedures for Cluster Adverse Drug Reaction Events*, *Operating Procedures for Drug Safety Report Handling*, *Pharmacovigilance Training and Personnel Qualification Management* and other regulations, to clarify the pharmacovigilance management process.

For products at the clinical development stage, the Group continuously monitors and identifies the safety risks throughout the entire research and development process of drugs and regularly compiles the *R&D Safety Update Report* every year to optimise the clinical drug safety risk prevention and management plan accordingly. In addition, for commercialised products, the relevant subsidiaries of the Group have established Drug Safety Committees to oversee the pharmacovigilance of drugs on sale and the effectiveness of the safety risk control system, and to continuously identify and evaluate the drug safety risk in daily operation, and prepare the *Periodic Safety Update Report* accordingly.

During the Reporting Period, the Group carried out 2 internal audits on departments in relation to pharmacovigilance. 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 4 external audits, and no significant risks or serious deficiencies related to pharmacovigilance were identified.

The Group has established compliant and smooth channels for the collection of information on product adverse events, including telephone, email and official website, and proactively accesses and collects 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. Upon receipt of suspected adverse reactions/events and other safety information of the products, the pharmacovigilance-related departments of the Group will follow the *Operating Procedures for Drug Safety Report Handling* to collect information, conduct investigation, analysis, handling, evaluation and summarisation on individual adverse reactions/events, timely and truthfully record the information via the digital pharmacovigilance system, and then report to the regulatory authorities within the time limit.

100%

Pass Rate of Reported Suspected Product Adverse Reactions/Events

The Group has developed the *Operating Procedures for Product Safety Event Handling Plan* to regulate and guide the emergency plan for drug safety incidents, with the monitoring, evaluation and identification of potential risks to adopt immediate and effective measures to control the risks, in order to prevent the spread of hazards.

During the Reporting Period, the Group conducted emergency drills for drug safety incidents, in which simulated drills were conducted for the whole handling and response process of cluster adverse drug events, covering information acquisition, reporting, preliminary evaluation, risk assessment, establishment of emergency team, submission of investigation report, event summarisation, etc.

The Group actively promotes pharmacovigilance-related trainings. During the Reporting Period, the Group has conducted over 30 pharmacovigilance-related trainings, covering 100% of the employees involved in work related to pharmacovigilance and sales and promotions of drugs, and the training content includes but not limited to the interpretation of pharmacovigilance-related laws and regulations, the enhancement of position related professional knowledge and the popularisation of operation regulations for pharmacovigilance database, etc. In the meantime, the Group integrates pharmacovigilance-related knowledge into the new employee training to ensure that employees are able to collect and report information about adverse reactions when they are aware of such information.

Collection	Adverse reactions/events and other safety information are collected by a designated fulltime employee of the Pharmacovigilance Department
Transmission	All employees shall report the relevant information to the Pharmacovigilance Department as per the principle of "immediate reporting in case of suspicion"; Reports obtained from other sources are handled in accordance with relevant processes and timelines
Investigation and Evaluation	The Pharmacovigilance Department is responsible for call-back, assisting in follow-up investigation; For quality complaints, if any, submitting to the Quality Management Department for further handling; Activating an emergency plan in the event of a major safety incident; Evaluating relevant reports in a hierarchical manner in compliance with applicable laws and regulations
Reporting and Feedback	Submitting reports to domestic and overseas regulators; Submitting the reports to domestic or overseas partners or drug marketing authorization holders as required by the safety data exchange protocol; Taking immediate and effective measures based on the procedure in case of a major safety event/ major change in safety information; Regularly assessing and controlling the risks of the Group's products

Adverse Reaction/Event Handling Process

Product Recall

The Group pays high attention to the lifecycle management of product and service quality, and has formed relatively complete and mature recall mechanisms and operating procedures, with the establishment of a series of internal management policies including *Regulations on Drug Recall, Operating Procedures for Drug Recall*, and *Management System for Recall Information Disclosure*. In case of any quality problem or safety hazards of the products, the Group will immediately initiate the recall process. The Group' s subsidiaries with the identity of marketing authorisation holder conduct mock recall drills from time to time, to ensure effective recall of defective products in the shortest time in case of emergencies, and to protect customers' rights and interests.

Drug Recall Process

Cooperation and Mutual Benefit

The Group attaches great importance to the supply chain management, strictly abides by relevant national and regional laws and regulations, continuously improves the supply chain management system that is systematic, efficient and suitable for its business model, and constantly strengthens the identification and management of risks in each segment of the supply chain. At the same time, based on the requirements for compliant operation of its domestic and overseas supply chain partners, the Group actively takes various measures to encourage and guide the partners to fulfil social responsibilities and practise low-carbon and environmentally friendly operations, in order to jointly establish an efficient, clean, stable and green supply chain, to ensure product quality and safety and to achieve a win-win situation.

Supply Chain Management

The Group strictly complies with relevant laws, regulations and management procedures. The Group carries out whole-process risk monitoring, identification and management for all suppliers in status of new admission, stable cooperation and exit, by means of admission review, hierarchical management, regular evaluation and assessment, etc. The Group also actively maintains long-term cooperative relationships with suppliers, and realises stable and efficient two-way communication by phone, e-mails and exchange visits to establish a foundation for mutual trust, and to achieve common progress through mutual supervision and experience sharing. Moreover, the Group conducts all-round assessment of distributors in terms of qualification and capacities, to ensure product quality during the distribution process and to minimise the potential impacts of product transportation on the surrounding environment.

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 standardise the supplier selection and monitoring, procurement and other processes, and regularly reviews and optimises relevant systems annually.

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, which represents a high level of integrated supply chain management excellent internal governance and cross-border trade safety control under internationally recognised standards.

The Group has formulated a series of internal policies, such as the *Admission and Evaluation System of Suppliers*, and adheres to a stringent admission and examination mechanism for its suppliers, which includes but not limited to company qualification and scale, competitiveness, production status, corporate reputation, product quality management, logistics and transportation capacity, customer service, environmental protection and social responsibility, etc., to ensure that qualified products are purchased from suppliers with legitimate qualifications and social responsibility. In order to achieve this goal, the Group further standardises supplier admission requirements and examination procedures by continuously optimising supplier due diligence and evaluation processes.

Moreover, the Supply Chain Management Department of the Group has established a supplier hierarchical management system. For new suppliers and stable suppliers, the Group conducts weighted evaluation, significance rating and classification according to quantitative indicators such as the annual purchase amount of each product, percentage of purchase amount relative to suppliers' turnover as well as suppliers' performance levels. The hierarchical management system classifies suppliers into important suppliers (including partner suppliers and key commercial suppliers), and general suppliers (including prior suppliers and commercial suppliers), and risk assessment and control are carried out annually or once every 18 months respectively, from the aspects of qualification, operational risk, product pricing, operational procedures and performance, and service quality, etc. When the assessment results indicate higher risks, the Group will communicate and convene regular meetings with suppliers to review the supply situation in stages, and actively explore solutions to develop a response plan, and timely identify and control supply risks.

Furthermore, the Group holds regular monthly meetings with core suppliers to maintain timely exchanges, summarises and provides feedback on their performance, and communicates the direction for further enhancement and optimisation.

The Supply Chain Management Department of the Group and relevant departments jointly implement strict inspection on qualification report and receipt for imported and domestic finished products to ensure that the products meet the quality standards approved by the national regulatory authorities. Once any quality problem is found, the Group will immediately provide feedback to the suppliers, gain an in-depth understanding of the causes, urge the suppliers for rectification and provide necessary supports. When a supplier fails in the sampling inspection held by the Institute for Food and Drug Control, 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 organise on-site visits, make an all-round risk assessment, and focus on the supplier' s quality management system, to investigate the causes of the quality problem and the effectiveness of the supplier' s corrective measures. For unqualified suppliers, the Group will terminate the cooperation with them in accordance with the supplier exit mechanism to ensure the product quality.

The Group has established a regular communication mechanism with suppliers and formalised communication channels for all suppliers. During the Reporting Period, the Group has organised thematic meetings, such as review meetings, communication meetings and information sessions to interact and communicate with suppliers, and ensured that the suppliers complied with the Group' s requirements on business operations and sustainable development. In addition, the Supply Chain Management Department of the Group conducts regular cooperation satisfaction surveys on important suppliers to promote the sustainable development of core supply chain management.

The Group also actively promotes common progress with its partners. The Registration Management Department of the Group proactively initiates trainings for suppliers in case of any amendments or changes to the registration standards and legal and regulatory requirements in China, including the interpretation of relevant systems and policies, etc., to help suppliers understand the latest registration processes and regulations in the Chinese market in a timely manner. With regard to the regulatory adjustments required for each product, the Group has formed a clear timetable for implementation in accordance with the regulatory guidelines and worked with suppliers to formulate a corresponding supply switching plan to ensure a successful transition.

Material Supplier Management

For materials required for production, the Group follows the internal regulations to conduct strict admission review on potential suppliers, including the suppliers' scales, qualifications, states of operations, production capacities, product categories, quality management, reputation history, conditions of transportation, etc. During the preliminary supplier screening stage, the Group also collects the *Manufacturer Questionnaire* for more efficient communications and decision-making.

The Group ensures the standardisation of supplier admission through transparent and fair bidding to avoid potential commercial bribery. Before concluding a cooperation agreement with a supplier, the Quality Management Department of the Group will lead the qualification review and conduct an on-site quality audit, which mainly focuses on materials that have a significant impact on the drug quality and safety. In the meantime, the Group conducts stringent testing on the samples provided by the supplier according to the material purchase management requirements, and conducts a small batch trial production when necessary. After the supplier passes the reviews above and is assessed and approved by the Quality Management Department, it will be included in the Group's list of qualified material suppliers. The Group maintains at least two qualified suppliers for all key materials to cope with possible emergencies and to ensure stable supply. At the same time, the Quality Management Department of the Group conducts annual quality assessment on key material suppliers regularly. Among all qualified suppliers, the Group further implements hierarchical management for suppliers according to their 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. For Grade A Material Suppliers who supply materials that have a significant impact on drug quality and safety, the Group will conduct on-site quality audit at least once every two years; for Grade B Material Suppliers who supply materials that do not have a direct impact on the drug quality, or whose impact can be remedied by subsequent process steps, the Group will conduct on-site quality audit at least once every three years; for Grade C Material Suppliers who supply other auxiliary materials related to product quality, the Group will conduct on-site quality audit according to 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 in the previous year, and prioritises suppliers with higher ratings under the same conditions. If the materials provided by qualified suppliers do not meet the requirements, the Group will first re-inspect the samples to eliminate errors caused by inspection problems. If the material sample fails the re-inspection, the Group will issue a non-conformity report and inform the supplier in time for returning the unqualified goods. Suppliers who fail to meet the Group's requirements twice in a year will be disqualified. If goods are found with any severe defect or significant quality risks, the Group will apply for suspension of the procurement, to prevent and reduce product quality risks.

The Group's finished products or material suppliers are 100% managed in accordance with the 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 to jointly 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 different segments of the supply chain, including supplier selection, procurement, production, distribution, logistics, import and export, etc. The Group takes into account the latest industry trends and regulatory requirements and continuously improves the supplier admission and review procedures. In addition to stringent vetting of suppliers' qualifications, the Group also conducts due diligences on suppliers to ensure that they meet the Group's high standards of operation.

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, environmental pollution during transportation, 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, Technology Asset Protection Association (TAPA) , etc. • Prioritising the supplier that is geographically closer and more easily accessible if the candidates are on a par, in order to reduce the potential environmental pollution in transportation
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 • Requiring suppliers to comply with environmental standards for packaging materials. The inner packaging in contact with drugs is required to be at least the food-grade packaging to realise green packaging
Logistics	• Including environmental and social factors in distributor selection criteria, including enterprise qualification, warehousing and distribution capacities, staffing, operational management, channel coverage, responsiveness, reputation in the industry and dedication to environmental protection • Prioritising distributors that are TAPA certified, GSP compliant and socially responsible with comprehensive distribution channels coverage and dedication to environmental protection • 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 product quality and safety, anti-corruption, intellectual property protection, data privacy protection, compliant employment, environment protection, etc. • Adding relevant terms related to anti-corruption, anti-bribery and compliance operation to the cooperation contracts signed with distributors, requiring distributors to confirm their compliance with the Group' s relevant provisions

In addition to the establishment of a comprehensive risk prevention and control system covering all aspects of the supply chain, during the Reporting Period, the Supply Chain Management Department of the Group organised internal trainings on sustainable and green supply chain as well as feasibility evaluation of carbon emission reduction in international logistics, and communicated with suppliers on knowledge about carbon emission reduction across the supply chain to promote mutual learning.

Meanwhile, the Group actively promotes the sustainable development proposal for suppliers and calls on business partners to comply with relevant regulations such as compliance operation, business ethics, human rights and labour standards, environmental protection and respect for community culture, so as to promote sustainable development of the supply chain.

Field	Abstract
Compliance operation and business ethics	• Complying with applicable laws, regulations, codes, guidelines and criteria, including but not limited to the GSP, laws regarding advertising and patent, 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, kickbacks and other unfair competition behaviours, 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 recognised 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 environment-related 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*

Supplier integrity management

Clean and efficient management of supply chain is one of the key factors to ensure sustainable business development. To further promote suppliers' awareness of anti-corruption and compliance operation, based on the promotion of signing of *Proposal for Suppliers* initiated to domestic and overseas suppliers, the Group requires all responsible units internally to communicate with suppliers and other relevant stakeholders about the Group' s anti-fraud requirements and information when conducting business with them. Meanwhile, the Group continuously collects suppliers' internal policies and regulations on anti-corruption to ensure that their anti-corruption management regulations are complete, and the Group also proactively exchanges anti-corruption requirements and trends of the industry with suppliers.

The Group opens multiple complaint and reporting channels to suppliers, including email, telephone, official website and face-to-face communication, and ensures that they are well informed of the Group' s complaint and reporting channels as well as handling procedures. In the course of cooperation with the Group, suppliers may lodge complaints and feedback in a timely manner if they find that any of their employees are involved in irregular behaviours such as bribery and corruption, unfair competition, disclosure of commercial or technical secrets, and abuse of authority, etc.

As at the publication date of the Report, the Group has provided relevant trainings to all domestic and overseas suppliers, including the anti-fraud requirements of CMS, the complaint and reporting channels and handling procedures.

Undertaking Community Responsibilities

As a responsible corporate citizen, CMS always cares about the development of the surrounding communities, continuously focuses on and responds to community needs and carries out series of public welfare activities such as donation, poverty alleviation and care for vulnerable groups, to give back to the society with practical actions. During the Reporting Period, the Shenzhen subsidiary of the Group was listed on the "Top 100 Social Contribution List of Shenzhen Top 500 Enterprises" and "Shenzhen Charitable Donation Annual List" and was honoured with the "Annual Red Silk Cotton Cup of the Poverty Alleviation in Guangdong".

3.015
Million RMB

Total Donations for Public Welfare in Communities

In order to continuously fulfil social responsibilities and provide management standards for various public welfare activities, the Group has formulated *External Donation Management Policy* to play a role in promoting community development:

- Defining the principles, types and recipients of public donations and corresponding approval procedures and rules;
- Requiring that donations and public welfare activities are conducted based on legal, compliant, voluntary and non-profit purposes;
- Honestly fulfilling public welfare and donation activities that have been approved by internal procedures and promised to the public or recipients of donations, and practising the social responsibilities with a trustworthy attitude;
- Giving continuous attention to recipients of donations or their communities, tracking the influence of donations, and preparing an annual quantitative summary to ensure that the donations serve the intended purposes;
- Clearly dividing the responsibilities of all relevant departments and systematically managing the Group's external donation behaviours: the Administrative Department of the Group is responsible for coordinating the filing and continuous tracking of external donations; the Audit Department is responsible for supervising the handling departments and their relevant personnel for the implementation of external donations; the Legal Department and the Compliance Department are responsible for reviewing the compliance of external donations and potential risks therein.

