



新华制药
XINHUA PHARM.



2022

Environmental, Social and Governance Report

About the Report

Shandong Xinhua Pharmaceutical Company Limited ("the Company") has disclosed its Environmental, Social and Governance (hereinafter referred to as "ESG") Report for seven consecutive years (Named as Corporate Social Responsibility Report from 2016 to 2021). The report describes the Company's ESG performance in 2022 and provides an outlook on the future ESG development goals of the Company.

The Board of Directors of the Company is responsible for the accuracy and completeness of the report content and ensure that there is no misrepresentations or misleading statements in the report.

Report scope and boundaries

Reporting scope: This report mainly covers Shandong Xinhua Pharmaceutical Company Limited and partly its subsidiaries.

Reporting period: From January 1, 2022 to December 31, 2022. Part of the report extends moderately to the years before and after to enhance its comparability and forward-looking nature.

Data explanation

All of the related data and cases quoted in this report are extracted from relevant statistics of the Company and each of its subsidiaries. All of the related financial information is extracted from the Company's 2022 Annual Results Announcement. The currency used in this report is CNY.

Report references

This report is prepared in compliance with all the provisions set out in the Environmental, Social and Governance Reporting Guide as contained in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") issued by the The Stock Exchange of Hong Kong Limited ("HKEX"), with reference to the Shenzhen Stock Exchange Guidelines on Normative Operation of Listed Companies on the Main Board, the Guidelines to Chinese State-owned Enterprises on Fulfilling Corporate Social Responsibilities issued by the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC") and so on.

Reporting procedures

The content of this report is developed in accordance with a systematic process that includes identifying key stakeholders, identifying and ranking key ESG issues, determining the boundaries of this report, collecting relevant materials and data, reviewing the data, and preparing this report based on the information.

Explanation for abbreviation

For ease of presentation and reading, unless otherwise specified, "Xinhua Pharmaceutical", "the Company", "we", and "us" in this report refer to Shandong Xinhua Pharmaceutical Company Limited.

Report accessibility

This report is published in electronic form. To obtain the electronic version of this report, please visit the websites of Juchao Information Network (www.cninfo.com.cn), the HKEX (www.hkex.com.hk) or the official website of the Company (www.xhzy.com) for downloading.

This report is prepared in Chinese and English respectively. In case of any discrepancies the Chinese version shall prevail.

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Profile of Xinhua Pharmaceutical

About Xinhua Pharmaceutical



 **4** pillar business segments

 More than CNY **8** billion total assets

 **5** industrial parks

 Nearly USD **400** million annual export

 **14** subsidiaries

Formerly known as Shandong Xinhua Pharmaceutical Factory, which was established in 1943 in the anti-Japanese base area of Jiaodong, Xinhua Pharmaceutical is a backbone large-scale pharmaceutical enterprise in China. The Company is the main production and export base of antipyretic and analgesic drugs in Asia, and an important manufacturer of cardiovascular, anti-infectious and central nervous drugs in China. The Company boasts high standing and influence in the chemical and pharmaceutical industries in China. As a listed company with A and H shares, the Company is one of the top ten technological innovation enterprises in China's pharmaceutical industry and one of the top 50 pharmaceutical companies in China. For the time being, the Company has 14 holding subsidiaries, mainly including Zibo Xinhua-Perrigo Pharmaceutical Co., Ltd. ("Perrigo Company"), Xinhua Pharmaceutical (Shouguang) Co., Ltd. ("Shouguang Company"), Shandong Zibo Xincat Pharmaceutical Co., Ltd. ("Xincat Company"), and Xinhua Pharmaceutical (Gaomi) Co., Ltd. (Gaomi Company). The Company has total assets of more than CNY8 billion, an annual export of nearly USD400 million, and has established long-term strategic cooperative relationships with more than 100 renowned multinational companies such as Bayer, Perrigo and GlaxoSmithKline.

Since our inception, we have stuck to the philosophy of technology and quality first and pursued the quality concept of The Product Quality Relates the Company's Development, The Drug Quality Relates the People's Life. Therefore, we strictly control the quality of production and strive for excellence. We are the first pharmaceutical and chemical company in China to have obtained ISO9001, ISO14001 and ISO10012 certifications. All the API products and preparation dosage forms in production have obtained GMP certifications. As of the date of this Report, 18 products such as theophylline and ibuprofen have obtained FDA certifications in the U.S., and 12 products such as theophylline and aspirin have obtained COS certificates in Europe. In addition, caffeine products have been granted social responsibility certification and environmental certification by U.S. users, as well as China's HACCP-based Food Safety System certification. Meanwhile, several products have been registered in Russia, India and other countries.

The Company has built a relatively complete research and development (R&D) system, and is National High-tech Enterprise and Key High-tech Enterprise of the National Torch Program. We have one of the first national enterprise technology centers and post-doctoral workstations. In recent years, we have enhanced cooperation with universities by partnering with the Chinese Academy of Medical Sciences, Shenyang Pharmaceutical University, China Pharmaceutical University, Tsinghua University, Shandong University, China University of Petroleum, Beijing Institute of Technology, Qingdao University of Science and Technology, and Central South University. We have also engaged 7 external academicians to facilitate the R&D of innovative drugs. Building on our traditional strengths. We have increased investment in the R&D of cardiovascular, digestive, antitumor, antimetabolic, central nervous system and anti-infection drugs, and have launched more than 100 new products. At present, we have 8 national Category I and 21 Category II state new drug numbers and have obtained more than 260 authorized patents, making us a three-plus-star "China Patent Shandong Star Enterprise" (the highest level). The "Xinhua" trademark is well-known in China, and is a key export brand that is fostered and developed by the Ministry of Commerce.

With nearly 80 years of experience, the Company has four pillar business segments: chemical APIs, pharmaceutical preparations, pharmaceutical intermediates and pharmaceutical commercial logistics, with advantages in scale and industry chain support. We are the world's major production and export base of antipyretic and analgesic drugs, and one of the first group of 15 pioneers to implement the internationalization strategy of preparations. Now we are a backbone enterprise of the Biomedical Industry Base of the National Torch Program. We boast national enterprise technology centers, postdoctoral research stations, and extensive cooperation with more than 50 research institutions, colleges and universities.

Our values



Pragmatic and rigorous in thought, efficient and faithful in operation

- Number of employees receiving anti-corruption training: **1,143**
- Number of anti-corruption reporting incidents: **0**



"Win-Win" with a farsighted view and mutual-benefit cooperation

- Total number of suppliers: **587**
- Number of suppliers conducting ESG impact assessment: **198**



The product quality elates the Company's Development, the drug quality relates the people's life

- Number of recalled products for three consecutive years: **0**
- Number of product recalls: **0**
- Number of total products sold or shipped subject to recalls for safety and health reasons: **0**