Care for People and Assistance with Disaster Relief

- In December, the Group quickly responded to and supported the rescue work in the earthquake-stricken areas in Gansu and Qinghai, and urgently purchased a batch of emergency relief materials worth RMB 150,000, including halal food, cold protective clothing, heating equipment, sanitary supplies, etc., to offer help to the disaster-stricken areas.

- In August, the Group donated RMB 1 million to China Charity Federation to support the emergency rescue and post-disaster reconstruction in the regions of Beijing, Tianjin and Hebei, which was severely affected by floods and geological disasters, and to aid the victims in tiding over the difficulties.

Poverty Relief and Rural Revitalisation

- The Shenzhen subsidiary of the Group actively promoted the "Guangdong Poverty Alleviation Day" activity by donating RMB 500,000 to Shenzhen Nanshan District Charity Association as the targeted 3-year 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. 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 revitalisation.

  As of the end of the Reporting Period, the donation of RMB 300,000 for the first and second years has been paid up and fully used in upgrading and construction of the local industries, talents and infrastructure in the targeted villages.

- The Shenzhen subsidiary of the Group contributed to the national strategy for rural revitalization through "Consumption to Aid Agriculture", purchasing gift boxes of agricultural products of local specialty from Dangshan County in Anhui province, and the amount of procurement totalled to RMB 1,608,000.

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

Care for Vulnerable Groups

- On Children's Day, the Shenzhen subsidiary of the Group donated RMB 50,000 to two centres for exceptional children via Shenzhen Nanshan District Charity Association. The donation will be used to purchase and update the equipment, teaching appliances, toys and sports appliances, as well as to empower and motivate prominent teachers to improve teaching quality, and help exceptional children get better rehabilitation training.

- The Shenzhen subsidiary of the Group actively supported the development of public welfare activities in the neighbouring communities. For many years, the Shenzhen subsidiary has participated in the "City Superman" caring campaign in the community, providing supports and donations to urban co-builders living in difficulties, and has also actively participated in the community projects to help families in difficulties and the donation activities of public welfare foundations. During the Reporting Period, the Shenzhen subsidiary has donated RMB 52,000 to promote the public welfare in the community.

Support for Education

- Since 2003, the Hunan subsidiary of the Group and local educational institutions in Li County have carried out long-term education donation activities. As at the end of the Reporting Period, the accumulated funding for local education bureau and schools was about RMB 1,375,000. Specifically, during the Reporting Period, the Hunan subsidiary donated RMB 105,000 to the education fund, which has been fully used as incentive and funding for prominent teachers and students in difficulty.

- The Shenzhen subsidiary of the Group has long been supporting the development of education. During the Reporting Period, the Shenzhen subsidiary donated RMB 50,000 to the Education Promotion Association of Xinpu Town, Jiaoling County, Meizhou City, Guangdong Province to subsidise impoverished students, improve the conditions of school operation and promote the development of local education.

PEOPLE-ORIENTED PRACTICE, GROWING WITH EMPLOYEE

With explicit awareness of employees' importance to corporate development, the Group applies the "people-oriented" philosophy, adheres to legal and compliant employment, protects employees' rights and interests, offers comprehensive career development channels and capability improvement opportunities, and actively constructs a cultural atmosphere of diversity and inclusion, to create a warm, friendly and safe working environment and build a high-quality team of talents with strong "centripetal force".

KEY TARGETS AND PROGRESS

	Targets for Year 2030:	Progress in Year 2023:
Talent absorption and management	• The total employees training expenditure increases by 40% compared with Year 2022	• Improved employee training systems, and launched customized training programs for employees at various levels, from different business lines and with various demands for professional skills. The per capita training time of the Group's employees is 21.5 hours, and the total employees training expenditure reached RMB 6.5 million, representing a year-on-year increase of 35.4% as compared with Year 2022.
Attaching great importance to employee diversity	• No less than 50% females among employees • No less than 30% females among mid-level and senior management • Maintain gender diversity among the board members	• Improved employee appeal channel and complaint management mechanism, encouraging employees to speak up or report in real name and anonymously when they suffer from discrimination, unfair treatment, and etc., to foster an organizational atmosphere of diversity and integration. The proportions of females in employees, in mid-level and senior management and in Board members are 54.8%, 34.1%, and 33.3% respectively.
Ensuring the occupational health and safety of employees	• Provide psychological health counselling programs for all employees • Provide annual occupational health check benefits for all employees	• The employee coverage rate of EAP (Employee Assistance Program) has maintained at 100%. • The employee coverage of occupational health check benefits has maintained at 100%.

The Human Resources Department of the Group is responsible for coordinating and guiding human resource management of each subsidiary, comprehensively supporting the Group's talent demands, and strictly abiding by relevant laws and regulations in each business operating location, to ensure that the legal rights and interests of employees are protected. Besides, the Group constantly refines its talent absorption and retention strategies as well as supporting management measures, and promotes diversified and professional development of employees. Meanwhile, through the continuously improvement of internal management system, the Group safeguards occupational health and safety of employees, and provides employees with a safe and reassuring working environment to support the smooth operation of various business activities.

The Group receives an annual audit of internal control over human resources by external professional auditing organizations, during which all subsidiaries of the Group is covered in the form of sample surveys on human resource management, covering aspects of employee recruitment, contract signing, probation/transfer, employee attendance, holiday implementation, and remuneration and benefits distribution. At the same time, the Group's Audit Department also performs internal audits on the Group's human resource management to assess the execution and implementation of human resource planning, recruitment, staff training, remuneration and benefits policies, etc.

During the Reporting Period, the Group did not violate any applicable law and regulation that have a significant impact on the Group in terms of employment, occupational health and safety, and employees' rights and interests. Meanwhile, according to results of internal and external audits, the Group was not exposed to any significant risks associated with human resource management and human rights.

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.

To provide guidance for the implementation of human resource management, the Group has established a series of policies, including *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 during the recruitment process, by means of inquiry, verification of identity certificates and requirement on candidate' s confirmation signature, to eliminate child labour and forced labour. The Group also encourages employees to report illegal employment cases to superiors in charge for timely investigation and treatment. 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 salary and other remuneration prescribed by law will be paid. Meanwhile, the Group has correspondingly established an accountability mechanism, in which relevant responsible persons will be punished according to the severity of the circumstances to prevent a recurrence of such events.

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

The Group advocates all related parties along its value chain to jointly follow the labour standards in various forms, ensuring compliant employment and sustainability of the whole supply chain. When entering into cooperation or supply agreements with suppliers, the Group tries to add relevant binding provisions on human rights. Meanwhile, the Group takes efforts to require its partners to follow the labour standards of the places of their operation by launching a proposal for suppliers, so as to avoid child labour, forced and compulsory labour among upstream and downstream partners.

On the basis of ensuring legal and compliant employment, the Group proactively promotes the protection of its employees' human rights, and has formulated the *CMS Human Rights and Employee Diversity Policy* that is applicable to all operating entities and employees, specifying that the Group follows about ten United Nations/international declarations and conventions such as *Universal Declaration of Human Rights*, *Convention on the Rights of the Child, Convention on the Rights of Persons with Disabilities*, and *International Covenant on Economic, Social and Cultural Rights* to safeguard the legal rights and interests of employees. The Group requires the Human Resources Department to review implementation of human rights protection by launching internal communications and investigations regularly. Moreover, at the beginning of the year 2024, the Group has organized a training session for all employees to study the *CMS Human Rights and Employee Diversity Policy*, in order to maintain a harmonious and inclusive working environment.

CMS Human Rights Statement:

- Providing a healthy and safe working environment;
- Prohibiting forced labour and child labour;
- Providing compliant work renumeration;
- Respecting the political rights of employees (including freedom of association, collective bargaining and free election);
- Equal opportunities and diversity;
- Paying attention to the physical and mental health of employees.

Protection of Employees' Rights and Interests

Recruitment

The Group is well aware of the importance of a talent pool to corporate development and matches talent absorption and recruitment plans with business operation needs. The Human Resources Department and subordinate departments assess the Group' s talent needs semiannually, and develop talent deployment strategies and corresponding recruitment plans in advance based upon existing staffing arrangement, talent demand feedback from each department and etc. To ensure an efficient and 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*, and constantly refines the supporting recruitment systems with the digital tools upgrade of the recruitment approval process.

By effectively integrating social recruitment and campus recruitment, the Group has established a scientific and systematic talent introduction and reserve mechanism. The Group regards campus recruitment as a key source of its talent pool and vigorously carries out programs for management trainees and interns. By providing scholarships or grants and strengthening interaction and cooperation with higher education institutions, the Group builds a sustainable reserve pool of professional talents. During the Reporting Period, the Group held 117 online/offline campus recruitment seminars across the country and issued offers to over 819 excellent graduates.

In addition, the Group takes active steps to absorb and retain excellent talents with professional experience in each field through social recruitment. In addition to traditional social recruitment channels, such as professional human resource websites and headhunting services, the Group opens official recruitment accounts on multiple social networking sites and platforms to actively exhibit corporate culture and values and communicate the latest recruitment information, which helps attract potential talents more effectively and to assist job seekers to obtain recruitment information conveniently. Meanwhile, the Group has developed mechanisms and incentive policies for recommending excellent talents which motivate all employees and the public to actively recommend talents. For internal employees, the Group also encourages internal transfers and competitive recruitment to expand sources of talents for certain core positions and provides employees with new career development opportunities.

Working Hours

The Group strictly prohibits all forms of forced labour and implements standard statutory working hours in strict accordance with laws and regulations. On the basis of satisfying standard working hours requirements, the Group puts flexible work arrangements into practice to facilitate employees' work-life balance, and enables employees to reasonably schedule work and leisure time according to responsibilities and department demands. In the context of overtime culture not being advocated, employees who need to work overtime due to work arrangements should submit overtime requests to department heads for evaluation and approval. Upon completion of overtime work, the employees will be provided with compensatory leave or overtime pay according to regulations.

In addition, the Group ensures that all employees are entitled to statutory holidays and paid leave according to law (including but not limited to paid annual leave, marriage leave, maternity leave, paternity leave and funeral leave), and their posts will be 100% kept during the statutory leave to fully respect and protect employees' rights and interests.

Performance Evaluation

According to macro strategic deployment, the Group establishes the basis for performance evaluation by dividing its strategic goals to each relevant department. During the Reporting Period, on the basis of annual performance evaluation, the Group further improved the determination basis for subsequent renumeration adjustments, promotion and bonus distribution, by refining key performance indicators, classifying key tasks and reviewing task rating standards, which fulfilled performance evaluation and appraisal practices in a more fair, effective and systematic manner. In addition, the Group includes quarterly performance appraisal for employees under the marketing and promotion system, to evaluate and monitor employees' performance dynamically.

For employees to be probated or promoted in position grade or position, the Group customizes forms of performance evaluation and appraisal in view of their positions, including but not limited to debriefing defenses, 360-degree evaluations and one-to-one individual interviews. For 360-degree evaluations, intra- and inter-departmental colleagues, superiors and subordinates and etc. are invited to evaluate the appraised employees in aspects such as performance and working competence; for debriefing defenses, employees' work results and performance are evaluated through systematic performance reviews, job requirements alignment, and integration of work reports, communication and Q&A, on-site scoring, etc. For mid-level and senior management, besides 360-degree evaluations and debriefing defenses, employees need to have one-on-one interviews with senior management or executive directors for performance review. The Group also encourages its staffs to have routine communication with their superiors regarding their works, so that employees can receive timely feedback.

Results 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 lodge complaints 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.

Remuneration and Benefits

The Group develops a remuneration system inclined to strivers in which employees' remuneration depends on their own performance and corporate performance, in order to encourage employees to give full play to their personal abilities at work. The Group engages external human resource consultation company annually 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 benefits and remuneration in the industry. Furthermore, the Group adopts flexible renumeration policies, and allows renumeration negotiation depending on local living costs and needs. Meanwhile, it conducts qualification refinement and person-post matching evaluation to maintain a fair and effective remuneration evaluation system and adjustment rules of the Group.

To fully unleash employees' potential, the Group has established an integrated multi-level incentive system, covering short-term (e.g. performance bonus), medium-term (e.g. milestone rewards) and long-term (e.g. stock incentive scheme, key employee benefit (KEB) scheme) incentives respectively. During the Reporting Period, the Group vigorously plans the implementation of incentive plans mainly for key posts under the product system and the commercialisation system, encouraged the Group's core management team and key employees to continue making outstanding contributions to both marketing and sales of new products.

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:

Category of Major Benefits	Description of Major Benefits
Work-life Balance	• 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 • Establishing a culture and sports association with multiple branches including badminton, swimming, basketball and yoga branches, and cooperating with large-scale stadiums to regularly organize activities to enrich employee entertainments • Appropriating special funds for team-building activities, supporting the departments to organize team-building activities and enhancing friendships among employees
Employee Care	• Providing accident insurance to employees (including interns) • Providing high-quality health check to help employees understand their health conditions • Providing EAP (Employee Assistance Program), providing psychological counselling and stress relief channels for employees • Providing allowances to subsidize employees' travel expenses for family visit once a year • Setting up mother-and-infant rooms to provide convenience for female employees with breastfeeding needs • Providing a variety of free afternoon refreshments and overtime dinners • Providing festival gifts or holding festival activities

Training

Training is a crucial way to achieve mutual growth of employees and the Company. The Group organizes customized and systematic training activities to ensure that staffs are fully educated on knowledge and skills, and to enhance the overall quality of employees. The Group has set up a series of training management policies including *Provision on Employee Training Process* and *Internal Trainer Management Policy*, and constantly refines various policies based on business development demands, to guide organized implementation of training.

The Group possesses a training base in Pingshan, Shenzhen, which provides all 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 and platforms 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 promoting construction of a digital training management system in an attempt to manage all kinds of training programs dynamically, and collect and analyse employees' feedback timely, so as to maintain its training quality. Moreover, the Group continually improves and leverages internal trainers 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.

In order to ensure that the development direction of employees meets the Group's demand for business operation better, each year the Group's Human Resources Department collects training needs from responsibility centres, subsidiaries and departments through surveys, and classifies, analyses and develops corresponding training plans which are included in the Group's annual training plans upon review by heads of the Group's responsibility Centres, Human Resources and executive directors, respectively. The Group's training programs include but are not limited to professional competence, talent development, business maintenance and general occupational skills, which empowers employees in all respects. Meanwhile, the Group assists board members in continuing education to boosts operational effectiveness of the Board by proactively promoting Board member trainings.

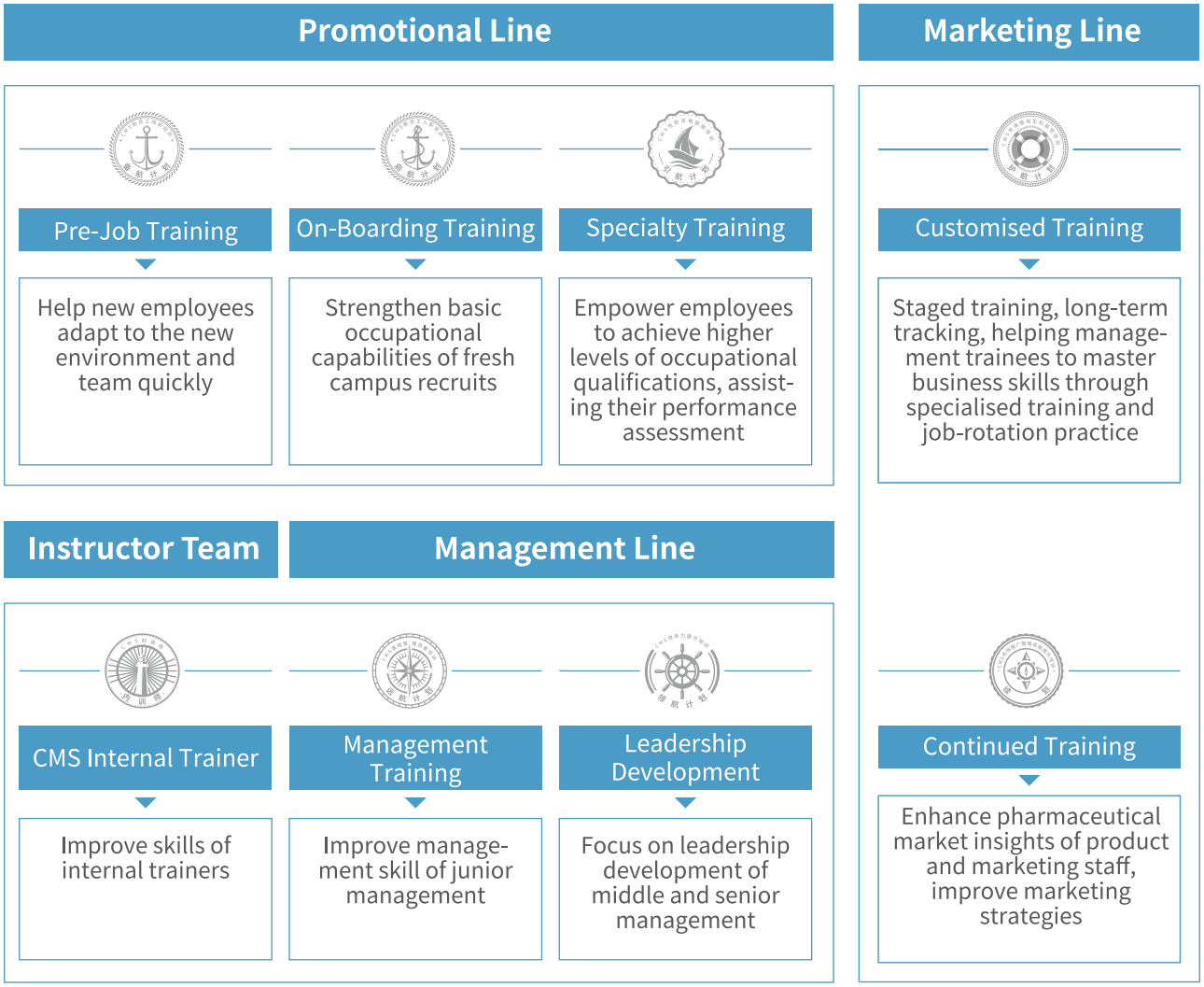
Board Member Trainings

To keep board members up to date, the Group carries out trainings including but not limited to updated information, policy requirements, good practice interpretations concerning the industry development, regulatory, finance, ESG, corporate governance and business ethics.

Professional Competence Trainings

For business systems including relevant employees under the marketing and promotion system as well as the product system, the Group has developed the "Navigation" training system and the "Morning Star" training system respectively to support the demand for professional talent training.

The "Navigation" training system covers employees under the marketing and promotion system, and offers targeted training content to employees at various stages of career development. The "Navigation" trainings cover corporate strategy, corporate culture, professional skills and knowledge, job qualification assessments, management skills and leadership development, policies and regulations, etc., which assist employees to improve their comprehensive competence. The Group has built a pool of reserve talents under the marketing and promotion system, and offers regular management and leadership trainings to all reserve talents annually to empower both reserve and training of talents in the management line.



"Navigation" Training System

The "Morning Star" training system covers management trainees under the product system, providing comprehensive training in terms of corporate culture, job skills, product knowledge, compliance requirements, etc. to ensure rapid enhancement of the cognition on post and corporate culture of management trainees and to accelerate their integration with team.

Talent Development Trainings

The Group attaches great importance to trainings and talent development plans of the management team. During the Reporting Period, the Group collaborated with professional consulting institutions to conduct trainings on strategy development, decoding and execution approaches among mid-level and senior management for enhanced leadership, organization power and execution capability of the management. During the Reporting Period, 171 mid- and senior-level management of the Group attended leadership trainings with a coverage rate of 98.8%.

Business Maintenance Trainings

Business maintenance trainings are developed based upon annual business development goals of each business department, in order to fully align training content with daily operation requirements and to support orderly operation of business systems. For key business departments and posts, the Group carries out diversified trainings to help employees improve their professional qualifications and working skills.

Category of Posts	Main Content of Trainings
R&D related posts	• Carrying out trainings on clinical research project verification, clinical research quality system management, pharmacovigilance, etc.
Sales related posts	• Carrying out trainings on compliant marketing policies/system interpretation, product knowledge, etc.
Quality related posts	• Carrying out trainings on laws and regulations, professional knowledge and other content relating to the quality management system, including product purchase, warehousing, quality management, special drug management, etc.
Production related posts	• Carrying out trainings on safety production, operation of production equipment, etc. and providing professional qualification trainings for special posts to ensure employees in relevant posts are certified.

General Occupational Trainings

The Group pays close attention to the development of employees' general occupational skills, and carries out "Energy Star – General Force Training" program for all employees. During the Reporting Period, the Group provided employees with General Force Trainings on "office skills" and "communication and collaboration skills" to improve employees' work efficiency and quality. The office skills included capability trainings on data analysis, office software skills, etc.; the communication and collaboration skills included trainings on reporting approaches, meeting communication, output management, etc.

In addition, to help new employees learn about corporate business, corporate standards and general work and adapt to the working environment, the Group organizes general occupational trainings for all new employees on a yearly basis, covering company introduction, human resource rules and regulations, information security, basic knowledge on pharmacovigilance, CMS code of logo use and introduction to the Group' s products, and sets up examinations to deepen their understanding. During the Reporting Period, the Group conducted 6 sessions of general occupational trainings for new employees.

While taking active steps to promote various employee trainings, the Group encourages and supports staff's intention of improving professional skills, and provides funds and resources to support employees to obtain professional qualifications related to their posts. All employees of the Group have the right to be assigned to study abroad. For certificate examinations regarding post-related professional competence or other demands for continuing education, subsidiaries and departments can apply for inclusion in annual training plans, and then receive training reimbursement from the Group after approval.

Promotion

The Group adheres to the promotion mechanism that is 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 establishes a promotion application system, by which employees can apply for promotion on their own initiative. The Group evaluates and approves the promotion of employees based on their performance evaluation and appraisal results.

Successful promotion certification will be publicized in the form of personnel appointment and removal announcement. Any employee objecting to the certification process or results may lodge complaints 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

The Group strictly follows a series of internal management policies such as the *Human Resource Policy* and *Personnel Management Policy* to handle employee dismissal. The Group' s Human Resources Department is responsible for providing comprehensive assistance to departing employees to ensure that the transference of their social insurance, file management, residence registration as well as other relevant formalities are properly handled and thus safeguard employees' rights and interests.

Talent Retention

The Group attaches great importance to talent retention, and endeavours to decrease the employee turnover rate by improving the remuneration, benefits and incentive mechanism of employees, supporting the employee development and training, and enhancing communication with employee, so as to ensure the stability of the Group' s talent team and employee structure. During the Reporting Period, the employee turnover rate of the Group was 16.7%.

In the past five years, there have been no layoffs, or major mergers/acquisitions affecting a substantial portion of the workforce.

Measures to retain the talents of the Group are as follows:

- Establishing a risk management and control mechanism for employee turnover, holding a standardized resignation interview with all resigning employees, having an insight into their reasons for leaving, collecting valuable feedback information, and then formulating internal improvement measures;
- Providing employees with competitive remuneration and benefits, systematic trainings and development plans, and a safe and reassuring working environment;
- Establishing a fair, impartial and transparent talent competition mechanism and providing broad development space and reasonable incentives for employees with excellent ability and morality;
- Providing induction training and mentor for new employees to help them better adapt to their work and integrate into the Group;
- Listening to employees' opinions, analysing their needs and helping them solve problems and difficulties at work.

Communication with Employees

The Group values employees' thoughts, respects their legal rights and interests, and constantly improves the mutual communication mechanism between employees and the management to ensure the 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 communication platform, email, and online or face-to-face conversations in a timely and effective manner. The Group also actively communicates with employees in the form of interviews after probation/resignation and regular questionnaire surveys. In addition, the Group supports all employees in joining the labour union and participate in related activities. The labour union has the right to bargain and negotiate with the Group on behalf of employees, and to legally sign collective contracts through collective bargaining. During the Reporting Period, the Group continuously consulted all employees on their opinions and job satisfaction through conducting interviews, surveys and establishing real name/anonymous dialogue channels, and gave comprehensive consideration to the rationality of feedback and the feasibility of internal practices to formulate improvement plans, to establish a harmonious and healthy working environment.

The Group established a digital complaint channel for employees: "Employee Voice" , which supports employees to lodge complaints in real name or anonymously to encourage them to speak up bravely. The "Employee Voice" has been embedded in the Group' s communication platform to encourage relevant employees to lodge complaints conveniently and in time when they suffer from actions that may violate the Group' s policies, including but not limited to workplace bullying, abuse of authority, discrimination, or unfair treatment, so that the Group can investigate and handle related events in a timely manner. During the Reporting Period, the Group continued to improve and implement complaint channel management and operation measures to ensure both standardization and effectiveness of the complaint-handling process.

Lodging Complaints	Supporting employees to lodge complaints in real name or anonymously.
Handling Complaints and Providing Feedback	Complaints are classified by the Group's Human Resources Department. Complaints are handed over to relevant responsible departments for handling. The handling department shall feed back handling progress to complainants within 5 working days upon receipt of the complaints; Complaints involving internal fraud and external bribery are handled in accordance with *CMS Anti-Fraud Management System*; Handlers having an interest in the complaints, who may affect fair handling, shall not participate in the handling of such complaints.
Investigation and Evaluation	The complainant shall evaluate the handling of the complaint after receiving the feedback, and the complaint will be closed if the complainant agrees with the handling results; If the complainant still has questions or needs to feed back, he/she can lodge a complaint again.
Recording and Filing	Handlers shall record the complaints properly, and must not disclose any personal information of the complainants or relevant information of the complaints; The Group's Human Resources Department collates the complaint records into reports every quarter for filing. Such reports are submitted to executive directors for review after the Group's internal audit.

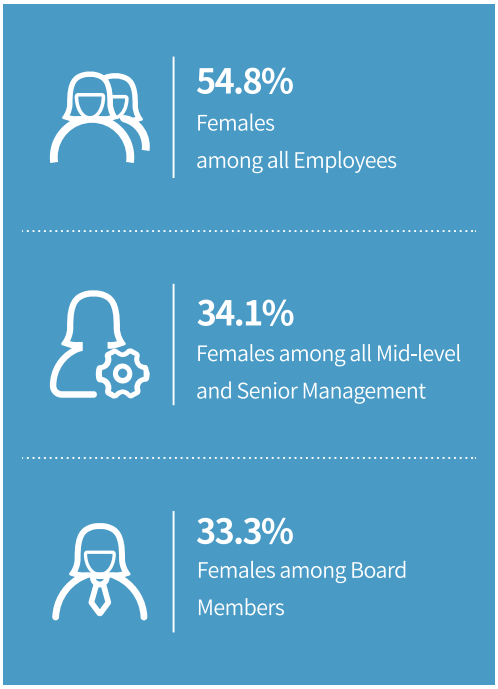
CMS Employee Complaint Handling Process

The Group takes measures to fully protect the legal rights and demands of the complainants and deals seriously with those who report/complain with the purpose of fabricating facts or framing others. The Group claims zero tolerance for 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 crimes, it will be transferred to judicial authorities for handling.

Attaching Great Importance to Employee Diversity

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 equal opportunity and follows the principle of 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.

The Board of Directors of the Company oversees the establishment, achievement and implementation of diversity policies and strategic targets for the Board and the employees. The Group collects and analyses the quantitative data, target attainment progress and work performance status of its corporate diversity annually, and submits them to the ESG Committee and the Board for review to ensure that the work related to diversity is progressed in an orderly manner.



The Company has formulated a *Board Diversity Policy*, which aims to ensure that the composition of the Board will be based on merit and takes diversity into account. The Board of the Company and its subordinate Nomination Committee will check and review the *Board Diversity Policy* annually, continuously monitor the implementation of the policy and make revisions as necessary. When selecting and recommending candidates for the Board, in addition to examining the professional background and ability of the candidates, the Company will give full consideration to the guidelines of the policy to ensure that the board members are sufficiently in diversity. As at the end of the Reporting Period, the Board consists of 6 members, including 2 female directors. Every member of the Board has rich working experience in the industries of pharmaceuticals, financial accounting, investment and law and has mastered professional skills related to the operation of the Group, and thus can make scientific and effective decision on the Group' s corporate governance, forward-looking strategic layout and high-quality business development.

In order to foster a positive, equal, diverse and inclusive working environment, the Group has established *CMS Human Rights and Employee Diversity Policy* and *CMS Code of Conduct* to advocate mutual respect, kindness and cooperation among all employees. The Group strives to recruit local employees in its operating locations and avoids placing more conditions of admission on females than males during recruitment, to promote the diversity of employees. Meanwhile, the Group has set diversity targets, requiring that the proportion of females among all employees is no less than 50%, and that of females among mid-level and senior management is no less than 30%. Females are protected for fair treatment in recruitment, promotion and other aspects through these quantitative targets. 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-baby rooms and other amenities to further support female employees in life and work.

The Group maintains a "zero-tolerance" attitude towards prejudice and discrimination, and has established an employee complaint mechanism to encourage employees to speak up bravely when they suffer from unfair treatment. During regular interviews with employees, the Group inquires and understands employees' opinions and satisfaction feedback on inclusive corporate environment building of the Group, and makes targeted optimization and adjustments accordingly.

The Group also encourages its stakeholders such as partners on supply chain and customers to promote the 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 believes that the occupational health and safety of employees are essential to sustainable corporate development, and has formulated a series of safety management systems, including *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* and *Office Building Emergency Plan*, and ensures that relevant systems are effectively implemented through dynamic supervision.

During the Reporting Period, there were no work-related fatalities in the Group.

Production Safety

Safety Record	Safety Publicity and Implementation
• Establishing occupational safety and health documents for employees; • Completing safety assessment of storage and use of hazardous chemicals timely and reporting it to the safety supervision authority.	• Setting up production safely bulletin boards at the plant area and relevant places, and putting up safety warning signs and safety tips to emphasize the operation safety and promote production safety awareness of all employees; • Strictly managing and supervising the placement, use and disposal of hazardous chemicals.
Safety Equipment	**Safety Inspection**
• Reasonably setting first-aid kits, and supplying employees in posts involving health and safety risk with appropriate personal protective devices such as earplugs, protective gloves, protective masks and protection suits; • Purchasing and storing first-aid medicine and arranging emergency vehicles; • Reaching a cooperation agreement with neighbouring rescue agencies and hospitals to guarantee all-round rescue in case of emergency.	• Setting up leading groups for production safety inspection in relevant subsidiaries, regularly convening production safety meetings and implementing production safety inspection, organizing and implementing the "Production Safety Month" campaign, timely investigating potential accidents and potential violations and urging timely rectification; • Conducting the assessment of safety production performances and implementing safety production rewards and punishment mechanism, and making production safety inspections before and after holidays and monthly safety inspections of the workplace to prevent accidents. • Carrying out regular assessments of major hazard risk in factories and offices.