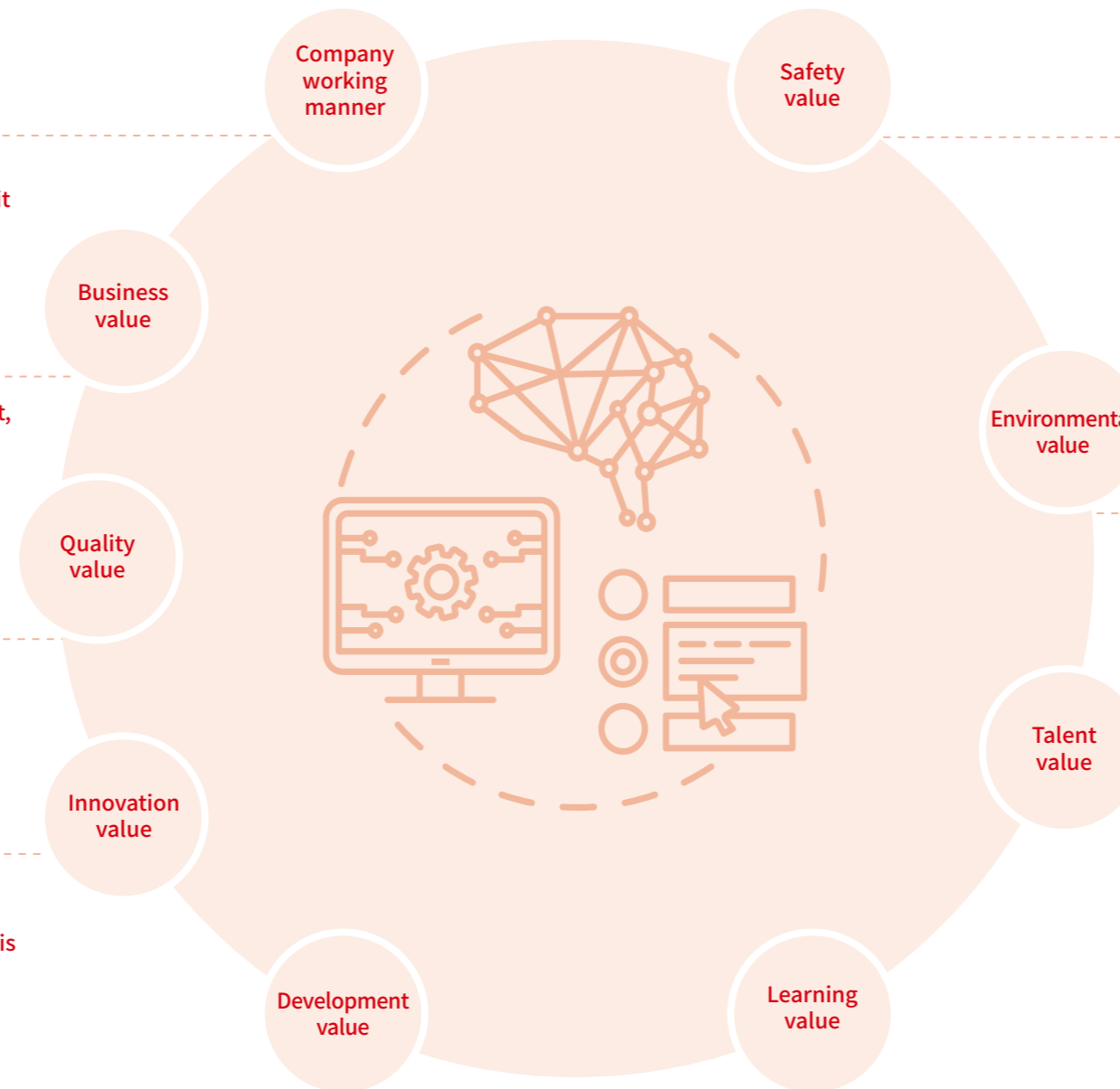


Pursuing the higher standard with the challenging spirit and sustaining progress

- Number of patents: **150**

Quality is the basis of development, and innovation is the driver of development

- Investment in technology R&D: CNY **351.6** million
- Number of R&D staff: **822**



Safety secures employees' happiness and is the basis of enterprise performance

- Investment in safety production: CNY**21.05** million
- Number of safety drills: **798**



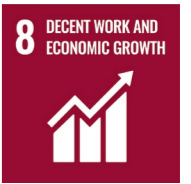
Dedicated to environmental protection to achieve sustained development

- Total investment in environmental protection: CNY**146** million
- Carbon emissions: **258,465** tons of carbon dioxide equivalent (tCO₂e)



Selecting talents with virtue and morality to ensure each talent has his own merit and makes the best use of it

- Total number of employees: **6,781**
- Ratio of female to male employees: **1:1.4**
- Female employees: **2,808**



Developing by learning, reating by hinking

- Total number of employees trained: **6,781**
- Total hours of training received by employees: **155,963**

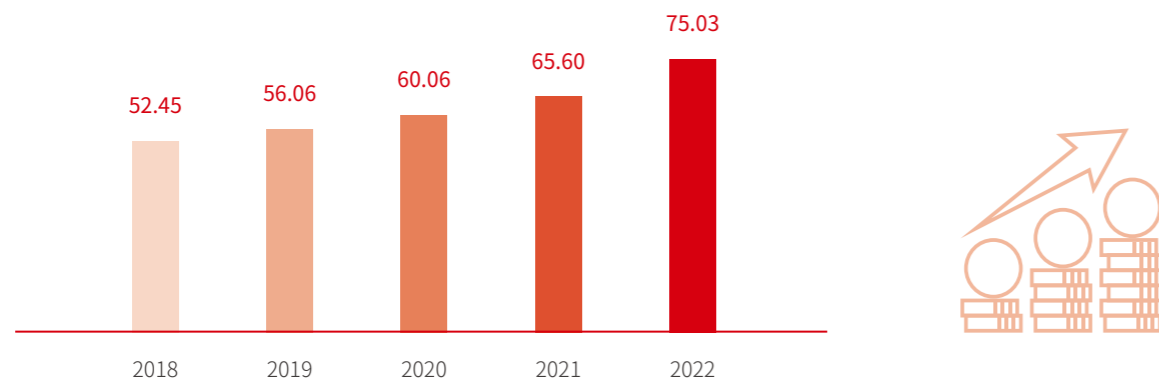


Company business

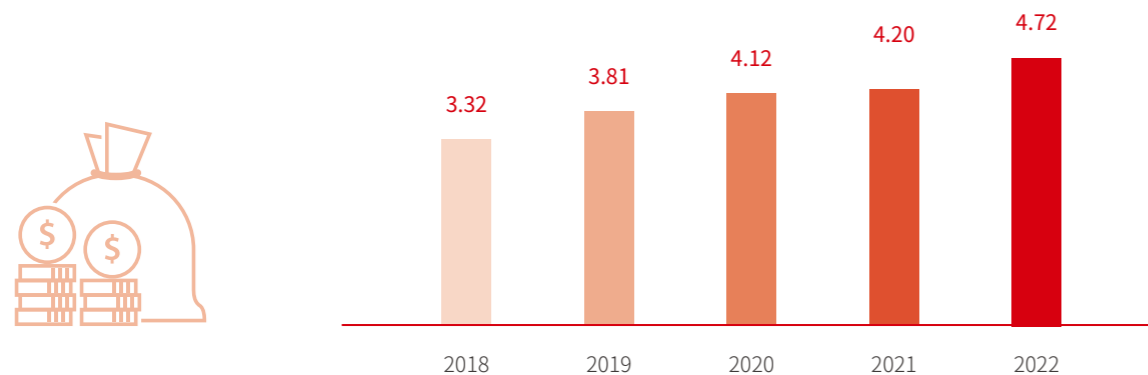
In 2022, Xinhua Pharmaceutical conquered the challenges posed by multiple factors such as raw material supply and shipment, grabbed market opportunities and actively explored new product markets. While strengthening basic management, the Company continued to reduce costs and improve efficiency, resulting in a good track record of production and operation. The Company is mainly engaged in the supply of APIs, preparation products, chemical intermediates, as well as pharmaceutical sales and customer service. We have an annual production capacity of 50,000 tons of chemical APIs, 500,000 tons of pharmaceutical intermediates, 28 billion tablets (capsules) of solid dosage forms and 1 billion injections. We top the global market share of 6 dominant APIs, including metamizole sodium, Ibuprofen, aspirin, aminopyrine, levodopa, and antipyrine. We exclusively produce 8 key APIs, such as pipemidic acid, propyphenazone, barbitone, amylobarbitone, tribendimidine, irisquinone, elofesalamide, and sodium stibogluconate, with strong influence in China.

In 2022, the Company realized an operating income of CNY7,502.99 million, an increase of 14% year-on-year (yoy), a total profit of CNY471.77 million, an increase of 12% yoy, and a net profit attributable to shareholders of the listed company of CNY411.19 million, an increase of 18% yoy. During the year, the Company paid taxes of CNY413.51 million. We have maintained good credit ratings and sound relationships with many financial institutions such as Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, The Export-Import Bank of China, China Merchants Bank, China CITIC Bank and Industrial Bank.

Operating income in the past five years Unit: CNY100million



Total profit in the past five years Unit: CNY100million



Annual honors

December 2022	Honorary title of "Outstanding Enterprise of Shandong Province for Informatization and Industrialization Integration"
December 2022	Civilized Unit of Provincial Enterprises qualified for the review in 2022
August 2022	Bronze Award of the 18th Shandong Provincial Youth Vocational Skills Competition and Special Competition for Innovation and Efficiency Creation
August 2022	Third Prize of Science and Technology Award granted by Shandong Pharmaceutical Association
February 2022	High-end Solid Preparation Intelligent Workshop was selected as "Digital Transformation Pilot Demonstration Project of Provincial Enterprises in 2021" by the provincial SASAC
February 2022	"Advanced Unit of Information Reporting for Key Enterprises in 2021" by SASAC of the State Council
January 2022	Selected as one of the sixth batch of National Green Supply Chain Management Enterprises by the Ministry of Industry and Information Technology of the People's Republic of China (MIIT)
January 2022	Shandong Province Archives Business Construction Demonstration Unit
2021-2024	Demonstration Enterprise of Integrity Construction
2021	Selected in the Second "Shandong Business Card" Top Brand Influence List
2019-2021	National Environment-Friendly Enterprise
2021	No. 14 in Zibo Top 100 Industrial Enterprises
2021	No. 15 in Zibo Top 100 Comprehensive Enterprises
2021	Excellent Preparation Export Enterprise Brand
2021	Excellent API Export Enterprise Brand
2021	Shandong Province High-end Brand Cultivation Enterprise



Responsibility Column



Diversified Innovation and R&D Show the Responsibility of A Leading Pharmaceutical Company

Innovation Layout of the "14th Five-Year Plan"

In pursuit of sustained innovation, Xinhua Pharmaceutical has formulated the Development Strategy and Plan of Xinhua Pharmaceutical during the "14th Five-Year Plan" Period. This plan provides a clear positioning of the development direction, offers continuous support for innovative drug R&D projects, and strengthens the cooperation mechanism. Through innovation and R&D, we continue to build up our economic development strength, advance project development, and make new progress in R&D projects of science and technology innovation. Each plant of the Company promotes development planning and well positions themselves in pharmaceutical production in an efficient manner. Hence, five functional parks are built step by step, including the Headquarters Park, No. 1 Factory, No. 2 Factory, Shouguang Park and Gaomi Park.