Safety Drills	Safety Training
• Organizing regular fire and production related safety drills every year. During the Reporting Period, the Shenzhen subsidiary and the Hunan subsidiary of the Group conducted fire drills; and the production system of the Group conducted emergency drills for safety production.	Setting up a comprehensive production safety training system: • A training model, with the combination of teaching and assessment by experts from the Ministry of Emergency Management and internal experts, is formed. During the Reporting Period, the subsidiaries of the production business system of the Group carried out multiple safety trainings, including production safety training for work resumption, environmental protection and emergency plan training, and hazardous chemicals management training; • Moreover, employees in special posts are required to attend internal and external professional trainings and assessments on a regular basis, and to work with appropriate license. During the Reporting Period, the Group conducted trainings for employees in special posts, including legal knowledge training of the *Special Equipment Safety Law*, system training of the *Special Equipment Safety Management Regulations*, training of relevant operating procedures, and safety precautions for special operations.

Occupational Health

Daily Maintenance
Protecting employees' health and safety from daily trifles: • Conducting maintenance and potential risk identification of corporate vehicles as scheduled; • Ensuring a healthy working environment, 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; • Equipping the office area with sufficient first-aid kits and other facilities, including automatic external defibrillators (AEDs) and other first-aid equipment.

Health Training	Health Check
Organizing regular health training: • During the Reporting Period, the Shenzhen subsidiary of the Group conducted health and first-aid knowledge popularization training to enhance the safety awareness and first-aid ability of employees; • During the Reporting Period, the Hunan subsidiary of the Group conducted occupational disease prevention knowledge training.	• Providing all employees with annual health check.

Mental Health

Professional Counselling	Work Stress Relief
• Establishing the EAP (Employee Assistance Program), and hiring professional psychological counselling organizations to provide free psychological counselling to all employees and their families; • Sharing psychological knowledge and communication skills applicable to work and life. During the Reporting Period, 24 articles related to EAP were published to all employees in the communication platform of the Group, with total views exceeding 50,000 times.	• 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 obtaining an understanding of their work adaptation and emotional needs.

ENVIRONMENTAL PROTECTION, GREEN AND LOW-CARBON DEVELOPMENT

CMS clearly understands that ecological and environmental protection constitutes an important part of the corporate social responsibility, and has been adhering to the philosophy of green development and low-carbon management, to reduce the impact of operations on the surrounding environment. The Group actively responds to climate challenges, and conducts systematic and comprehensive identification of the risks and opportunities brought about by climate change. Guided by the green innovation principle, the Group endeavours to create a sustainable business pattern and contribute to sustainable development by reducing resource and energy consumption while improving production efficiency.

KEY TARGETS AND PROGRESS

Taking actions to protect the environment

Future targets:	Progress in Year 2023:
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 Group has been progressively developed group-level Scope 3 GHG emissions statistics, and during the Reporting Period Scope 3 GHG emissions data under the categories of "Employee commuting" and "Business travel" have been disclosed, and the total Scope 3 emissions in respect of this two categories was 4,336.6 ton CO_2e.
• The GHG emission intensity to be reduced by at least 5% by the end of 2023, as compared to 2020.	• In 2023, Scope 1+2 GHG emission intensity has reduced by 35.1% as compared to 2022, and has reduced by 64.1% compared with 2020.
• The GHG emission intensity to be reduced by at least 6% by the end of 2026, as compared to 2020.	
Solid waste	
• The hazardous waste intensity to be reduced by at least 5% by the end of 2023, as compared to 2020.	• In 2023, the hazardous waste intensity has reduced by 89.7%, as compared to 2020.
• The hazardous waste intensity to be reduced by at least 7% by the end of 2026, 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.	• In 2023, the non-hazardous waste intensity has reduced by 76.2%, as compared to 2020.
• The non-hazardous waste intensity to be reduced by at least 4% by the end of 2026, as compared to 2020.	

Taking actions to protect the environment -continued

Future targets:	Progress in Year 2023:
Use of resources	
• The electricity consumption intensity to be reduced by at least 2% by the end of 2023, as compared to 2020.	• In 2023, the electricity consumption intensity has reduced by 24.8%, as compared to 2020.
• The electricity consumption intensity to be reduced by at least 3% by the end of 2026, as compared to 2020.	
• The water consumption intensity to be reduced by at least 5% by the end of 2023, as compared to 2020.	• In 2023, the water consumption intensity has reduced by 51.8%, as compared to 2020.
• The water consumption intensity to be reduced by at least 6% by the end of 2026, as compared to 2020.	

Conserving biodiversity

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

Taking Actions to Protect the Environment

The Group attaches importance to environmental protection and continues to mitigate the adverse impacts of climate change, and builds a green and clean operation and production environment by reducing energy consumption and waste emissions. The Group's business mainly includes pharmaceutical sales and marketing business, pharmaceutical production business and agriculture and livestock business[2], among which the core business is pharmaceutical sales and marketing. The Group has a small-scale pharmaceutical production business. During the Reporting Period, the sale of self-produced products only accounted for around 0.9% of the Group's turnover in the case that all medicines were directly sold by the Group. Due to the Group's business characteristics, the total amount of environmental pollutants produced was limited, and the impact on the environment and natural resources was insignificant.

The Group has established a comprehensive environmental management structure to systematically control and optimise corporate environmental practices. The Board of Directors of the Company is the supreme governance body, and the ESG Committee under the Board is responsible for overseeing the management guidelines, policies and structures of environmental protection, managing ESG-related risks and opportunities, and conducting risk identification and management with the Audit Department and the ESG Working Group. The ESG Working Group is mainly responsible for the implementation of environmental management, formulating specific environmental management plans, collecting, summarising and analysing various types of data in pollution emission and energy use from all responsible parties on a quarterly basis to report to the ESG Committee and to assist the Board in continuously monitoring the Group's energy-conservation and emission-reduction management and the achievement of environmental targets. During the Reporting Period, the Board of Directors of the Company and the ESG Committee have reviewed the Group's environmental management strategy, implementation of environmental management, and the setting and progress of environmental targets.

As at the end of the Reporting Period, the Group had achieved all the short-term environmental targets set in respect of GHG emissions, waste, electricity consumption and water resource usage, and continued to track the phased performance of the long-term management targets for GHG emissions. For further optimization of the waste management, the Group has also set short-term environmental management targets with the base year as 2020, and the target year as 2026, respectively, in order to pay continuous attention to the key environmental indicators in respect of GHG emissions, waste, electricity consumption and water resource usage, and to continuously promote the Group's energy conservation and consumption reduction process.

[2] The pharmaceutical production business is mainly carried out by Kangzhe (Hunan) Medical Co, Ltd. ("Kangzhe Hunan"). 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.

Meanwhile, the Group strictly complies with relevant laws and regulations on environmental protection in the places of operation, pays attention to relevant regulatory trends and continuously reviews its own environmental protection practices. With reference to ISO 14001 Standard, the Group gradually improves its internal environmental management system. Taking into account the actual operation of each business system, the Group has formulated internal environmental management policies, such as the *Integrated Emergency Response Plan for Environmental Incidents*, *Regulations on Environmental Protection*, *and Regulations on Sanitation Management in Plant Area*, which are required to be strictly complied with and implemented by the relevant subsidiaries. Through a combination of internal self-inspection and external supervision, the Group monitors the effectiveness of the Company' s environmental management system and compliance of its practices. The environmental audit is performed by the Audit Department annually, covering all the operation entities. The Audit Department conducts the audit in accordance with the annual audit plan and communicates with the audited entities based on the issues and risks identified during the audit to form a special audit report for the Board' s review. During the Reporting Period, the Group conducted a comprehensive on-site audit of the environment and energy consumption, covering the pharmaceutical production business, agriculture and livestock business, as well as other major office areas. The environmental management status and problems of each audited entity were identified and explained in detail. Based on the audit results, the Audit Department made advises to relevant responsible parties for rectification, assisting them in formulating a comprehensive improvement plan, and issued the *Audit Report on ESG Environment and Energy Consumption*.

In addition to the internal audit, the Group' s subsidiaries are also subject to unscheduled external environmental inspections and audits every year. Kangzhe Hunan engages a third party to carry out monthly/quarterly environmental impact monitoring and to issue reports; Hunan Agriculture and Livestock is subject to unscheduled law enforcement inspections by the local environmental protection authority. The local agricultural product quality and safety authority and the green food office conduct annual inspection of the environment of the plantation base. During the Reporting Period, no major environmental issue was found in all inspections.

Climate Change Response

Climate change has become a complex global challenge, and continuous GHG emissions will lead to further warming of the earth, with substantial impact on the economy and society. As a responsible enterprise, the Group has incorporated the climate change issue into its long-term strategy, identified and assessed climate-related risks and opportunities, and formulated corresponding countermeasures, in an effort to reduce the carbon footprint of its business operations and contribute to the global response to climate change. During the Reporting Period, the Group managed and disclosed climate change-related information for four sections of governance, strategy, risk management, metrics and targets by reference to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

Governance

The Group has established a top-down climate change governance structure to better address the challenges posed by climate change. The ESG Committee is established under the Board of Directors of the Company, and is responsible for the formulation and review of the Group' s climate change-related management policies, strategies and framework, identification of climate change-related trends, risks and opportunities, and supervision of the formulation and implementation of climate change-related targets, etc. The Board of Directors and ESG Committee of the Company review and supervise climate-related issues and work progress via quarterly meetings. In addition, the Board of Directors of the Company pays active attention to climate change trends, and sufficiently refers to the professional opinions of external experts to ensure a sound integration of climate change management and the Group' s development strategy, business layout and governance framework.

During the Reporting Period, the Company provided thematic online training on climate change and TCFD-related topics to all members of the Board of Directors to ensure that they have the appropriate skills and competencies to support the formulation of response strategies and decision-making on climate-related risks and opportunities.

CMS's Climate-related Governance Framework

Strategy

Climate change brings potential risks to corporate business strategy and financial performance. The increase of extreme weather events (e.g. floods, hurricanes and droughts) and the changes in long-term climate trends (e.g. sea level rise and temperature fluctuations) may expose the Group to physical risks, such as business interruptions, asset damage, and operation disruption, etc. Additionally, climate change may also expose companies to transition risks such as policy, legal and market risks, etc. Both physical and transition risks may result in potential financial impacts.

On the other hand, climate change also brings new opportunities to companies. With the establishment of the carbon emission trading market and the changes in market landscape and demands brought about by climate change, the Group will, as driven by innovation, improve resource efficiency, seize the enormous development opportunities brought about by the transition to the low-carbon economy, and endeavour to realise reduction in operating costs and increase in business revenue.

In order to effectively respond to complex climate risks and opportunities, the Group proactively identifies and assesses climate-related risks, prioritises climate change responses measures, and adopts a series of physical and transition risk management measures, including energy conservation and emission reduction, energy management and innovative R&D promotion, in order to improve the overall operational resilience of the Group and mitigate the impacts of potential climate risks on the Group' s economic benefits. The Group will continue to improve its strategy to address climate risks, to ensure that it is able to respond flexibly to the challenges posed by climate change and realise long-term sustainable development.

Risk and opportunity identification and assessment

In accordance with TCFD recommendations, the Group identifies climate risks and opportunities it may face in short-, medium- and long-term business development. During the Reporting Period, the Group engaged a professional third-party institution to apply appropriate climate scenarios and parameters, and to prioritise its climate-related risks through qualitative and quantitative analyses based on its business characteristics and development trends.

Scenario analysis

Scenario models and parameters

During the Reporting Period, the Group carried out a systematic review of its business and assets around the world, and assessed in detail the risks and opportunities faced by its business operation with qualitative and quantitative approaches, under the warming scenarios of 1.5°C and 3°C of Network for Greening the Financial System (NGFs)[3] .

Scenario setting	Scenario name	Temperature rise	Scenario description
NGFs	Orderly	The temperature rise will be limited to 1.5°C by 2100.	Limit global warming to 1.5°C through stringent climate policies and innovations, reaching global net zero CO_2 emissions around 2050.
	Hot house world	The temperature rise will be limited to 3°C by 2100.	Assume only currently implemented policies are preserved, and the Nationally Determined Contributions (NDCs) will not be implemented.

Scenario and Model Introduction

Main parameters/assumptions to be considered in scenario analyses include:

- ✓ Macro-economics: Drivers of economic growth and energy demand, capital accumulation and investment, international trade, consumption and welfare impact
- ✓ Energy system: Primary energy resources, energy conversion technologies, technological change and learning, buildings, industry and transportation energy demand, GHG emissions and carbon sequestration
- ✓ Climate system: GHG concentration, radiative forcing and global mean temperature change
- ✓ Land use: Agriculture and forestry, bioenergy supply, GHG emissions and carbon sequestration

[3]The NGFs climate scenarios integrate the Representative Concentration Pathway (RCP) and Shared Socioeconomic Pathway (SSP) scenarios set by the Intergovernmental Panel on Climate Change (IPCC). Due to the scientific rationality, wide availability and data availability of the scenarios, the NGFs climate scenarios are widely used in climate risk assessment. For the risk assessment, the Group conducted analyses under the "Orderly" and "Hot House World" scenarios of NGFs.

Assessment approaches

For quantitative analysis, the Group used the REMIND model[4] (Regional Model of Investment and Development) to assess the exposure of the Group' s assets to the occurrence of various physical risks under different scenarios and to determine the risk levels of the assets when they are exposed to different material physical risks.

For qualitative analysis, the Group used a climate risk assessment questionnaire to assess the physical and transition risks it may face. Specific steps are as follows:

Step 1	Prepare and distribute the climate risk assessment questionnaire for the executive directors of the Company and the management personnel at and above the manager level of the Group. Experts from a professional third-party consulting firm are also invited to conduct the assessment based on their understanding of the Group's business and their professional knowledge of climate risk;
Step 2	Analyse and rank the exposure of the Group to physical and transition climate risks based on questionnaire results, and determine the final risk analysis result and ranking through a combination of questionnaire-based qualitative analysis and model-based quantitative analysis;
Step 3	The ESG Committee reviews and approves the analysis and ranking results, and reports the assessment result to the Board of Directors at the regular meetings;
Step 4	Develop corresponding climate change mitigation and response measures, as well as strategies and objectives based on the assessment result, which are supervised and tracked by the Board of Directors and the ESG Committee, in terms of the relevant actions and the accomplishment of objectives.

[4] REMIND (Regional Model of Investment and Development) is a numerical model developed by the Potsdam Institute for Climate Impact Research (PIK) to analyse the future impacts of interactions between energy, land use, the economy and the climate system. It represents the future evolution of the world economy, with a special focus on the development of the energy sector and the impact on our climate. REMIND uses a general equilibrium model with good predictability, which can simulate the interaction between various systems in a closed economy by predicting the changes occurring in the modelled time span. REMIND also takes into account the characteristics of regional trade in terms of goods, energy fuels and carbon emission quota.

Assessment of physical risks

As the physical assets held by the Group (including office buildings, factories and warehouses, etc.) are exposed to the natural environment, the majority of the assets may be exposed to physical risks resulting from climate change. Based on the analysis result under climate change scenarios, the Group has taken into account the climate change factors and the geographical locations of its possessed assets, and has identified the physical risks it may face and the potential impacts of the risks.

The identified possible physical risks are listed as follows:

Key drivers	Potential risks	Potential financial impact
Risk type: Extreme heat		
• Global temperature rise may increase the frequency and intensity of hot days and intense heats	• Extreme heat can directly damage human's thermoregulation system through factors such as temperature and humidity etc, leading to serious illness or even death, thereby reducing labour productivity and availability, or changing the efficiency of production processes and impacting the Group's business; • During heat waves, more water and electricity are consumed for cooling, and the cooling system is less efficient; • Extreme heat increases the demand for water and energy, or increases the pressure on water pipes, eventually leading to pipe bending and water supply problems; • Extreme high temperature leads to an increase in high-temperature subsidies and expenses on environmental improvement and procurement of protective equipment.	• Revenue declines due to diminished operation and production capacity; • The use of resources and energy increases, replacement or repair of water supply facilities is needed, and operating costs resulting from high-temperature subsidies and other expenditures increase.
Risk type: Extreme cold		
• The occurrence frequency and intensity of cold air and extreme cold weather may increase	• In a cold environment, the human body dissipates heat greatly, which will lead to partial or whole-body temperature decrease, work capacity decline and even frostbite in case of improper protection, eventually reducing labour productivity and availability and operational efficiency and impacting the business of the Group; • The operational efficiency of assets and equipment may decrease in extreme cold.	• Revenue declines, or costs increase due to diminished operation and production capacity (per capita productivity).
Risk type: Extreme precipitation		
• In a warming climate, the atmosphere can hold more water vapour before reaching saturation, thus increasing the likelihood of extreme precipitation • The combined effect of typhoons, terrain and atmospheric circulation leads to extreme precipitation	• Extreme precipitation often leads to flash floods, dam collapses of reservoirs, river overflows, collapses of buildings, inundation of farmlands, disruption of transport and telecommunications, resulting in a delay or stagnation of production; • Water intake is turbid with high sediment content such as sand, affecting water supply for operation; • Roads are interrupted and facilities in low-lying areas and open spaces are flooded or damaged.	• Revenue declines due to the delay or stagnation of production and operation; • Water treatment cost in the process of production water preparation may increase; • The equipment maintenance costs increase.

Key drivers	Potential risks	Potential financial impact
Risk type: Wind gusts		
• Strong cold and warm temperature advection causes extreme strong wind	• Extra maintenance expenses are incurred from the damage to plants, products, equipment and vehicles caused by strong wind and intense precipitation during typhoons, and the operational efficiency is decreased; • Traffic and supply chain related to the Group's marketing business are disrupted and customers are lost, equipment in the production plants is damaged and production is disrupted, and office buildings and infrastructure are damaged, affecting the business operation of the Group.	• The existing assets may encounter write-off and early retirement; • Revenue declines due to sales reduction and production disruption.
Risk type: Heavy snowfall		
• Climate warming lead to a significant increase in occurrence of extreme snowfall	• Extreme snowfall will easily lead to tree branch crush and building collapse, threatening people's health and safety; • Heavy snowfall may cause damage to office buildings and production facilities, resulting in economic losses; • Snow cover caused by extreme snowfalls may lead to road closures, thus impacting the efficiency of product transportation and resulting in reduced revenue.	• Impairment of damaged assets may occur; • Revenue declines due to business disruption and inefficient product transportation.
Risk type: Tropical cyclones		
• Areas where the possessed assets are located may be exposed to more frequent and severe tropical cyclones	• Assets located in areas vulnerable to tropical cyclones are more likely to be damaged; • Tropical cyclones result in business disruption.	• Impairment of damaged assets may occur; • The operating costs increase due to business disruption.
Risk type: Coastal flooding		
• Assets in coastal areas may be affected by continuous sea level rises	• More assets are affected by coastal flooding; • Extra needs are proposed to build flood prevention and flood control facilities; • Damage of machines and facilities of the Company may increase maintenance costs and reduce the operational capacity of the relevant assets; • The operation of assets damaged by floods has to be suspended.	• Impairment of damaged assets may occur; • The operating costs incurred by facility building increase; • Revenue is reduced due to the decline in asset operation capacity.

Key drivers	Potential risks	Potential financial impact
Risk type: Fluvial flooding		
• Excessive rainfall or melting snow may cause river levels to rise	• More assets are affected by increasing fluvial flooding; • Extra expenses arise from the repair of damaged machines resulting from floods, and the operational capacity of assets declines; • The operation of assets damaged by floods has to be suspended; • The water contamination by floods can cause freshwater shortage and productivity decline; • The operation load for wastewater treatment will increase, and the volume of external discharges will increase; • Fluvial flooding may cause landslides and thus threaten production safety.	• Impairment of damaged assets may occur; • The operating costs incurred by facility building increase; • Revenue declines due to inefficient production.
Risk type: River low flow		
• Global warming may lead to changes in precipitation patterns and thus lead to reduced river flow • Human activities, such as over-pumping of groundwater, farmland irrigation and urban water use, may cause decline of groundwater levels and thus affect river flow	• Low river flows may result in lower groundwater levels, saltwater intrusion and soil salinisation, thus affecting the normal growth of raw materials and leading to productivity decline; • Low river flows may lead to water shortages, and thus affect production processes and cause financial losses.	• Revenue declines due to inefficient production.
Risk type: Wildfires		
• Global warming may cause extremely high temperatures, extremely dry conditions such as drought, and wind gusts, which may induce more wildfires	• More assets are affected by wildfires; • Wildfires damage machines; • Wildfires cause the operation of assets to be suspended; • Traffic network disruption may adversely affect the supply chain of the Company.	• The assets may encounter impairment or early retirement; • Extra maintenance expenses are needed and the operating costs may increase; • Revenue declines due to asset operation and supply chain disruption.

After identifying physical risks, the Group conducted a hotspot analysis regarding the climate risk impact on its physical assets, including office buildings, warehouses and factories. During the Reporting Period, the physical assets held by the Group were mainly located in four cities in Southern and Central China. With reference to the climate scenarios disclosed by international authoritative institutions, the Group analysed individual assets with the NGFs REMIND model under the current scenario, and under hypothetical scenarios where the temperature will increase by 1.5°C and 3°C by 2100, and assessed the levels of physical risks the Group may face under the three scenarios. Meanwhile, for qualitative analysis, the Group ranked the levels of climate-related physical risks it faces via climate risk assessment questionnaires to the management-level of the Group.

With a combination of qualitative and quantitative analyses, the Group ranked the degrees of risk exposure and impact, and divided the possibility of occurrence of the corresponding physical risk faced by the Group into four levels, including low, medium, medium-high and high risk based on the location of the Group's assets, which are disclosed as follows:

Type of physical risk	Current	1.5°C warming scenario	3°C warming scenario
Extreme heat	Medium-high risk	Medium-high risk	High risk
Tropical cyclones	Medium-high risk	Medium-high risk	Medium-high risk
Wildfires	Medium-high risk	Medium-high risk	Medium-high risk
Coastal flooding	Low risk	Low risk	Low risk
Fluvial flooding	Low risk	Medium risk	Medium risk
Heavy rain	Medium risk	Medium risk	Medium risk
River low flow	Low risk	Low risk	Low risk
Extreme cold	Medium risk	Medium risk	Medium risk
Wind gusts	Low risk	Low risk	Low risk
Heavy snowfall	Low risk	Low risk	Low risk
Risk type	High risk / Medium-high risk / Medium risk / Low risk		

Assessment of transition risks

The global economy is gradually transforming into green and low-carbon economy. During the Reporting Period, in order to understand the resilience of the Group's business and strategy to changes in the future operating environment, the Group identified and assessed the transition risks it may face in the future, with reference to TCFD recommendations and the results of climate change scenario analyses and taking into full account the Group's business, industry characteristics, technological development and the policies in the operating locations. The transition risks faced by CMS are mainly divided into five types, including policy and legal risk, technical risk, market risk, reputational risk and supply chain risk, respectively.[5]

[5]Under the 3 °C warming scenario, extreme weather events will occur more frequently, and CMS will mainly face physical risks rather than transition risks, therefore transition risks are not separately listed.

Implication	Potential risks	Potential financial impact
Risk type: Policy and legal risk		
• Pressures increase from the GHG emission reduction policy; • The price of GHG emission rights increases; • Litigation over climate or environmental issues may occur.	• Countries around the world are promoting GHG emission reduction by formulating and implementing global emission reduction targets and policies, and companies are facing pressure from the GHG emission reduction policy; • In order to achieve the 2°C target of the *Paris Agreement*, governments domestically and abroad are gradually improving carbon pricing policies, mainly through carbon trading mechanisms and carbon tax systems, and companies are facing the pressure of higher pricing of GHG emission rights; • With the gradual increase in surveillance, companies may face a greater frequency and number of litigations over climate and environmental issues.	• Operating costs incurred from responses to more stringent emission requirements may increase, e.g., the review and assessment of environmental practices of finished drug suppliers; • The sales revenue may decline due to possible market access restrictions if the Group's products fail to meet the environmental laws or regulations of a country; • Since carbon emissions trading has been initiated in China, operating costs may increase if the industry of the Group has been included in the national carbon emission trading scheme; • Fines and judgments can lead to increased compliance cost/ reputational damage.
Risk type: Technical risk		
• Low-carbon technology transition is emphasised for R&D and investment.	• With the national promotion of green production methods, companies need to adopt more sustainable energy and materials and introduce more environmentally friendly production processes to meet market trends and enhance the competitiveness.	• R&D and application of low-carbon technologies require substantial capital investment, resulting in increased R&D expenses and operating costs for the deployment of relevant new technologies.
Risk type: Market risk		
• Customer concerns and needs change constantly; • The disease incidence and transmission rates change constantly; • Lower-emission products and services replace the existing ones.	• Customers are increasingly concerned about the carbon footprint of the value chain, and require to reduce carbon emissions throughout the value chain, and have included low carbon product or ESG performance as one of the evaluation points for achieving cooperation; • Climate change affects the ecological balance, and will accelerate the reproduction and growth life cycle of some pathogens, as well as facilitating the rapid adaptation of pathogens to the environment, and speed up their mutation. Companies need to continuously carry out basic scientific research on climate change and related drugs, and improve the R&D efficiency of innovative drugs; • In some countries, increased demand from healthcare providers for sustainable low-GWP (Global Warming Potential) products and services will lead to green alternatives of pharmaceutical products with high GWP, such as anaesthetics and respiratory products;	• Substandard low-carbon products or improper ESG performance (e.g., high GHG emissions) may lead to lower customer trust and damage to the reputation of companies, thus resulting in lower demand for existing products and scrap of stock products; • Costs in transportation may change due to the use of low-carbon transport modes; • R&D cost of relevant drugs may increase due to rapid iteration of diseases; • R&D and production costs may increase in order to meet market demands for low-carbon products and to further reduce the carbon footprint of products.

Implication	Potential risks	Potential financial impact
Risk type: Reputational risk		
• Stakeholders may increase their concern or provide negative feedback.	• Regulatory authorities, investors, customers, consumers and other stakeholders are increasingly focus on the impact of global warming and consequent impacts of climate change. They raise expectations for corporate actions to address these challenges with more stringent requirements for public disclosure on climate risk and low-carbon products.	• Non-compliant disclosures and improper ESG performance (e.g., lack of a transparent corporate governance structure) can lead to rating downgrades, reputational damage, decreased stock prices and barriers to financing, and lead to available capital reduction and adverse impact on sales; • If complaints are raised by residents near plants or the local government regarding climate problems (e.g., the health of nearby residents is adversely affected because frequent extreme weather causes damage to the storage equipment or pollutants leak), companies may face the risk of reputational damage and increase the cost for brand image building or fines.
Risk type: Supply chain risk		
• Costs for supply and procurement may risk.	• Climate change may affect the normal growth of raw materials, which makes it difficult for companies to acquire some raw materials; raw material prices rise because of the decrease in supply; • CMS's Scope 2 GHG emissions mainly come from the secondary energy consumed by its business, mainly the purchased electricity from the national power grid of the locations of the assets. Sudden power or water supply outages or limits, or rises in water or electricity prices may occur due to climate change or the national dual-carbon policies.	• Some suppliers of finished products and raw materials may be forced to close down and essential resources for sales and production may become scarce, thus resulting in increased procurement costs; • The unstable supply of resources such as electricity and water and the increase in unit prices may affect normal production and scheduled supply, which may increase the production costs.

Based on the identified transition risks, the Group assessed the transition risks it will face in the future through qualitative analysis and a climate risk assessment questionnaire to its management-level personnel：

Under the 1.5°C warming scenario, the Group will face climate-related transition risks from policy, regulatory, technological and market aspects. Different transition risks present different levels of risk depending on the extent of their impact on the Group and the time period.

Transition risk	Year 2030	Year 2050
Operating costs incurred from responses to more stringent emission requirements may increase, e.g., the review and assessment of environmental practices of finished drug suppliers	Medium risk	Medium-high risk
The sales revenue may decline due to possible market access restrictions if the Group's products fail to meet the environmental laws or regulations of a country	Medium-high risk	Medium-high risk
Since carbon emissions trading has been initiated in China, operating costs may increase if the industry of the Group has been included in the national carbon emission trading scheme	Medium risk	Medium-high risk
Fines and judgments can lead to increased compliance cost/reputational damage	Medium-high risk	Medium-high risk
R&D and application of low-carbon technologies require substantial capital investment, resulting in increased R&D expenses and operating costs for the deployment of relevant new technologies	Medium risk	Medium-high risk
Substandard low-carbon products or improper ESG performance (e.g., high GHG emissions) may lead to lower customer trust and damage to the reputation of companies, thus resulting in lower demand for existing products and scrap of stock products	Medium risk	Medium-high risk
Costs in transportation may change due to the use of low-carbon transport modes	Medium risk	Medium-high risk
R&D cost of relevant drugs may increase due to rapid iteration of diseases	Medium-high risk	Medium-high risk
R&D and production costs may increase in order to meet market demands for low-carbon products and to further reduce the carbon footprint of products	Medium risk	Medium-high risk
Non-compliant disclosures and improper ESG performance (e.g., lack of a transparent corporate governance structure) can lead to rating downgrades, reputational damage, decreased stock prices and barriers to financing, and lead to available capital reduction and adverse impact on sales	Medium-high risk	Medium-high risk
If complaints are raised by residents near plants or the local government regarding climate problems (e.g., the health of nearby residents is adversely affected because frequent extreme weather causes damage to the storage equipment or pollutants leak), companies may face the risk of reputational damage and increase the cost for brand image maintenance or fines	Medium-high risk	Medium-high risk
Some suppliers of finished products and raw materials may be forced to close down and essential resources for sales and production may become scarce, thus resulting in increased procurement costs	Medium-high risk	High risk
The unstable supply of resources such as electricity and water and the increase in unit prices may affect normal production and scheduled supply, which may increase the production costs	High risk	High risk

Risk type: High risk | Medium-high risk | Medium risk | Low risk

Under the 3°C warming scenario, it is assumed that there will be no additional measures in terms of policy, regulation or technical measures other than those already in place in 2023. The policies and regulations will not gradually become more stringent, and the market demand will not change dramatically. The world, including China, still relies mainly on fossil fuels but has made insufficient investments in low-carbon emission technologies. As the *Paris Agreement* fails to achieve substantial results and extreme weather events will occur more frequently in the future, CMS is mainly facing physical risks, while the transition risks are relatively less prominent and are not analysed separately.