No. 1 Factory



No. 2 Factory



Headquarters Park



Shouguang Park



Gaomi Park

No. 1 Factory

API clean production, green manufacturing demonstration base; mainly producing caffeine series, ibuprofen series, levodopa, barbitone series, pipemidic acid series and other products

No. 2 Factory

Bulk API production base, specialty API industrialization base, and API pilot plant; mainly producing "5A" series, aspirin series, hormone series and other small tonnage, high value-added specialty APIs and other products

Headquarters Park

Management center, marketing center, R&D and design center, and preparation production center

Shouguang Park

Production of pharmaceutical intermediates and new materials, with main products such as pyrazolone, purpuric acid, chloropropionyl chloride, sulfuric acid, DK, neopentyl glycol, and diacylaniline

Gaomi Park

Production of oral preparations for human use, veterinary drug preparations, and high-end pet food.

Functions and planning of the five parks

Investment and Results in R&D during the "14th Five-Year Plan"

We continuously increased our investment in R&D and achieved considerable quantitative results in scientific research. To be specific, we undertook a number of national and provincial projects, with the number of applications and production approvals gradually increasing. Since the "14th Five-Year Plan" period, the Company has obtained a total of 28 drug approvals and 32 authorized patents. We were the first in China to pass the consistency evaluation for pioglitazone hydrochloride capsules, and the second in China to pass the same evaluation for cefaclor granules and cefaclor sustained-release tablets. In 2022, the Company made a major breakthrough in drug innovation. OAB-14, a national Category I new drug for the treatment of Alzheimer's disease, was declared for clinical use. Gaomi Company obtained approval numbers for 13 preparations and 16 grades of veterinary drugs.

The Company attaches great importance to the construction of research sites and declares a number of professional technical centers. Our Modern Pharmaceutical International Cooperation Center has been recognized as a provincial digital workshop, a typical application scene of digital transformation of provincial enterprises, an intelligent workshop of Zibo City, and an excellent project for informatization and industrialization integration. We have been awarded the certificate of informatization and industrialization integration management system by the MIIT, approved as the first batch of "Zibo City Biomedical Innovation and Entrepreneurship Community" construction unit, and named the Leading Enterprise of Science and Technology in Shandong Province, the Enterprise of Full Innovation in Shandong Province, and the Excellent Enterprise of Shandong Province for Informatization and Industrialization Integration. In 2022, the Company successfully passed the re-evaluation of the National Enterprise Technology Center and the certification of the national intellectual property management system. In addition, Shouguang Company and Pharmaceutical and Chemical Design Company were recognized as high-tech enterprises. The construction of the Gene and Cell Engineering Research Center was completed. We completed 30 technical and quality research projects and 21 energy transformation projects throughout the year, saving CNY20.9 million in raw materials and energy consumption.

We actively engage in the formulation of industry standards. We act as a key player in China Pharmaceutical Industry Association (CPIA), Shandong Pharmaceutical Profession Association (SDPPA), China National Narcotic Drugs Association (CNND), China Chamber of Commerce for Import & Export of Medicines & Health Products, and vice president unit of Chinese Society of Pharmaceutical Accounting (CSPA) to promote the development of the associations. We also establish university-enterprise cooperation platforms with China Pharmaceutical University, China University of Petroleum, Beijing Institute of Technology and other universities to boost industry development and co-create and share experiences with industry peers.



"Chief Scientist" leads the R&D of major innovative drugs

As scientific research and innovation progress, the Company devotes more energy and attention to the cultivation of talents. In 2022, the Company appointed Yang Baofeng, an academican of the Chinese Academy of Engineering, as the Chief Scientist of major innovative drugs to lead the innovative R&D of cardiovascular new drugs.

Academician Yang Baofeng and his team worked together with the Company to build Xinhua Pharmaceutical's cardiovascular new drug innovation team and discovery platform to design and discover major new drugs, participate in the research of major national innovation topics, and explore the construction of the joint laboratory of "major innovative drug discovery and evaluation". Specifically, Academician Yang and his team conduct joint research on molecular mechanisms and pharmacological effects in the fields of anti-heart failure, anti-atherosclerosis, venous occlusion, anti-pulmonary fibrosis and anti-pulmonary hypertension to screen more effective drugs while enhancing joint research on major common key technologies and engaging in research on major national innovation topics. On this basis, we encourage further high-level academic exchanges and promote the joint training of high-level pharmaceutical talents. With this opportunity, the Company's scientific and technological innovation level and R&D capability in the cardiovascular field will reach a higher level, laying a solid foundation for accelerating the launch of more major innovative drugs.



Xinhua Pharmaceutical appoints Academician Yang Baofeng as Chief Scientist of major innovative drugs



Chapter 1

Efficient Governance,
Sustaining the Legacy
with Historical Heritage



Corporate governance

Governance structure

With strict compliance with the requirements of the currently effective *Company Law*, *Securities Law*, *Code of Corporate Governance for Listed Companies*, *Rules on Shareholders' Shareholders meetings of Listed Companies*, *Rules Governing the Listing of Securities of SEHK*, *Stock Listing Rules of Shenzhen Stock Exchange (SZSE)*, and other laws and regulations as well as related documents, the Company has established a comprehensive corporate governance structure including the Shareholders meeting, the Board of Directors, the Board of Supervisors and the management.

Upholding the management philosophy of "performance-based and scientific process", the Company improves the internal management mechanism, enhances operational efficiency, and improves the decision-making level from various aspects such as the establishment of institutions, management of procedures, formulation of laws and regulations, etc. To design a reasonable internal management system, the Company strictly follows the *Articles of Association*, *Rules of Procedure of the Shareholders meeting*, *Rules of Procedure of the Board of Directors*, *Rules of Procedure of the Board of Supervisory*, *Rules of Procedure of the Professional Committees* and the relevant internal control system of the Company. In this way, we ensure prudent decision-making and standardized operation of the Shareholders meeting, the Board of Directors, the Board of Supervisors and the management safeguard the legitimate rights and interests of the shareholders and creditors of the Company, improve and standardize the organizational behavior of the Company, and promote sound business development and stable operation of the Company.

Shareholders meeting

The Shareholders meeting is the highest authority of the Company. The *Articles of Association* and *the Rules of Procedure of the Shareholders meeting* clearly stipulate the duties of the Shareholders meeting of the Company and the rules of procedures. They ensure efficient and standardized operation and scientific decision-making of the Shareholders meeting and protect the lawful interests and rights of all shareholders, especially the small and medium ones. During the Reporting Period, the Company held 2 Shareholders meetings.