Assessment of climate-related opportunities

The Group understands proactive actions to respond to climate change will have a positive impact on the Group' s sustainable development, such as improving resource utilisation efficiency, participating in carbon markets and launching innovative products. In the low-carbon transition process, the Group' s efforts to mitigate and adapt to climate change may create a variety of opportunities, including resource opportunity, energy opportunity, product opportunity and market opportunity. Major climate-related opportunities identified by the Group are listed as follows:

Implication	Potential opportunities	Potential financial impact
Opportunity type: Resource opportunity		
With the development and iteration of technology and the optimisation of operation processes, the efficiency of various resources (e.g., talent, equipment and technical resources) in the operation process of enterprises can be improved.	• With the implementation of resource management system and the promotion of digital transformation during operation, companies can achieve effective management of resource utilisation in drug production and office work; • Companies can launch innovative products more flexibly and rapidly through more efficient R&D processes and production equipment.	• The resource utilisation can be enhanced and the operating costs may decrease; • Business revenue increase can be achieved with improved production capacity.
Opportunity type: Energy opportunity		
The transformation of energy sources and supply methods bring opportunities to companies in energy consumption.	• Under the "dual carbon" goal, the policy and technological environment to promote the new energy industry and the establishment of the carbon market will bring about changes in the energy use structure and carbon market trading opportunities.	• The application of new energy can cause reduction in unit energy cost, thus reducing operating costs; • The participation in the carbon emission trading market may reduce costs in carbon emissions, or profits can be generated from selling excess carbon emission rights; • Companies can gradually transform into a low-carbon enterprise by participating actively in carbon trading market and reducing energy consumption and carbon emissions, to achieve higher corporate competitiveness, better financing capability and higher capital availability; • Companies take the initiative to formulate carbon emission reduction targets and transform into a low-carbon enterprise, which helps improve their environmentally-friendly image and reputation, and leads to increased consumer demands for the products and services as well as the business revenue increase.
Opportunity type: Product opportunity		
Consumers have the willingness to pay for added value of products and consumer preferences.	• The consumer preferences change, with greater emphasis on value transmission of the purchase behaviour. Controlling carbon emissions may give brands an added meaning of low carbon and environmental protection to meet consumer demand.	• Companies can provide low-carbon-emission products and services to meet consumers' demands, thus realising business revenue increase.

Implication	Potential opportunities	Potential financial impact
Opportunity type: Market opportunity		
Climate change has brought about changes in the market layout, including 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; • Climate change may lead to the emergence of new infectious diseases and pathogens.	• Consumer demand for companies' existing products may increase, thus increasing business revenue; • Through the continuous R&D and sales of innovative drugs, companies can improve market competitiveness and increase business revenue.

Based on the identified climate-related opportunities, the Group conducted a qualitative analysis, assessed and ranked the climate-related opportunities it will face in the short and medium term via a climate-related opportunity assessment questionnaire to the management-level personnel of the Group：

Climate opportunity	Year 2030	Year 2050
With the implementation of resource management system during operation, companies can achieve effective management of resource utilisation in drug production and office work	Medium opportunity	Great opportunity
Companies can launch innovative products more flexibly and rapidly through more efficient R&D processes and production equipment	Great opportunity	Great opportunity
The application of new energy can cause reduction in unit energy cost, thus reducing operating costs	Poor opportunity	Medium opportunity
The participation in the carbon emission trading market may reduce costs in carbon emissions, or profits can be generated from selling excess carbon emission rights	Poor opportunity	Medium opportunity
Companies can gradually transform into a low-carbon enterprise by participating actively in carbon trading market and reducing energy consumption and carbon emissions, to achieve higher corporate competitiveness, better financing capability and higher capital availability	Medium opportunity	Medium opportunity
Companies take the initiative to formulate carbon emission reduction targets and transform into a low-carbon enterprise, which helps improve their environmentally-friendly image and reputation, and leads to increased consumer demands for the products and services as well as the business revenue increase	Medium opportunity	Medium opportunity
Companies can provide low-carbon-emission products and services to meet consumers' demands, thus realising business revenue increase	Medium opportunity	Great opportunity
The infection rates and incidence of diseases change, which leads to changes in demand for different pharmaceutical products and services, and the consumer demand for companies' existing products may increase, thus increasing business revenue	Great opportunity	Great opportunity
Climate change may lead to the emergence of new infectious diseases and pathogens, and through the continuous R&D and sales of innovative drugs, companies can improve market competitiveness and increase business revenue	Great opportunity	Great opportunity

Opportunity type: Great | Medium | Poor

Risk Management

Climate change poses challenges and opportunities to business operations. To better address climate change, the Group endeavours to fully integrate climate-related physical and transition risks control into the ESG risk management system. The Group has also formulated relevant management regulations on addressing climate change, such as the *Emergency Response Plan for Environmental Incident* and the *Regulations on Environmental Protection*, aiming to adapt to climate change and mitigate disaster risks. Meanwhile, every three years, the Group' s manufacturing subsidiary engages an external professional third party to review the *Emergency Response Plan for Environmental Incident* and make revisions according to relevant management requirements and results of the review.

In addition, to effectively address the identified climate-related risks, the Group has formulated a comprehensive climate risk management plan:

Addressing physical risks

- ✓ Increasing 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, implementing the work safety responsibility system and strengthening equipment operation inspection, to prevent the impact of extreme weather on production;
- ✓ Regularly organising relevant departments and workshops to conduct emergency drills in extreme weather, enhancing employees' emergency response capabilities to cope with extreme weather;
- ✓ Strengthening the procurement management of raw materials and other production materials to ensure that the Company has sufficient stock reserves in the event of extreme weather to ensure business continuity;
- ✓ When selecting construction sites, the Group improves the quality of construction materials and changes to high-quality equipment to reduce or avoid the impact of extreme weather;

Addressing transition risks

- ✓ Complementing category of products and services, and offering environment-friendly products and services as required by customers and corporate strategies;
- ✓ Continuously tracking changes in diseases worldwide, including pandemics, and adjusting the layout of new drugs, production of drugs and supply plan based on results of analysis;
- ✓ Progressively commencing the Group-level evaluation of Scope 3 carbon emissions and the carbon emission, to gain a more comprehensive understanding of the Group's carbon footprint
- ✓ Paying attention to carbon emissions in the supply chain (e.g., product transportation) and communicating actively with logistics providers to explore the feasibility of greener and more environment-friendly logistics solutions, to reduce the carbon footprint of products.

Metrics and Targets

The Group' s ESG Working Group is responsible for formulating the climate change-related targets, which are reviewed and approved by the ESG Committee and Board of Directors and are regularly tracked and reviewed. To supervise and review its performance on climate change management, the Group discloses climate-related quantitative indicators in its annual reports.

The GHG emissions from the Group' s operations mainly include direct emissions from energy consumption such as natural gas, petrol and diesel (Scope 1) and indirect emissions from use of purchased electricity (Scope 2). In response to the United Nations SDGs and China' s "dual carbon" strategic goal, the Group has set up long-term strategic target and short-term target on GHG emission control. The long-term strategic target on GHG emission control are: the Scope 1+2 GHG emission intensity to be reduced by at least 5% by the end of 2030, as compared to 2022. During the Reporting Period, the Group has achieved positive progress towards its long-term strategic target for GHG emissions. In 2023, the Scope 1+2 GHG emission intensity was 0.61 ton CO_2e / million RMB, and has reduced by 35.1% as compared to 2022.

On the basis of the long-term strategic objectives, the Group has set a short-term target for GHG emissions with base and target years of 2020 and 2023 respectively. As at the end of the Reporting Period, the target has been successfully achieved. In order to further strengthen the management of GHG emissions and facilitate the achievement of the long-term strategic target, the Group has set a new short-term environmental target related to GHG emissions during the Reporting Period, with 2020 as the base year and 2026 as the target year. The achievement of existing targets (2020-2023) and setting of new targets (2020-2026) are as follows:

Metrics	Data in 2020	Data in 2023	Existing target	Progress on Existing target	New target
Direct GHG emission (Scope 1)	5,895.3 ton CO_2e	1,628.4 ton CO_2e	The GHG emission intensity to be reduced by at least 5% by the end of 2023, as compared to 2020.	The existing target has achieved: In 2023, Scope 1+2 GHG emission intensity has reduced by 64.1% compared with 2020	The GHG emission intensity to be reduced by at least 6% by the end of 2026, as compared to 2020.
Indirect GHG emission (Scope 2)	6,686.2 ton CO_2e	4,131.0 ton CO_2e			
Total GHG emission (Scope 1 + 2)	12,581.5 ton CO_2e	5,759.4 ton CO_2e			
Total GHG emission (Scope 1 + 2) intensity	1.70 ton CO_2e / million RMB	0.61 ton CO_2e / million RMB			

Climate Change-related Metrics and Targets

Additionally, during the Reporting Period, the Group analysed the Scope 3 carbon emissions based on its situation and formulated the Scope 3 disclosure plan, and has commenced data collection and analysing for Scope 3 emissions in respect of two categories, namely business travel and employee commuting. On this basis, the Group will continue to progressively advance the scope for Scope 3 emissions and disclose relevant data.

Type	Data in 2023 (ton CO_2e)
Business travel	890.5
Employee commuting	3,446.1
Total Scope 3 emissions in respect of this two categories	4,336.6

Scope 3 Emission Metrics

Emission and Waste Management

The Group is fully aware that improper treatment of emissions and wastes will pose serious harm to the ecosystem and human health. During its operations, the Group actively monitors and manages the emissions of pollutants such as wastewater, exhaust gas, noise and wastes to ensure that the relevant emissions comply with national and local environmental protection laws and regulations. At the same time, the Group vigorously invests in environmental protection projects to optimise pollutant treatment technologies, continuously reducing the potential adverse impact of its operations on the environment.

The Group has formulated a series of internal management regulations such as *Regulations on Environmental Protection* and *Wastewater Management Regulation*, covering requirements for the management of emissions in the production and operation process, including exhaust gas, wastewater, solid waste, and noise pollution.

Meanwhile, the Group is committed to communicating the concept of green development among the supply chain. The Group' s manufacturing subsidiaries tend to select suppliers with green concepts or relevant qualifications, requiring suppliers to provide relevant documents such as environmental system certificates and emission permits, etc., and taking waste reduction (harmful emissions such as exhaust gas, wastewater and hazardous waste) plans and arrangements as one of the factors to be considered in the selection of suppliers. In addition, in the annual review and analysis of suppliers, the pollution emission and waste reduction of suppliers will be taken into consideration. If any problems are identified, the Group will communicate with the suppliers and agree on follow-up rectification measures.

During the Reporting Period, the Group has not experienced any significant environmental pollution incidents.

Water Pollutant Management

The Group strictly complies with the *Law of the People' s Republic of China on Prevention and Control of Water Pollution* and other relevant laws and regulations, and is committed to the efficient management of wastewater discharge. The Group has formulated a comprehensive internal wastewater discharge management plan in compliance with internal management regulations such as the *Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility* and the *Regulations on Environmental Protection*. The wastewater produced by the Group mainly includes domestic and production wastewater. The Group actively promotes daily water conservation measures and publicity to help reduce the discharge of wastewater and adopts reasonable wastewater treatment processes to avoid secondary pollution to surroundings.

The Group' s management measures for wastewater include but are not limited to:

Office areas	✓ Domestic wastewater is treated in septic tanks and discharged into the municipal wastewater pipe network after reaching the standard; ✓ Setting up bulletin boards for environmental protection and resource conservation to raise the awareness of all employees on water conservation and reduce wastewater generation; ✓ Strengthening inspections and renovating or replacing old equipment in office areas that are not water-saving or leaking; ✓ Commissioning auto flushing facilities in office areas to shorten the automatic flushing time.
Pharmaceutical production areas	✓ The production wastewater is treated by the self-built integrated wastewater treatment station to meet regulatory standards, and the wastewater is then discharged into the municipal pipe network and finally flows into the municipal wastewater treatment plant. Moreover, an automatic wastewater monitoring system is installed in the wastewater treatment station of the plant to monitor and analyse the production wastewater regularly, which is connected with the provincial environmental protection monitoring platform to realise real-time and transparent management of production wastewater; ✓ Regularly engaging qualified third parties to conduct wastewater monitoring, with main monitoring parameters including suspended solids, biochemical oxygen demand, acute toxicity etc.
Agricultural and livestock areas	✓ Collecting manure water from agricultural farms through sedimentation ponds and making organic fertilizers from dried animal dung through dung scrapers, to achieve the purpose of recycling; ✓ Growing plants around animal enclosures and parks to absorb animal manure water left outdoors; ✓ Adopting reasonable wastewater treatment processes to ensure that treated wastewater meets the *Discharge Standard of Pollutants for Livestock and Poultry Breeding* before discharged.

Air Pollutant Management

The Group' s sources of air pollution are mainly from the pharmaceutical production business, and pollutants include nitrogen oxides/sulphur dioxide/ particulate matter generated by boilers due to complete and incomplete combustion. In response to the requirements of the national and local environmental protection authorities, we have strictly complied 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 have formulated internal management policies such as the *Regulations of Boiler and Pressure Vessel Management* to strengthen the management of air pollutant emission. In addition, to ensure compliance of the emission, Kangzhe Hunan engages a qualified third party to conduct monthly/ quarterly inspections on the emission of nitrogen oxides, sulphur dioxide, particulate matter and other pollutants. During the Reporting Period, the relevant monitoring results indicated that the Group' s emissions complied with the prescribed emission limits for air pollutants.

To minimise the negative impact of exhaust gas generated in production operations on the environment, the Group takes measures including but not limited to:

- ✓ Using natural gas-fuelled boilers to reduce pollutant emissions from the source;
- ✓ Upgrading the cutting and shredding equipment for "pretreatment" in the Chinese medicine extraction workshop, with a built-in dust collector, and large whirlwind bag-type dust removers are added to allow dust and exhaust gas to meet the standard and be discharged at a high altitude after multi-stage treatment;
- ✓ The wastewater treatment station uses an "alkaline water spraying + photooxidation + 15m exhaust funnel" deodorization system, and the Chinese medicine extraction workshop uses "fan collection + plasma + 15m exhaust funnel" smell and odour treatment system, which jointly further improve exhaust gas treatment;
- ✓ Depending on the production tasks of workshops, boiler operations are regulated reasonably, and unnecessary uses are reduced for less exhaust gas emission;
- ✓ Engaging a third-party professional inspection agency to sample the organised exhaust gas emitted by steam boilers monthly/quarterly to inspect the compliance of pollutant emissions.

Noise Pollution Management

The Group' s noise pollution is mainly from the pharmaceutical production business. The Group attaches great importance to noise management and exercises strict control over noise generated in the production and operation process in accordance with the *Law of the People' s Republic of China on Noise Pollution Prevention and Control*.

The Group has implemented a series of noise control measures, such as monitoring noise regularly, requiring susceptible employees to wear protective equipment, and conducting regular training for the relevant employees on occupational health and protection against occupational diseases. In addition, to reduce noise from the source, Kangzhe Hunan strengthened control by using horizontal centrifuges in its oral liquid powder workshop, set noise barriers outside the equipment room, and added sound insulation cotton inside. Meanwhile, the Group strengthened 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 have met the requirements and did not have a significant negative impact on the employees' occupational health and the local ecological environment.

Solid Waste Management

The Group has formulated internal management regulations such as *Management System of Waste Product and Material*, *Regulations on Hazardous Waste* and *Regulations on Sanitation Management in Plant Area* to collect and dispose of hazardous and non-hazardous waste in accordance with regulations, preventing environmental pollution caused by waste. During the Reporting Period, the Group did not report any soil or underground water pollution incidents caused by waste/chemical leaks.

The Group had set environmental targets related to hazardous and non-hazardous waste with the year 2020 as the base year and the year 2023 as the target year. At the end of the Reporting Period, the environmental targets related to hazardous and non-hazardous waste were successfully achieved. To further optimise the Group' s waste management, the Group has set new short-term environmental targets related to solid waste, with 2020 as the base year and 2026 as the target year.