The Board of Directors

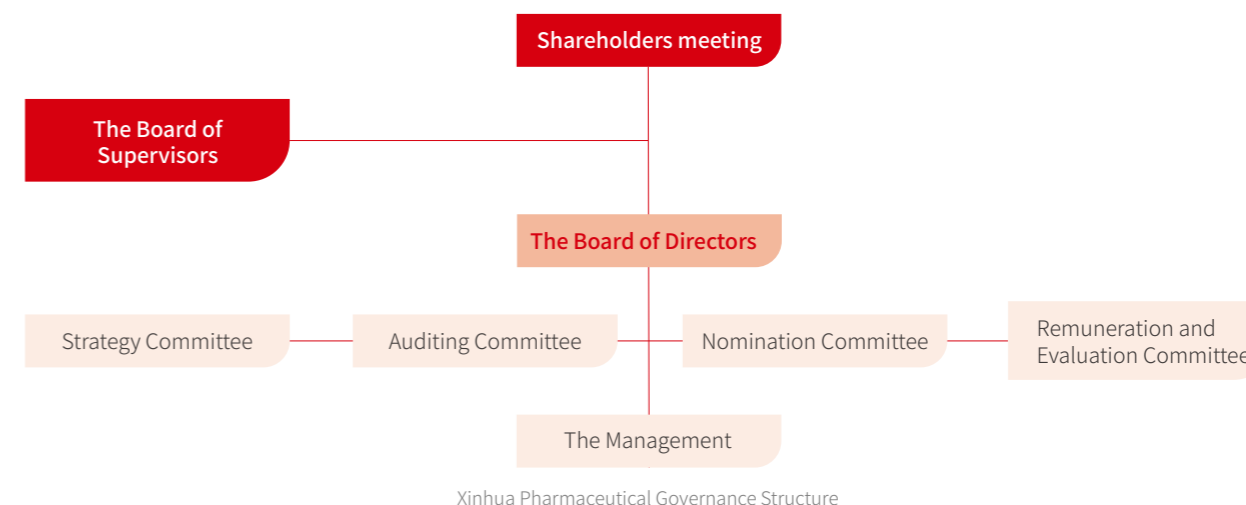
The Board of Directors directs and leads the affairs of the Company, formulates strategic orientations, and sets goals and business development plans. The Board of Directors exercises its power to make operational decisions within the scope of its prescribed duties in strict accordance with the *Articles of Association* and the *Rules of Procedure of the Board of Directors*. It is also responsible for the establishment and effective implementation of the internal control system to safeguard the overall interests of the Company. The Board of Directors of the Company consists of 9 directors, including 4 independent non-executive directors. Four special committees are set up under the Board of Directors, namely the Strategic Development Committee, the Nomination Committee, the Remuneration Committee and the Independent Audit Committee. During the Reporting Period, the Company held 9 board meetings.

The Board of Supervisors

The supervisors of the Board of Supervisors perform their duties in strict accordance with the provisions of the *Articles of Association*, the *Rules of Procedure of the Board of Supervisors* and other systems. They examine the financial condition of the Company, supervise the lawful and compliant performance of the directors, managers and other senior management, and give independent opinions. The Board of Supervisors consists of 5 supervisors. During the reporting period, the Company held 6 meetings of the Board of Supervisors.

The Management

The Company's management implements the strategies, objectives and plans adopted by the Board of Directors. The management handles production and operation issues of the Company in accordance with the provisions of the *Articles of Association* and the *Rules of Procedure of the General Manager*, implements the resolutions of and reports to the Board of Directors, and is subject to the supervision of the Board of Supervisors.



Investor relations management

As a domestic and overseas listed company, the Company firmly believes that effective and close contact with investors is the key to maintaining good corporate governance, and investor relations is an indispensable link for listed companies to maintain good corporate governance. The Company strictly implements the *Investor Relations Management System of Shandong Xinhua Pharmaceutical Company Limited* and the *Information Disclosure Management Measures of Shandong Xinhua Pharmaceutical Company Limited*. Through sufficient information disclosure, we enhance communication with investors and promote investors' understanding and recognition of the Company, and form a corporate culture that respects investors. Our ultimate goal is to maximize the Company's value and shareholders' interests.

We have been committed to safeguarding the interests of small and medium investors. By welcoming visits and inquiries from various investors, and interacting with public investors through social networks and by telephone, we have introduced the market profile as well as the Company's business performance, business development status and future prospects to investors, further enhancing public awareness of the Company and improving our corporate image.

ESG management

Statement of the Board of Directors

The Board of Directors of Shandong Xinhua Pharmaceutical Company Limited has reviewed this Report and confirms that there is no false information, misleading statements or material omissions, and issues the following statement based on the Board's responsibility for the supervision and management of ESG-related matters during the Reporting Period:

The Company attaches great importance to environmental, social and governance work. While ensuring steady growth in operating results, we organically integrate the concepts of green and low-carbon operation, employee care and social contribution with our corporate development strategy, effectively fulfill our corporate social responsibility, and strive to meet the expectations of all relevant parties, and build up our sustainable development capacity.

The Company strictly follows the requirements of the *Code of Corporate Governance for Listed Companies of the China Securities Regulatory Commission (CSRC)* and the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* issued by the SEHK to enhance the Board's participation in and supervision of ESG-related matters. We also continue to improve our ESG governance structure and management mechanism, and explore ESG practices and ESG development values.

As the highest responsible, decision-making and supervisory body for ESG-related matters, the Board of Directors performs supervisory and management responsibilities for ESG-related matters, including but not limited to material risk assessment, key target setting, work planning and review. In 2022, the Company urged the Board members to improve their ESG management, and conducted ESG knowledge training sessions to emphasize the importance of ESG management by the Board of Directors in corporate governance and ESG understanding of the Board members.

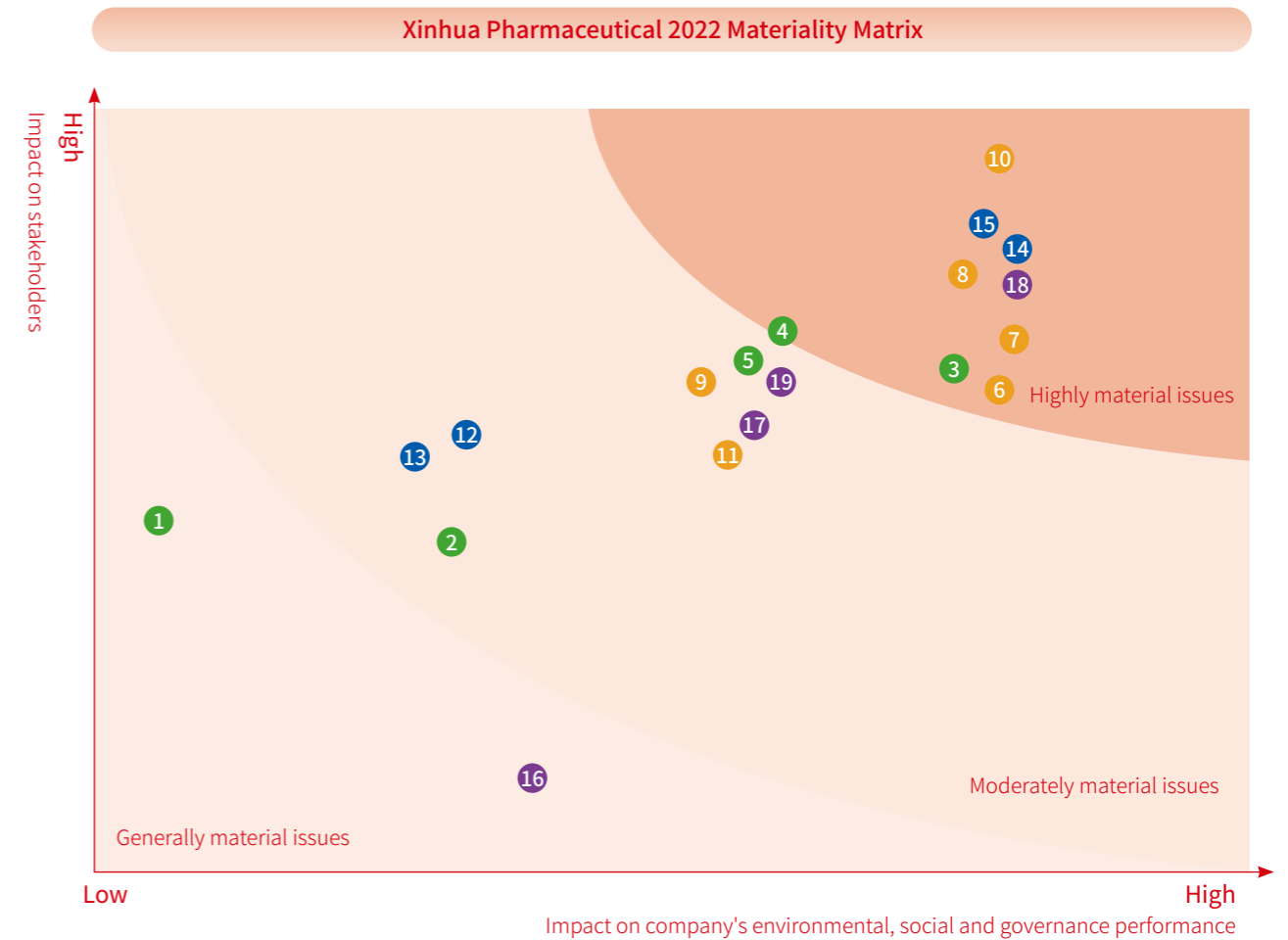
Stakeholder Engagement

Xinhua Pharmaceutical attaches great importance to engagement with various stakeholders in our development process. We listen to the opinions and feedback of stakeholders and continue to improve the effectiveness of engagement with stakeholders by refining communication mechanisms, expanding communication channels, and actively responding to the expectations of stakeholders.

Stakeholders	Communication requirements	Communication channels
Government departments	<ul style="list-style-type: none"> Complying with appropriate laws and regulations Ensuring drug quality and safety Cooperating with government regulation and promoting healthy development of the industry Paying taxes in accordance with the law and promoting regional economic development 	<ul style="list-style-type: none"> Government-enterprise seminars Supervision and inspection Work reports and research
Shareholders and investors	<ul style="list-style-type: none"> Protecting the legitimate rights and interests of shareholders Learning about the Company's business performance, governance norms and strict risk control Operating steadily to bring maximum investment returns Disclosing information openly, fairly and impartially 	<ul style="list-style-type: none"> Holding Shareholders meetings Company website Investor exchange meetings and site visits Disclosing significant business information and interim announcements in a timely manner and releasing financial data on a regular basis Interviews, hotline and e-mail Shenzhen Stock Exchange's "Hudongyi" platform IR Connect of SEHK
Employees	<ul style="list-style-type: none"> Safeguarding the basic rights and interests of employees Caring for employees' physical and mental health and safety Understanding employees' needs and suggestions to the Company Providing training and career development platform for employees 	<ul style="list-style-type: none"> Employee representative assembly and labor union Four Eagles Program Employee satisfaction survey Occupational health and safety training Feedback platform Daily communication
Consumers and customers	<ul style="list-style-type: none"> Protecting consumer rights Adhering to business ethics Ensuring the quality and safety of drugs and recalling problematic drugs in a timely manner Providing quality after-sales service 	<ul style="list-style-type: none"> Product labeling and information disclosure Customer visits Consumer satisfaction surveys Consumer complaints and opinions handling
Partners and suppliers	<ul style="list-style-type: none"> Maintaining sound and stable relationships Operating in good faith and ensuring drug compliance Communicating timely with upstream and downstream partners for win-win outcomes 	<ul style="list-style-type: none"> Regular communication Working meetings, telephone calls, and correspondence Company website
Media	<ul style="list-style-type: none"> Maintaining open and transparent information disclosure Maintaining good communication with media 	<ul style="list-style-type: none"> Telephone interviews and email exchanges Feature interviews
Industry peers and associations	<ul style="list-style-type: none"> Maintaining fair competition with peer companies and promoting healthy development of the industry Sharing technologies and experiences with other companies 	<ul style="list-style-type: none"> Industry organization meetings Experience sharing sessions Field trips and exchanges
Local community	<ul style="list-style-type: none"> Paying attention to the impact of production and operation on the local community Promoting local economic development and helping the disadvantaged groups Promoting health knowledge and supporting people with diseases Reducing environmental pollution by improving recycling of product packaging and waste 	<ul style="list-style-type: none"> Participating in social welfare activities Regular local support Volunteer services Environmental information disclosure

Materiality Assessment

By benchmarking with domestic and international ESG report disclosure standards, Xinhua Pharmaceutical interprets macro policies and hot topics in the industry, conducts extensive research and analysis, and establishes a list of issues in conjunction with the Company's business development strategy and unique features. Through online questionnaires and offline stakeholder interviews, we comprehensively assessed the impact of each issue on Xinhua Pharmaceutical and stakeholders. We identified 19 material issues, and disclosed and responded to them in this Report.



Material issues presentation

Environmental responsibilities (5)	Product responsibilities (6)	Social responsibilities (4)	Governance responsibilities (4)
1. Use of water resources	6. Responsible marketing	12. Employee career development	16. Investor relations management
2. Use of energy	7. Customer services	13. Employee care and benefits	17. Business ethics
3. Green & low-carbon development	8. R&D and innovation	14. Occupational health and safety	18. Lawful and compliant operation
4. Waste management	9. Information and data security	15. Employee rights and interests protection	19. Internal control risk management
5. Pollutant prevention and control	10. Product quality and safety		
	11. Intellectual property protection		

Risk and Internal Control

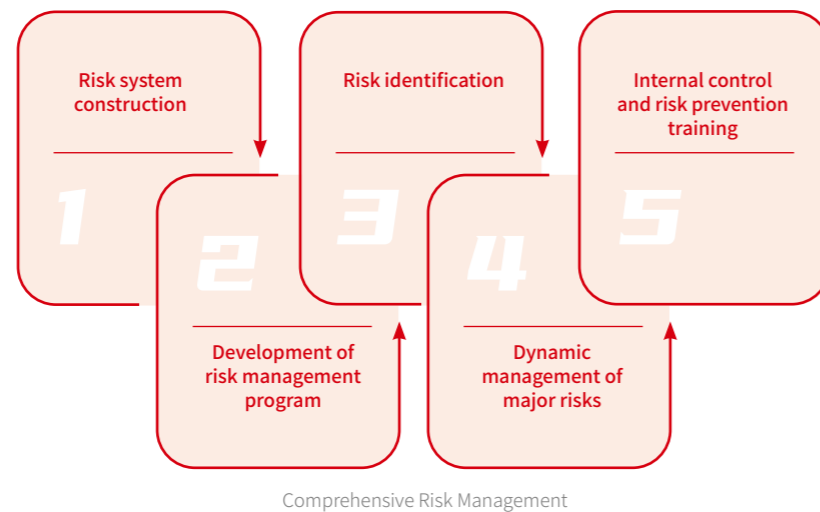
Risk management

Taking "establishing a compliance system for effective risk control" as our working goal, Xinhua Pharmaceutical promotes the construction of a sound risk management system, and strengthens the multi-layer risk prevention and control system featuring "individual self-control, departmental collaborative control, and centralized control". By identifying, evaluating, managing and controlling potential risks, we report no major risk events and identify all kinds of risks and hazards effectively and keep them under control.

Our comprehensive risk management work is deployed by the Chairman and implemented by the General Manager. We have formulated the 2022 Comprehensive Risk Management Measures Plan in terms of the Risk and Opportunity Management Procedures and specified the "principle of graded prevention and control", "principle of importance" and "principle of coordination" of risk management. These documents and principles provide a clear and systematic basis for risk management in the Company's corporate strategic planning, product development, quality, safety, production, environmental protection, market operation, financial management and other operations, as well as all units of the joint-stock company.

In 2022, all units of the Company carried out annual risk management identification and assessment to effectively identify, comprehensively analyze and quantitatively evaluate the distribution and impact of risks in the Company. A total of 115 potential risks were identified. In response to the potential risks, we organized each division to carry out training on dynamic management of major risks, internal control, and risk prevention to enhance the Company's risk resistance and our employees' risk management capabilities.

In 2022, the Company formulated the Guidelines for Enterprise Credit Management of Zibo as the main drafting unit, which was adopted as the first local standards for enterprise credit management in Zibo, filling the gap of the field in Shandong Province.



Internal control

Under the framework of comprehensive risk management, the Company continuously promotes and improves the construction of the internal control system and the integrated information platform for contract management and seal control. We fully implement the Basic Internal Control Norms for Enterprises, the Guidelines for Application of Enterprise Internal Controls and the Guidelines for Evaluation of Enterprise Internal Controls issued by the Ministry of Finance and four other departments of the State. The Company engages a third-party professional institution to conduct an independent audit on the effectiveness of the Company's internal control and organizes all units to rectify the internal control problems identified in the audit. Meanwhile, the Company evaluated internal control for 2022 in accordance with the provisions of the Basic Internal Control Norms for Enterprises and supporting guidelines, combined with the Company's internal control system and evaluation methods.

In 2022, the Audit Department carried out various forms of audit projects, including 1 special audit of hospitality expenses, 1 special audit of marketing credit risk, 1 outgoing financial responsibility audit, and 1 special audit of contract management with a risk-oriented approach. Audit recommendations were made in various aspects, such as implementing the eight provisions, promoting clean management, regulating corporate governance and improving internal control, and were adopted by the Company. They promoted the closed-loop management of the Company's audit projects and the implementation of rectification recommendations.

Business ethics

Anti-corruption

The company strictly abides by the Criminal Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China, and other laws and regulations concerning bribery, extortion, fraud and money laundering that have a significant impact on the Company. We have successively formulated the Measures for the Implementation of the Responsibility System for Improving Party Conduct and Ensuring Clean Government, the Provisions on Integrity and Self-discipline of Party Leaders, the Provisions on the Implementation of the Registration System for the Acceptance of Gifts and Cash by Relevant Personnel, the Interim Provisions on the Presentation of Work and Integrity by Leading Cadres of the Company, the Provisions on the Corruption-free Practice of Company Leaders, the Rules of Procedure of the Plenary Session of the Disciplinary Inspection Committee of Shandong Xinhua Pharmaceutical Company Limited, the Implementation Measures of the "Three Majors and One Large" Decision-Making System, the List of Tolerance and Responsibility Exemptions for Leaders of Shandong Xinhua Pharmaceutical Company Limited in the Performance of Their Duties (Trial), the Notice on Measures to Strengthen the Supervision of the "Top Leaders" and the Leading Group, the Implementation Plan for the Division of Work on Strengthening the Culture of Integrity in the New Era, the Implementation Measures for the Meeting between the Party Committee and the Discipline Inspection Commission and the Notification of Significant Circumstances (Trial), and other systems. The Company values the construction of the anti-corruption system and has set up a Discipline Inspection Committee with a Discipline Inspection Office. The office consists of 1 secretary and 4 members. All 41 Party branches of the Company have discipline inspection members.