The achievement of existing targets (2020-2023) and setting of new targets (2020-2026) are as follows:

Metrics	Unit	Data in 2020	Data in 2023	Existing target	Progress on Existing target	New target
Hazardous waste	Ton	4.3	0.6	The hazardous waste intensity to be reduced by at least 5% by the end of 2023, as compared to 2020	The existing target has achieved: In 2023, the hazardous waste intensity has reduced by 89.7%, as compared to 2020;	The hazardous waste intensity to be reduced by at least 7% by the end of 2026, as compared to 2020
Hazardous waste intensity	Ton/million RMB	0.00058	0.00006			
Non-hazardous waste	Ton	1,531.3	462.9	The non-hazardous waste intensity to be reduced by at least 2% by the end of 2023, as compared to 2020	The existing target has achieved: In 2023, the non-hazardous waste intensity has reduced by 76.2%, as compared to 2020	The non-hazardous waste intensity to be reduced by at least 4% by the end of 2026, as compared to 2020
- Chinese herb residue	Ton	1,413.0	87.5			
- Sewage sludge	Ton	10.6	159.0			
- Household garbage	Ton	107.8	216.4			
Non-hazardous waste intensity	Ton/million RMB	0.21	0.05			

Solid Waste-Related Metrics and Targets

The Group' s hazardous waste is mainly from analytical inspections at laboratories in the pharmaceutical production business, including laboratory waste liquids, expired chemical reagents and waste medicines, etc. Through continuous optimisation of laboratory management, standardisation of testing and inspection procedures and hazardous waste treatment, the Group reduces the generation of waste from the source and ensures that the hazardous waste is properly managed. The Group' s hazardous waste control measures include but are not limited to:

- ✓ Strictly complying with management requirements for the use of related chemical reagents, purchasing and using according to the needs;
- ✓ Standardising the operation process of inspection and testing, and minimising production of chemical waste residues and waste liquids;
- ✓ Used chemical reagents or expired chemical reagents are collected and stored in the temporary hazardous waste storage room in time, and engaged a third-party qualified professional disposal company for hazardous waste to transfer and dispose of those hazardous wastes on a regular basis. Before entering into hazardous waste disposal contracts with third parties, the qualifications, such as the business licence, the permit for operation and transportation of hazardous wastes are strictly reviewed to ensure that the hazardous wastes are disposed of in accordance with laws and regulations.

The Group treats non-hazardous waste in strict accordance with the environmental standards to minimise the negative impact of waste on the environment and manages the non-hazardous waste by category to maximise the recovery and recycling rate of waste, achieving comprehensive waste reduction. The Group' s main control measures for non-hazardous waste include but are not limited to:

Office areas	✓ Advocating a lifestyle of resource conservation and on-demand purchasing, to reduce the production of non-hazardous waste from the source; ✓ Taking food as per needs in canteen to reduce the production of kitchen waste; equipping the canteen with microwave ovens and encouraging employees to bring their own lunch boxes and use less disposable tableware; ✓ Encouraging the classification of garbage: non-recyclable garbage is transported to the garbage disposal station for centralised treatment; recyclable garbage such as paper, metal, plastic, and glass is recovered for treatment or recycled; ✓ Providing recycling bins for waste paper in printing areas, and encouraging doublesided printing and waste paper utilization; ✓ Promoting paperless office and using internal communication platform to reduce paper consumption; ✓ Using rechargeable batteries as much as possible for 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, are sent to the compost workshop in Hunan Agriculture and Livestock as one of the ingredients for organic fertilizers; 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, and to realise 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; ✓ Non-hazardous plastic barrels that have contained alcohol or bulk drugs in workshops are recycled and cleaned for secondary use to contain laboratory waste liquids and expired chemical reagents; ✓ 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 wastewater.
Agriculture and livestock areas	✓ Adopting various collection devices to collect animal excrement and making it into organic fertilizers via fermentation to realise organic recycling of non-hazardous wastes.

Resource Management

The Group constantly strengthens the management on the use of resources and focuses on energy conservation and emission reduction in the whole process of production and operation to achieve green development. We strictly abide by the relevant laws and regulations such as the *Law of the People' s Republic of China on Conserving Energy*, the *Law of the People' s Republic of China on Promoting Clean Production* and the *Circular Economy Promotion Law of the People' s Republic of China*, and has formulated internal management regulations such as the *Regulations on Environmental Protection* and the *Regulations on Resource Conservation Management* to strengthen the standardised management of resources such as energy, water, packaging materials, and paper, in an effort to minimise the consumption of natural resources in business operation and to realise harmonious coexistence between human and nature.

During the Reporting Period, the Group adhered to the concept of "green and low-carbon" , actively promoted energy conservation and emission reduction to all employees, and enhanced their awareness on environmental protection. In addition, the Hunan subsidiary of the Group established a leading group for energy conservation and emission reduction to supervise energy conservation work. An Energy Conservation and Emission Reduction Office and Safety & Environment specialist position are set under the leading group, and are responsible for implementing energy conservation and emission reduction work, such as developing management policies for energy conservation and emission reduction for subsidiary, publicising energy conservation concept and daily inspection.

The Group had set the targets on the consumption of relevant resources, such as electricity and water with the year 2020 as the base year and the year 2023 as the target year. As at the end of the Reporting Period, the environmental targets related to electricity and water consumption were successfully achieved. To further optimise the management on resource use, the Group has set new short-term environmental targets on the consumption of electricity and water, with 2020 as the base year and 2026 as the target year.

The achievement of existing targets (2020-2023) and setting of new targets (2020-2026) are as follows:

Metrics	Unit	Data in 2020	Data in 2023	Existing target	Progress on existing target	New target
Purchased electricity	kWh	7,520,182.0	7,245,001.7	The electricity consumption intensity reduced by at least 2% by the end of 2023, comparing with 2020	The existing target has achieved: In 2023, the electricity consumption intensity has reduced by 24.8%, as compared to 2020	The electricity consumption intensity to be reduced by at least 3% by the end of 2026, as compared to 2020;
Purchased electricity intensity	kWh/ million RMB	1,016.90	764.87			
Water consumption	m^3	282,658.0	174,415.7	The water consumption intensity reduced by at least 5% by the end of 2023, comparing with 2020	The existing target has achieved: In 2023, the water consumption intensity has reduced by 51.8%, as compared to 2020	The water consumption intensity to be reduced by at least 6% by the end of 2026, as compared to 2020.
Water consumption intensity	m^3/ million RMB	38.22	18.41			

Resource Consumption-related Metrics and Targets

Energy Conservation

The Group constantly optimises the use of energy and improves the use efficiency to realise energy saving and consumption reduction and reduce GHG emissions. The Group mainly takes the following measures to manage the use of various energy sources:

Electricity	Electricity is mainly used for pharmaceutical production and daily office: ✓ Reducing the use time of air conditioners in summer and setting air conditioners at moderate temperatures; regularly maintaining air conditioners; installing shading curtains to reduce direct sunlight and air-conditioning energy consumption; ✓ Scheduling production reasonably to reduce the production time in high-temperature summer season and reduce energy consumption; ✓ Setting air-conditioning and refrigeration equipment in the warehouse area to the most energy-saving mode, advocating employees forming the habit of turning off the lights and closing the doors when entering and leaving the warehouse, and enhancing the awareness of electricity conservation; strengthening inspections and maintenance to ensure the normal operation of electrical equipment; ✓ Ensuring that work is completed during daylight hours wherever possible to minimise the amount of time spent on electricity for night lighting and to reduce the energy consumption of workshops; ✓ Assigning dedicated personnel to conduct routine supervision and inspection on the use of electricity, and shut down electrical equipment in a timely manner; ✓ Replacing old lights with LED energy-saving lamps, and adopting solar energy equipment for water heaters, street lights and surveillance facilities; ✓ Rearranging unreasonable and energy-wasting electrical wiring in office areas.
Boiler fuel	Fuel is mainly used by boilers in the pharmaceutical production process: ✓ Reasonably adjusting the use of boilers according to production load to reduce fuel consumption; ✓ Insisting on using high-quality clean fuels and 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 emissions and leakage of sealing points.
Gasoline	Gasoline is mainly used by vehicles for business use: ✓ Strictly implementing the *CMS Regulations on Vehicles and Drivers' Management* to standardise the management of vehicles and drivers of the Group, implementing vehicle registration and approval system for vehicle use, advocating employees avoiding non-essential vehicle use, reasonably deploying vehicle use for business purposes, and encouraging employees to share vehicle when going to the same destination to reduce the frequency of vehicle use; requiring corporate vehicle drivers to do mileage registration to ensure the reasonable vehicle use; ✓ 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 old, high fuel-consumption vehicles with lower- emission vehicles, and prioritising new-energy vehicles when purchasing new vehicles.

Diesel oil	Diesel oil is mainly used in the pharmaceutical production business and backup power generators at Pingshan base, and the greenhouses insulation equipment and vehicles for the agricultural and livestock business: ✓ Kangzhe Hunan tries to reduce the use of diesel generators through staggered production peak scheduling and reasonable regulation, and allows no arbitrary starting of diesel generators unless necessary; ✓ The diesel generators at Pingshan base are used as emergency backup devices and are not allowed to be switched on unless during outage and maintenance; ✓ Hunan Agriculture and Livestock reasonably schedules transportation, to reduce the number of transportation times and the frequency of diesel engine use.

Water Conservation

The Group implements water conservation during operations. Water consumption of the Group mainly derives from production and cleaning in pharmaceutical plants, agricultural irrigation and livestock cultivation, as well as daily use by employees. The Group has formulated various internal management policies such as the *Regulations on Environmental Protection* and *Resource-conserving Management Regulations* to improve the management on the use of water resources and reasonably enhance the water reuse rate, to reduce the consumption of water resources. The water-saving measures adopted by the Group include but are not limited to:

Office areas	✓ Vigorously promoting the concept of water conservation to employees and penalising wastage of water resource; ✓ Upgrading taps to water-saving taps in offices, dormitories, canteens and other places; ✓ Replacing leaky and non-water-saving flushing equipment, commissioning the auto-flushing facilities in office areas, shortening auto-flushing time, and properly adjusting flushing intervals; ✓ Retrofitting the aged automatic flush valves to prevent water waste due to aging equipment.
Pharmaceutical production areas	✓ Closely metering and monitoring all water-using segments in each workshop to strengthen the management of production water consumption; ✓ Regularly conducting comprehensive inspections on leakage and dripping in each workshop, and fixing all leakage and dripping points to reduce water waste. During the Reporting Period, Kangzhe Hunan conducted a comprehensive inspection, repair and maintenance of the water supply system across the factory; ✓ Recycling and reusing cooling water from production in workshops; ✓ Treating the wastewater from domestic use and production through the self-built wastewater treatment station to realise reasonable recycling; ✓ Standardising the water use for greening, reasonably utilising the water treated by the wastewater treatment station for watering, and extending the watering cycle properly.
Agriculture and livestock areas	✓ Upgrading the water equipment for livestock and poultry breeding to automatic water-saving equipment; ✓ Collecting and using natural precipitation for irrigation to reduce the use of additional water sources; ✓ Using drip water dispensers in chicken coops to reduce air drying, evaporation, etc. due to weather and so on.

All subsidiaries of the Group regularly monitor the risk of water use during operation. The Hunan subsidiary of the Group 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 annual audit and inspection. 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" , the tap water is inspected every month, and health inspection and quarantine authorities conducts on-site centralised inspection and testing once a year, thereby ensuring that the water quality meets the standard and guaranteeing water safety.

Packaging Material and Paper Conservation

The Group is committed to reducing the use of packaging materials and paper, continuously improving the utilization rate and minimising the generation of waste to avoid the impact of operations on the surrounding environment. The Group has formulated the *Regulations on Acceptance, Storage and Distribution of Labels, Insert Sheets and Packaging Materials* and *Regulations on Material Requisition* to strengthen material management, and encourages relevant personnel to use as needed. With market and production demands being well met, the Group has taken the following measures to optimise the use of packaging materials:

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 recycling 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;
- ✓ Using reusable materials such as damaged and used cartons and separation films for other filling purposes;
- ✓ Integrating the concept of environmental protection into packaging design.

Reducing packaging materials

- ✓ Using machines for packaging, carrying out training on packaging positions and conduct inspection and maintenance for packaging machines to reduce waste of packaging materials;
- ✓ Delivering goods in whole packages whenever possible to reduce the use of packaging materials.

The Group and its subsidiaries also strictly urge the packaging material suppliers to undertake their environmental responsibilities and comply with relevant environmental regulations, require them to sign the *CMS Proposal for Suppliers*, insist on choosing the higher-quality environment-friendly packaging materials under the same conditions, and require cooperating packaging material suppliers to provide certificates of the environmental quality management system. 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 Refurbishing Materials - Limit of Formaldehyde Emission of Wood-based Panels and Finishing Products*.

The Group positively promotes a paperless, digitalised and online working environment to reduce paper consumption and facilitate green office:

Paperless

- ✓ Standardising paper use, and promoting double-sided printing & copying and diversified use of paper;
- ✓ Setting waste paper recycling bins to encourage the secondary use of paper with no confidential information;
- ✓ Encouraging online working process to substitute the previous paper document submission process.

Digitalisation

- ✓ Vigorously promoting digital office and issuing internal notices via digital communication tools to cultivate the habit of prioritising electronic office among employees;
- ✓ Using electronic documents instead of paper documents when communicating with relevant parties.

Conserving Biodiversity

The Group attaches great importance to biodiversity conservation and strictly abides by the *Environmental Protection Law of the People' s Republic of China*, the *Forest Law of the People' s Republic of China* and other relevant laws and regulations. The subsidiaries of the Group have considered their operation characteristics and formulated the *Integrated Emergency Response Plan for Environmental Incidents* and *Regulations on Environmental Protection*, etc to standardise the internal management and practice their commitment to conserving biodiversity.

The Group has taken various measures for the protection of ecological environment and biodiversity, including but not limited to:

Office areas	✓ Promoting the green office concept in a top-down manner and implementing it into the daily work to reduce resource consumption; ✓ Effectively managing waste generated in daily work and life, advocating and practising recycling to reduce the impact on the surrounding environment.
Pharmaceutical production areas	✓ Regulating procurement to prevent environmental damages such as over-exploitation, destruction of biodiversity, and other behaviours that damage the ecological environment; ✓ Enhancing greening in plant areas to protect the surrounding water and soil resources.
Agriculture and livestock areas	✓ Actively promoting the realisation of harmless agricultural and livestock production technology, institutionalisation of the ecological environmental protection works and the manufacturing of environment-friendly agricultural and livestock products, to control and mitigate environmental pollution; ✓ Insisting on daily cleaning of animal enclosures and regular sanitary inspections to reduce the impact of the breeding area on the surrounding air and water; ✓ 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.

During the Reporting Period, the Group' s business did not involve animal testing, none of its offices, operation sites and industrial plant areas were located in critical areas for nature conservation, and none of its business operations, products and services had any significant impact on biodiversity.