In 2022, no reports of corruption lawsuits against the Company or our employees were received.

Case

Party building and discipline inspection conference

The Company pays attention to discipline inspection and regularly convene Party building and discipline inspection conferences. In 2022, the Company organized management personnel to watch the warning education film "Hunting: What Bribe Payers Say" to strengthen the concept of integrity. A total of 67 people, including the Company's executives and the main Party and government officials of each unit, attended the meeting. The training lasted for 4 hours and delivered good warning and education effects.



On the Party building and discipline inspection conference

Case

Integrity conversation session

On March 3, eight newly appointed middle-level leaders held an integrity conversation session to study the Provisions on the Corruption-free Practice of Company Leaders and other Party regulations, on which requirements and expectations for the newly appointed were put forward. The training lasted 4 hours in total to further enhance the awareness of the new leaders on their duties and responsibilities in improving Party conduct and clean government.



Case

Party day education for Party members and cadres on clean government

From May 23 to June 22, a warning education themed Party day activity was carried out for all 1,088 Party members and cadres of the Company to study the Implementation Plan for the Division of Work on Strengthening the Culture of Integrity in the New Era and notify typical warning education cases to enhance the awareness of Party members of integrity risks.



Whistleblowing measures

Xinhua Pharmaceutical is committed to upholding a high-level standard of integrity, openness, honesty and accountability. We implement the requirements of strict governance across the board and open up channels for employees and the public to report information. Taking into account the reality of the Company, we publish the reporting telephone number and correspondence address to the public, and accept reports from employees and third parties on misconduct related to the Company. Once the reported issues are confirmed, the Company's Discipline Inspection Commission will handle them with due diligence.

All reports must be made in person or submitted by the whistleblower and reported by the Audit Committee to the Chairman of the Audit Committee, followed by relevant actions. The Company has established whistleblower protection measures, allowing whistleblowers to report anonymously and ensuring that their identity information is kept confidential. For employee whistleblowers, the Company promises that they will not be subject to any form of unfair treatment.

Information and data security

Xinhua Pharmaceutical takes ensuring information and data security as an important corporate responsibility to strengthen information security management. We establish a sound network security control system and further improve the management of network security, technical support and technical service systems. We ensure network security through technical and business management, and provide effective protection for basic information networks and important information systems to ensure the safe, stable and reliable operation of the Company's networks and information systems. The Company has formulated the Information Network Security Management Measures, Information Data Backup and Storage Equipment Management Regulations, Information System Database Maintenance Regulations, Data Security Management Regulations, Network Equipment Management Regulations and other relevant regulations to carry out comprehensive network security checks, upgrade border firewalls and strengthen protection strategies. In 2022, to improve the information-based work level and daily computer operation ability of our employees, the Company conducted 1 training session on information security and computer ability and knowledge, with 43 employees attending.

We continuously strengthen the construction of digital and intelligent factory and office systems. In May 2022, the Company submitted intelligent factory evaluation materials, and was rated as a provincial intelligent factory in August. In October, the production operation visualization data analysis platform was put into operation and the Company won the honorary title of Excellent Enterprise for Informatization and Industrialization Integration of the Year.

Party building

Adhering to the development-oriented approach and the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics in the New Era, Xinhua Pharmaceutical fully implements the spirit of the plenary sessions of the 19th CPC Central Committee and the 20th CPC National Congress. We lead the high-quality development of state-owned enterprises with our Party building efforts and strive to build an embedded and deeply integrated Party building work system, providing strong political and organizational support for the high-quality development of enterprises.

Strengthening the political construction of the Party

The Company strengthens the political construction of the Party and demonstrates the role of the Party organization at critical moments. We implement the "First Topic" system and the "Three Lists" system for full and rigorous Party self-governance. In 2022, we held 16 Party committee meetings, and examined 118 major decisions; we held 4 Party building leading group meetings and 4 regular Party building meetings; we finished the inspection of our holding company Hualu Group with high quality, and rectified all the problems fed back by the inspection team by actively communicating with them.

The Party Committee of the Company held a special meeting on innovation and breakthrough to implement the requirements of the breakthrough development meeting of the pharmaceutical segment of Hualu Group.

Anti-corruption	Unit	2020	2021	2022
Number of employees receiving anti-corruption training	Persons	1,205	1,131	1,143
Hours of training received by employees	Hours	4	4	4
Number of Directors receiving anti-corruption training	Persons	4	4	4
Hours of training received by Directors	Hours	8	8	8

In 2022



The Company identified **44** breakthrough tasks and **195** specific measures. Each measure was further decomposed to the responsible persons, with assessment measures being implemented.

Case

Party members pioneer in securing pharmaceutical supplies

Due to unfavorable factors such as changes in market demand, drugs such as ibuprofen saw surging supply pressure. The Company highlighted the role of the Party Committee in "control, management and guarantee", and gave full play to the role of the grass-roots Party branches and Party members. The Party Committee urgently restructured production schedules, and the grass-roots branches mobilized Party members and workers to work overtime and at full capacity, and ensure the supply of drugs overcoming unfavorable traffic conditions. These efforts were well received by the vice governor of Shandong Province, the leaders of the State Council Joint Prevention and Control Medical Supplies Support Group, and all walks of life.

Strengthening the ideological education of Party members

The Company strengthens the ideological education of Party members and builds a firm foundation of faith for all Party members and workers. We earnestly studied the spirit of the 20th CPC National Congress and organized 130 propaganda activities. The Party (General) branches held 210 branch conferences, 492 Party day activities, 183 lectures by leading cadres, and 1 red education training session for branch secretaries to celebrate "July 1".

Case

Learning the spirit of Lei Feng to dedicate our youth

The Company carried out various voluntary activities. We encouraged employees to donate blood for the "Centenary Celebration of the Founding of the Youth League" organized by the Youth League Committee of the Company. More than 10 volunteer teams of all units organized over 60 voluntary service activities, with 1,000+ participants in total.

Promoting mutual integration and facilitation of Party building and Corporate business

The Company promotes mutual integration and facilitation of Party building and Corporate business to create a Party building brand with the characteristics of Xinhua Pharmaceutical. Taking mutual integration, facilitation and improvement as the main theme of Party building work this year, the Company promoted Party building and Corporate business in parallel. We led 41 Party branches to take the difficulties of production and operation as the focus of Party building, further improving and enhancing our Party building brand in accordance with the "seven" requirements. By designing the brand LOGO and clarifying the connotation of the brand, we created a unique Party building brand of our branch.

Drawing a firm ideological line

The Company strengthens ideological work and draws a firm ideological line for cadres and workers. We enhance system construction, formulate the *System of Regular Consultation and Judgment on Public Opinions*, issue the *Essentials of Ideology and Thought Publicity Work in 2022*, and establish a ledger of ideological positions. We adopt multiple channels for positive publicity. Up to now, we have published a total of 209,515 positive publicity articles. In 2022, we have published a total of 209,515 positive publicity articles. The *Xinhua Pharmaceutical Newspaper* had 27 issues published, and the two exhibition halls received more than 236 batches of (more than 3,000) visitors in total.

Case

Thousand-mile drug delivery to serve the masses

A patient with black fever in a hospital in Shijiazhuang city was in urgent need of a specific medicine (sodium stibogluconate), but there were difficulties in transporting the medicine. Upon learning of the case, the Company attached great importance to it, immediately started an emergency plan, and reported it to Zibo Public Security Bureau for help. With the efforts of all departments of the Company, the medicine was delivered to the patient, who got effective treatment.



Extremely fast delivery of medicine

Party style and integrity construction

The Company strengthens Party style and integrity construction and implements responsibilities for full and rigorous Party self-governance. We continue to promote "standardized, law-based, and formalized" discipline inspection and implemented the 1+4 discipline inspection meeting system and 1+4 discipline inspection opinion highlight system. In addition, we organized learning and test sessions for full-time and part-time discipline inspection staff and improved the integrity files of full-time discipline inspection staff.

In 2022, we revised 4 system documents and carried out 1 warning education meeting for senior management and middle management of the Company; organized 1 red education activity for branch secretaries and discipline inspection members; and carried out proactive interviews with 19 people throughout the year, involving 11 associated units.

Column

Learning the spirit of the 20th CPC National Congress in depth to lead high-quality enterprise development

Guided by Xi Jinping Thought on Socialism with Chinese Characteristics in the New Era, the Party Committee of Xinhua Pharmaceutical fully implements the spirit of the 20th CPC National Congress, the 19th CPC National Congress and the plenary sessions of the 19th CPC Central Committee.

On October 16, the 20th National Congress of the Communist Party of China kicked off in Beijing. Xinhua Pharmaceutical arranged for all Party members, cadres and workers to watch and listen to the opening Congress through TV, Internet and radio, earnestly studying the work report made by General Secretary Xi Jinping on behalf of the 19th Central Committee to the 20th Party Congress.



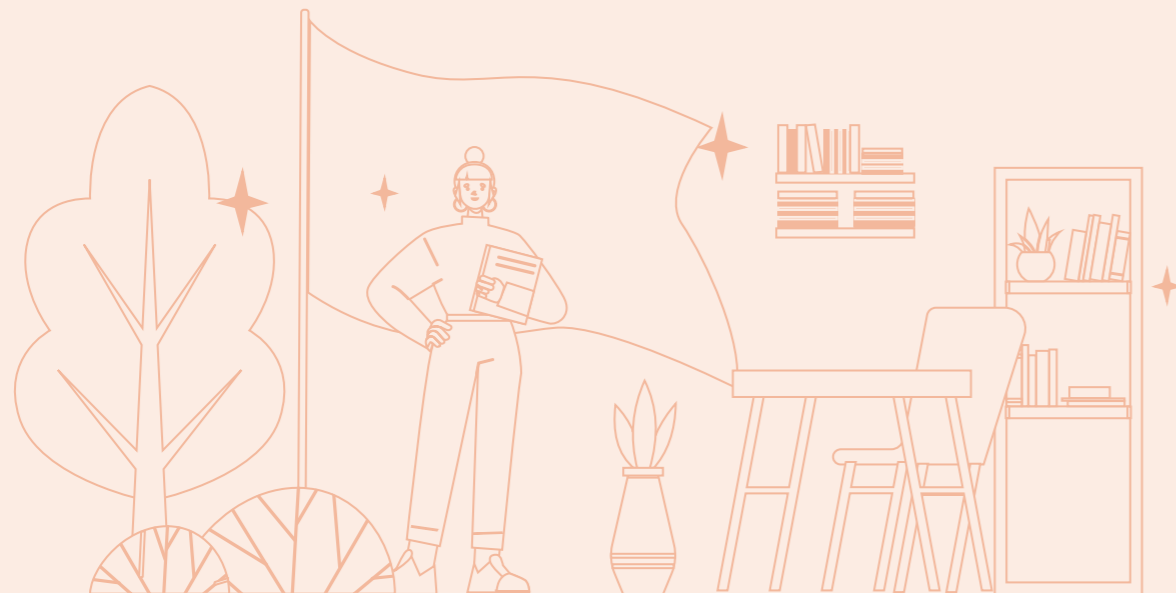
Members of the leadership team and the main Party and administrative officials of each unit watch the live 20th CPC National Congress

As a pharmaceutical enterprise with "red" genes, Xinhua Pharmaceutical will take the learning, comprehension and implementation of the spirit of the 20th CPC National Congress as our primary task for the time being and days to come. To better study the spirit of the 20th CPC National Congress report, the company formulated a notice on issuing the *Implementation Plan of Xinhua Pharmaceutical Party Committee for In-depth Study, Publicity, and Implementation of the Spirit of the 20th CPC National Congress*.

The Chairman of Xinhua Pharmaceutical stressed that we would transform the learning results into a driver for promoting high-quality development, make every effort to build the "three world-class bases" in accordance with the report's requirement of "accelerating the construction of a new development pattern and promoting high-quality development", and invest more in innovative drug research to speed up the production and marketing of more new and good drugs. With all these actual actions, we would escort the cause of national health and contribute our share to create a new situation of socialism with Chinese characteristics and build a strong socialist modernization country in an all-round way.



Learning the spirit of the 20th CPC National Congress



Chapter II

Working Diligently
in R&D to Provide
Quality Products

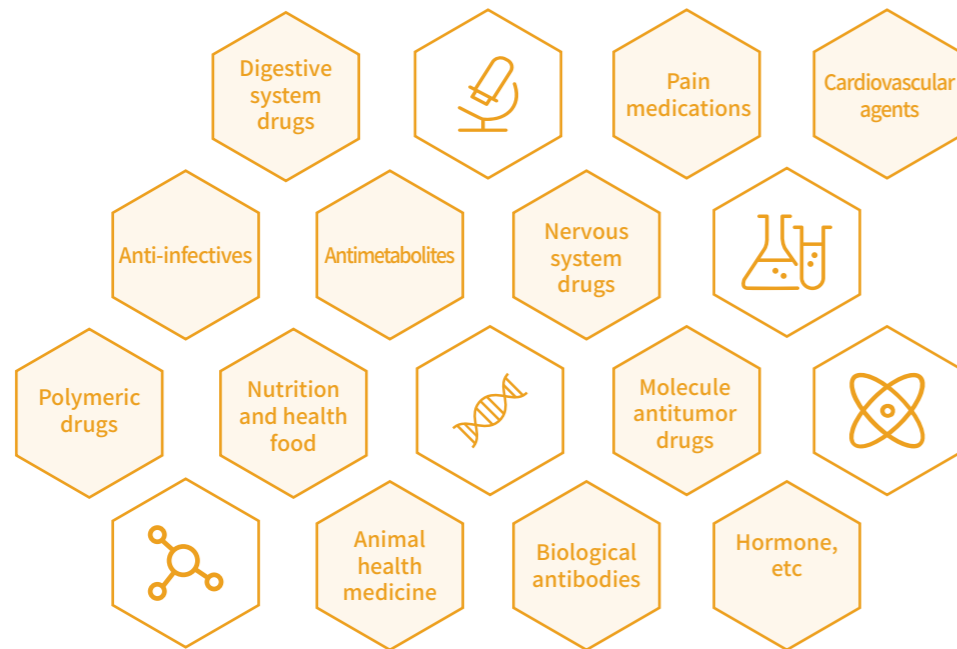


Active on Innovation and R&D

R&D strategies

The year 2022 is critical in the "14th Five-Year Plan" period. The Company continued to invest more in R&D to implement the "Large Preparation Strategy" this year. It accelerated the R&D of new products by centering on "making one breakthrough, activating two mechanisms and building three world-class bases". With an emphasis on science and technology, the Company has established a perfect R&D and innovation system with the ability to keep innovating.

The Company comprehensively implemented the "Grand R&D Strategic Plan" in 2022, making a step from generic drugs to innovative drugs. We made scientific and technological innovations in 12 directions: digestive system drugs, pain medications, cardiovascular agents, anti-infectives, antimetabolites, nervous system drugs, polymeric drugs, nutrition and health food, antitumor drugs, animal health medicine, biological antibodies, hormone, and so on. Focusing on brain science and microcirculatory system, neurological and degenerative diseases, anti-infectives and immune system, antitumor and synergistic immunotherapy, endocrine system regulation, and other fields, the Company succeeded in solving the technical difficulties in translational medicine, clinical pharmacokinetic and pharmacodynamic evaluations, precision drug delivery, industrialization transfer, etc., and made breakthroughs in chemical small molecule, antibody as well as antibody-drug conjugates (ADCs), biosimilars, novel drug delivery system, and other pharmaceutical innovations.



Innovation management

The Company which always stresses the importance of science and technology has established a perfect R&D and innovation system. Being realistic and pragmatic, the Company innovates bravely and has made significant achievements in new products R&D, technical transformation, research projects, etc., which boosts the Company's overall development and core competitiveness, thus driving the technological innovation of the entire pharmaceutical sector.

The Company improved 3 high-end platforms in 2022. Firstly, the Company's intellectual properties were included in the China National Intellectual Property System Platform and successfully passed the certification of China National Intellectual Property Management System. Secondly, the Company established the Xinhua Pharmaceutical Study Platform of Gene and Cell Engineering, completed early-stage survey and planning, and finished the engineering construction of the project. Thirdly, the Company established the "Joint Laboratory for Research on Innovative Drugs for Nerve Injury and Protection" in cooperation with Academician Du Guanhua's Laboratory, Institute of Materia Medica, Chinese Academy of Medical Sciences. The Joint Laboratory started the research on LXH-2201, one of the first batches of innovative drugs. Part of the Phase II clinical trial of this project was completed.