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 on Environmental Protection, Wastewater Management Regulation, Operation Procedures of Wastewater Treatment System, Standard Operation Procedures for Use, Maintenance, and Overhaul of Wastewater Treatment Facility, Regulations of Boiler and Pressure Vessel Management, Regulations on Hazardous Waste, Hazardous Materials Safety Management System, Management System of Waste Product and Material, Regulations on Sanitation Management in Plant Area, 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.*	*Regulations on Environmental Protection, Regulations on Green Agriculture and Livestock, Regulations on Resource Conservation Management, CMS Management Regulations on Vehicles and Drivers, Hunan Agriculture and Livestock Water Testing Methods, Regulations on Acceptance, Storage and Distribution of Labels, Insert Sheets and Packaging Materials, Regulations on Material Requisition, etc.*
A3: The Environment and Natural Resources	*Environmental Protection Law of the People's Republic of China, Forest 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.*	*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 Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China, Employment Promotion Law of the People's Republic of China, Regulations on the Implementation of the Labour 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 Labour Protection of Female Employees, Law of the People's Republic of China on the Protection of Women's Rights and Interest, etc., Hong Kong Employment Ordinance, Hong Kong Minimum Wage Ordinance, Hong Kong Mandatory Provident Fund Schemes Ordinance, Macao Labour Relations Law, UAE Labour Law, Singapore Employment Act, etc.*	*Measures for Recruitment Management, Social Recruitment Practice Manual, Campus Recruitment Practice Manual, Measures for Background Check Management, Human Resource Policy, 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, Special Equipment Safety Law of the People's Republic of China, 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, Special Equipment Safety Management Regulations, etc.*
B3: Development and Training	*Employment Promotion Law of the People's Republic of China, etc.*	*Internal Trainer Management Policy, Provision on Employee Training Process, etc.*
B4: Labour Standards	*The Special Rules on the Protection of Juvenile Workers, Provisions on the Prohibition of Child Labour, Law of the People's Republic of China on the Protection of Minors, Trade Union Law of the People's Republic of China, Hong Kong Employment Ordinance, 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, Regulations on Supplier Management, Admission and Evaluation System of Suppliers, 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, Management Regulations on International logistics Suppliers, 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 Quality Supervision and Administration of the Distribution and Use of Medicinal Products, 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, Civil Code of the People's Republic of China, Cybersecurity Law of the People's Republic of China, Personal Information Protection Law of the People's Republic of China, Hong Kong Personal Data (Privacy) Ordinance, etc.*	*Quality Risk Management Policy, Internal Audit Management Policy of Quality Management System, Operating Procedures for Internal Audit 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, Change Management System, Operation Procedures for Change Management, Regulations on Quality Responsibility, Management Procedures for Unqualified Product, Regulations on Warehouse Fire Safety Management, Regulations on Inspection, Maintenance and Servicing of Equipment and Facilities, Drug Traceability 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 approval 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, Emergency Plan for Drug Safety Incidents, Operating Procedures for Cluster Adverse Drug Reaction Events, Pharmacovigilance Training and Personnel Qualification Management, Operating Procedures for Product Safety Event Handling Plan, Regulations on Drug Recall, Operating Procedures for Drug Recall, Management System for Recall Information Disclosure, CMS Management Standards for Compliance in Clinical Research, CMS Confidentiality Regulations, CMS Intellectual Property Management Policy, Advertising Management System, Operating Procedures for Advertising Inspection, 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, Hong Kong 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 Compliance Management Policy, 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 Appendix 3 Key environmental KPIs
	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 Appendix 3 Key environmental KPIs
	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 Appendix 3 Key environmental KPIs
	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 Appendix 3 Key environmental KPIs
	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 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
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 methods 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

Appendix 2: ESG Reporting Guide Content Index - continued

ESG Aspects, General Disclosure and KPIs			Chapter
B. Social			
Operating Practices			
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	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 whistle-blowing 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
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Undertaking community responsibility
	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 2021	Year 2022	Year 2023
Air Pollutants[6]				
Sulfur Dioxide (SO_2)	Kg	103.2	209.0	0.0
Nitrogen Oxide (NO_x)	Kg	1,693.7	1,219.7	386.2
Particulate Matter (PM)	Kg	143.3	119.5	45.5
Wastewater and Pollutants				
Wastewater	m^3	84,294.4	79,375.6	79,085.4
Wastewater intensity	m^3/million RMB	9.13	7.56	8.35
Ammonia Nitrogen (NH_3-N)	Ton	0.2	0.2	0.1
Chemical Oxygen Demand (COD)	Ton	2.3	2.2	0.8
GHG				
Total GHG emission (Scope 1 + 2 + 3)	Ton CO_2e	Non-disclosure	Non-disclosure	10,096.0
Total GHG emission (Scope 1 + 2)	Ton CO_2e	10,407.1	9,861.6	5,759.4
Total GHG emission (Scope 1 + 2) intensity	Ton CO_2e / million RMB	1.13	0.94	0.61
Direct GHG emission (Scope 1)[7]	Ton CO_2e	5,540.3	5,391.4	1,628.4
Indirect GHG emission (Scope 2)[8]	Ton CO_2e	4,866.8	4,470.2	4,131.0
Indirect GHG emission (Scope 3)[9]	Ton CO_2e	Non-disclosure	Non-disclosure	4,336.6
Solid Waste				
Hazardous waste[10]	Ton	3.2	1.6	0.6
Hazardous waste intensity	Ton/million RMB	0.00035	0.00015	0.00006

[6] The air pollutant statistics of the Group include the exhaust gas generated from its production operations. 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. In 2022 and 2021, Hebei Xinglong Xili Pharmaceutical Co. Ltd. ("Hebei Xili") was the main body responsible for the generation of air pollutants. As of the end of the Reporting Period, due to the adjustment of the Group's business structure, Hebei Xili was transferred to a joint venture of the Group and was no longer included in the Group's statistics, therefore during the Reporting Period, the total amount of air pollutants generated by the Group decreased significantly.

[7] The Group's direct GHG emissions (Scope 1) are mainly generated from fuel usage during the production business and daily operations. In 2022 and 2021, Hebei Xili was the main body responsible for the generation of Scope 1 GHG emissions. In 2023, Hebei Xili was transferred to a joint venture of the Group and was no longer included in the Group's statistics, therefore during the Reporting Period, the Group's total Scope 1 GHG emissions decreased significantly.

[8] In 2023, GHG emissions in Hong Kong were calculated with reference to the emission factors provided in the *2022 Sustainability Report* of HK Electric. In 2022 and 2021, the emission factors used in the calculation of GHGs in Hong Kong District come from the revised version of HKEX *Appendix II: Guidelines on Reporting Environmental Key Performance Indicators* in May 2021. For other operating sites outside Hong Kong, the relevant emission factors for the countries/regions are used.

[9] During the Reporting Period, the Group has calculated and accounted for the data of the Scope 3 GHG emissions in two categories, namely "business travel" and "employee commuting". The data disclosed is the summation of the data of the above two categories. The data in "business travel"category was based on all records of airplane travel in the Group' s travel system. The data in "employee commuting" category was estimated based on a questionnaire survey . Please refer to Appendix 5 for the specific calculation method.

[10] During the Reporting Period, the hazardous waste was mainly generated from laboratory analytical tests and disposal of discarded pharmaceuticals in the drug production business. The year-on-year decrease in hazardous waste was mainly attributable to the change in business demand, which led to the decrease in the amount of hazardous waste generated from laboratory analysis and testing, as well as the decrease in the generation of discarded pharmaceuticals.

Appendix 3: Key Environmental KPIs - continued

KPIs	Unit	Year 2021	Year 2022	Year 2023
Solid Waste				
Non-hazardous waste[11]	Ton	1,515.6	1,504.8	462.9
Non-hazardous waste intensity	Ton/million RMB	0.16	0.14	0.05
Energy				
Conversion of electricity for comprehensive energy consumption	kWh	31,030,740.3	28,539,856.0	15,219,548.7
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	3,361.87	2,718.73	1,606.76
Purchased electricity	kWh	7,970,635.2	7,831,428.4	7,245,001.7
Purchased electricity intensity	kWh/million RMB	863.54	746.03	764.87
Natural gas[12]	m^3	1,101,296.0	966,963.0	679,270.0
Alcohol-based liquid fuel[13]	Ton	1,664.4	1,763.7	2.8
Gasoline[14]	Liter	69,872.7	49,679.8	63,825.4
Diesel oil	Liter	857.5	4,209.6	3,129.4
Liquefied gas	Kg	855.0	595.0	470.0
Water Resources				
Total water consumption	m^3	206,317.2	177,987.2	174,415.7
Total water consumption intensity	m^3/million RMB	22.35	16.96	18.41
Packaging Materials /Office Paper				
Total packaging materials	Ton	831.7	790.2	614.2
Total packaging material intensity	Ton/million RMB	0.09	0.08	0.06
Office paper	Ton	11.7	10.3	12.3

[11] During the Reporting Period, the non-hazardous waste was mainly generated from drug residues in the drug production business. The year-on-year decrease in non-hazardous waste was mainly due to the fact that Hebei Xili, which was the main party responsible for the generation of drug residues, was transferred to a joint venture of the Group, and its data was no longer included in the Group's statistics.

[12] During the Reporting Period, natural gas was mainly used as fuel for the drug production business. The year-on-year decrease in the use of natural gas was mainly due to the change in market demand, which led to the decrease in the use of natural gas.

[13] During the Reporting Period, the year-on-year decrease in the use of alcohol-based liquids was mainly due to the fact that Hebei Xili, which was the main body responsible for the use of alcohol-based liquids, was transferred to a joint venture of the Group, and its data was no longer included in the Group's environmental data.

[14] During the Reporting Period, gasoline was mainly used in office vehicles. The increase in gasoline usage compared to the same period last year was mainly due to the increase in business demand, which led to the increase in the use of office vehicles.

Appendix 4: Key Social KPIs

KPIs	Unit	Year 2021	Year 2022	Year 2023
Employment				
Total number of employees	Person	5,292	5,647	5,701
Number of male employees	Person	2,444	2,608	2,579
Number of female employees	Person	2,848	3,039	3,122
Number of employees in mid-level and senior management	Person	141	157	173
Number of male employees in mid-level and senior management	Person	97	102	114
Number of female employees in mid-level and senior management	Person	44	55	59
Proportion of female in mid-level and senior management positions of revenue-generating functions[15]	%	Non-disclosure	Non-disclosure	29.68
Number of mid-level and senior management employees of ethnic minorities	Person	Non-disclosure	Non-disclosure	16
Number of contracted employees	Person	5,292	5,647	5,701
Number of dispatched employees	Person	0	0	0
Number of employees aged under 30	Person	2,108	2,435	2,331
Number of employees aged 30-50	Person	3,021	3,013	3,213
Number of employees aged over 50	Person	163	199	157
Number of employees employed in Mainland China	Person	5,244	5,584	5,608
Number of employees employed in HK, Macao, Taiwan and overseas regions	Person	48	63	93
Number of employees from Mainland China	Person	Non-disclosure	Non-disclosure	5,620
Number of employees from HK, Macao and Taiwan	Person	Non-disclosure	Non-disclosure	35
Number of employees from overseas	Person	Non-disclosure	Non-disclosure	46
Number of employees of ethnic minorities	Person	Non-disclosure	Non-disclosure	373
Average years employed by the Group for male employees	Year	Non-disclosure	Non-disclosure	4.81
Average years employed by the Group for female employees	Year	Non-disclosure	Non-disclosure	4.29

[15] Revenue-generating functions: This refers to positions that contribute directly to the output of the Group's products or services, and the scope covers all marketing and promotion related employees of the Group.

Appendix 4: Key Social KPIs- continued

KPIs	Unit	Year 2021	Year 2022	Year 2023
Employee Turnover				
Turnover rate of employees	%	17.8	15.4	16.7
Turnover rate of male employees	%	17.8	15.9	18.4
Turnover rate of female employees	%	17.8	14.9	15.2
Turnover rate of employees aged under 30	%	22.3	18.0	21.9
Turnover rate of employees aged 30-50	%	15.3	13.7	12.6
Turnover rate of employees aged over 50	%	9.7	7.8	13.4
Turnover rate of employees employed in Mainland China	%	17.9	15.3	16.4
Turnover rate of employees employed in HK, Macao, Taiwan and overseas	%	14.3	20.8	22.1
Occupational Health and Safety				
Working days lost due to work-related injury[16]	Day	375	43	255
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
Training and Development				
Total employees training expenditure	Million RMB	6.3	4.8	6.5
Training coverage of employees	%	73.2	100	100
Training coverage of general employees	%	97.2	97.2	97.4
Training coverage of mid-level and senior management	%	2.8	2.8	2.6
Training coverage of male employees	%	48.6	46.2	45.3
Training coverage of female employees	%	51.4	53.8	54.7
Employees training duration per capita	Hour	18.0	26.1	21.5
Training duration per capita for general employees	Hour	18.2	26.5	21.6
Training duration per capita for mid-level and senior management	Hour	12.3	8.6	19.9

[16] During the Reporting Period, the causes of work-related injuries of the Group's employees included accidental falls and injuries sustained in the course of work.

Appendix 4: Key Social KPIs- continued

KPIs	Unit	Year 2021	Year 2022	Year 2023
Training and Development				
Training duration per capita for male employees	Hour	19.0	25.1	20.6
Training duration per capita for female employees	Hour	17.2	27.0	22.0
Training duration per capita for employees participating in management and leadership trainings	Hour	Non-disclosure	Non-disclosure	18.6
Supplier Management				
Total number of suppliers	Number	149	152	161
Number of suppliers in Mainland China	Number	97	102	119
Number of suppliers in HK, Macao, Taiwan and overseas	Number	52	50	42
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[17]	Number	160	151	158
Anti-corruption				
Number of concluded legal cases regarding corrupt practices	Number	0	0	0
Participation in Public Service Activities				
Total donation amount of public service activities	Million RMB	1.2	2.7	3.0

[17] During the Reporting Period, the number of product and service-related complaints of the Group include product packaging issues, suspected adverse reactions and other quality related issues. The statistics of 2022 and 2021 include medication counselling, product packaging issues, suspected adverse reactions and other quality related issues.

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
Particulat 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: The latest version of HKEX *Appendix II :Guidelines on Reporting Environmental Key Performance Indicators*
Indirect GHG emission (Scope 2)	Ton of CO_2 equivalent	Purchased electricity	Electricity consumption amount*power grid carbon emission factor	The emission factors for regional power grids in Hong Kong are based on the emission factors disclosed in the 2022 *Sustainability Report* of HK Electric, the electricity supplier of our operating sites in Hong Kong; for operating sites outside of Hong Kong, the relevant emission factors for the countries/regions are used
Indirect GHG emission (Scope 3) - business travel	Ton of CO_2 equivalent	Energy consumed in employees' business travel by air	The calculation is based on the method for calculating carbon dioxide (CO_2) emissions from air journeys developed by the International Civil Aviation Organization (ICAO), a United Nations agency, i.e., by inputting the departure and arrival airports of employees' business travel into the ICAO Carbon Emissions Calculator	/

Appendix 5: Calculation of Key Environmental KPIs- continued

Indicator	Unit	Data source	Calculation method	Parameter usage
Indirect GHG emission (Scope 3) - employee commuting	Ton of CO_2 equivalent	Energy consumed by the means of transportation used for commuting	Employee commuting is sampled and investigated through questionnaires, including commuting means (e.g., private fuel or electric cars, subway, bus, online car-hailing, etc.), commuting distance and number of commuting days. Employees' average commuting distance, number of commuting days and proportion of different means of transportation are calculated based on the investigation, and carbon emissions are then verified based on the emission factors of different means of transportation	The emission factor of gasoline cars comes from *Appendix II : Reporting Guidance on Environmental KPIs* of HKEX; The emission factor of electric cars comes from the *Notice on Doing a Good Job in 2023-2025 Reporting and Management of Greenhouse Gas Emissions of Power Generation Enterprises*; The emission factors of subway and online car-hailing come from *China Products Carbon Footprint Factors Database (2022)*; The emission factor of buses comes from the *Carbon Inclusion Methodology for Low-carbon Public Travel in Shenzhen (Trial)*
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)	/
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	/	/

Appendix 5: Calculation of Key Environmental KPIs- continued

Indicator	Unit	Data source	Calculation method	Parameter usage
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 Rulesfor Calculation of the Comprehensive Energy Consumption*(GB/T2589-2020)
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	/	/

Appendix 5: Calculation of Key Environmental KPIs- continued

Indicator	Unit	Data source	Calculation method	Parameter usage
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	/	/