Technological R&D	Unit	2020	2021	2022
R&D investment	CNY 10,000	29,129	32,803	35,160
Number of R&D staff	Persons	737	732	822

In 2022, the Company obtained 17 product approvals (including filings), including 8 approvals for new preparations: Irbesartan and Hydrochlorothiazide Tablets (approval No.: 2022B00941), Atorvastatin Calcium Tablets (approval No.: 2022B02035), Ursodeoxycholic Acid Tablets (approval No.: 2022B01291), Pediatric Paracetamol, Artificial Cow-bezoar and Chlorphenamine Maleate Granules (approval No.: 2022B02758), New Specifications of Sodium Bicarbonate Injection (approval No.: 2022B01786), Aspirin Enteric-coated Tablets (US NDC No.: 58624-5002-1), Calcium Polycarboxylate Tablets (US NDC No.: 58624-5003-1) and Flunarizine Hydrochloride Capsules (approval No.: 2022B05076).

5 consistency approvals: The consistency evaluations of Amoxicillin Capsules (approval No.: 2022B00072) and Pioglitazone Hydrochloride Capsules (approval No.: 2022B00074), Cefaclor Sustained-Release Tablets (approval No.: 2022B04040), Cefaclor Granules (approval No.: 2022B04516), Furosemide Injection (approval No.: 2022B04335) were approved, of which Pioglitazone Hydrochloride Capsules was the first one approved in China, Cefaclor Granules and Cefaclor Sustained-Release Tablets were the second ones approved in China.

4 approvals for APIs: Prednisone Acetate (filing No.: Y20190001819), Carbidopa (filing No.: Y2020000351), Prednisolone (filing No.: Y20200000903) and Sevelamer Carbonate (filing No.: Y20210000306) were reviewed and approved.

Case

Accelerating R&D of innovative drugs

OAB-14, a Class I anti-AD innovative drug, obtained the notification of Clinical Trial Permission (Acceptance No.: CXHL2200799, CXHL2200800), marking a milestone for Xinhua Pharmaceutical in the field of innovative drugs. The pilot-scale studies on the API and dry suspension of this drug were completed, and so were the pharmacokinetic, pharmacological, and toxicological studies. OAB-14 is a small molecular Class I innovative drug jointly researched by Xinhua Pharmaceutical and Shenyang Pharmaceutical University. With proprietary intellectual property (has applied for a patent for invention and PCT in China), this drug is the world's first small molecular multi-target anti-AD candidate drug that can clear Aβ in a targeted manner. OAB-14 is very safe and effective in application. The results of the nonclinical pharmacodynamic study show that OAB-14 can significantly improve the cognition impairment of the animal models suffering from AD (improving their spatial memory and non-spatial memory). Neither the pharmacological study nor toxicological study on safety shows an abnormal histopathologic change of related test substances. Once appearing on the market, OAB-14 will provide a first-in-class drug with a novel mechanism of action for curing AD, which will bring huge social benefits.





Talent platform building

The Company has 6 major talent platforms: National Enterprise Technology Center, Academician Workstation, Postdoctoral Workstation, Joint Training Site for Master of Pharmacy, Taishan Scholar Post, and Advanced Technician Workstation. These talent platforms provide a guarantee of scientific research for the Company to design and find new drugs and take part in key national innovation projects.

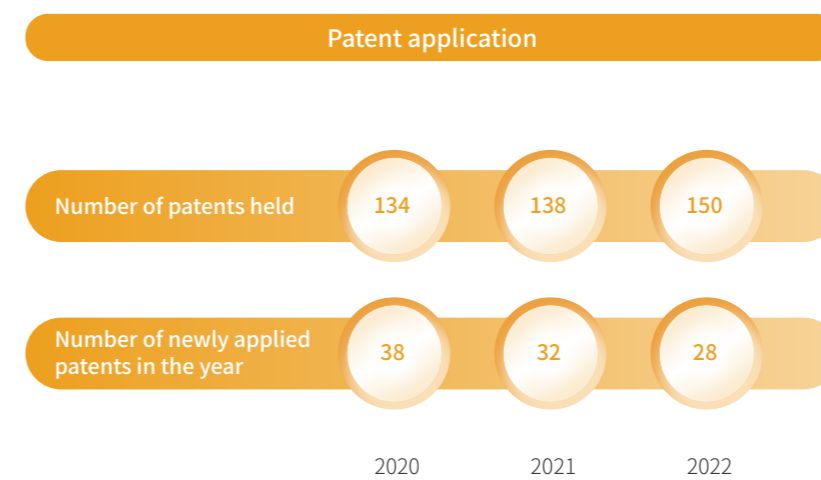
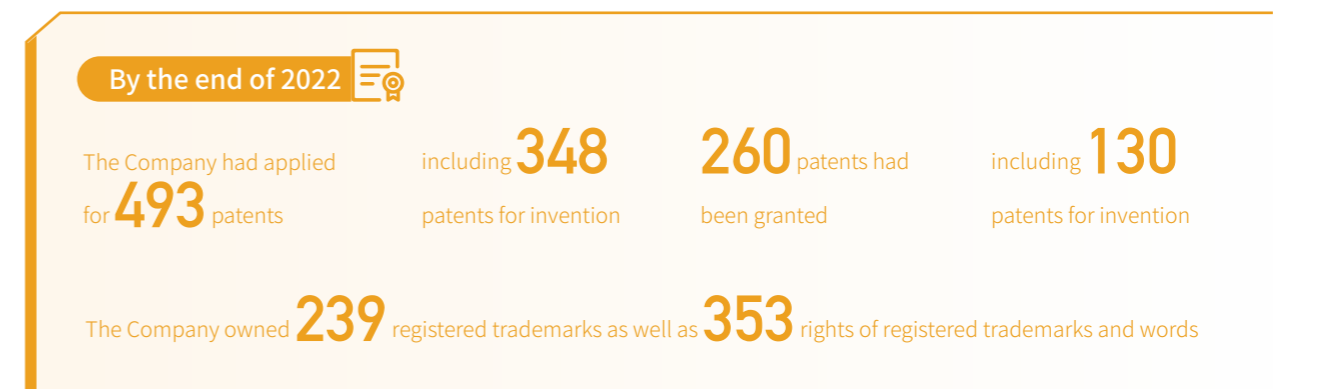
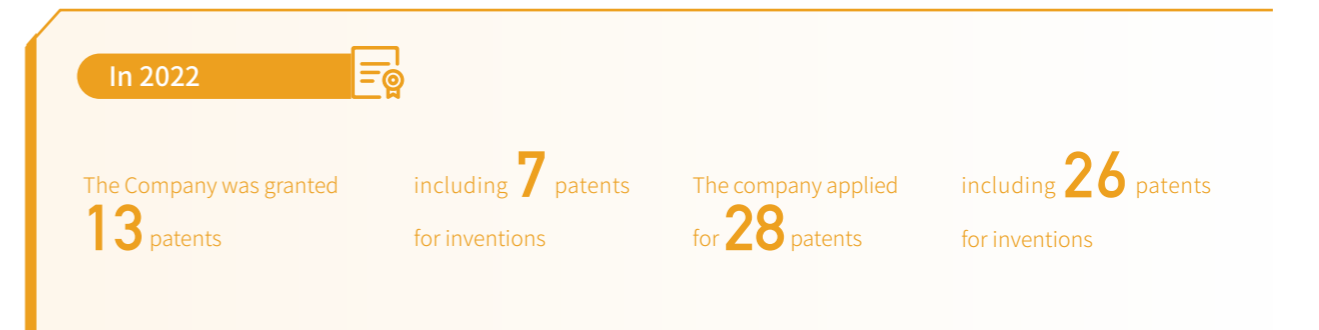
The Company has built various channels to encourage technological innovations and product R&D, formulated incentive regulations such as *Regulations on the Management of Scientific and Technological Progress Awards*, *Regulations on Management of Achievements Made in Each Stage of Scientific Research*, and *Regulations on Management of Subsidies for Scientific Researches*, providing powerful support for all talents to work smoothly. Thanks to these continuously improved incentive regulations on innovation, the Company manages to attract numerous scientific researchers. In 2022, the Company employed 62 masters, 2 doctors, and 1 academician, won 1 "Shandong Pharmaceutical Craftsman" of 2022 "Quality Shandong Pharmaceutical" Construction Brand, won 1 Taishan Industry Leader, and was listed in China's Top 100 Enterprises in Enterprise Education.



Intellectual property protection

With a specially-assigned person for managing the enterprise patents, Xinhua Pharmaceutical applies for intellectual property certification in accordance with *Enterprise Intellectual Property Management GB/T 29490-2013*, a national standard of the People's Republic of China, and has formulated *System and Regulations on Patent Management*, *Regulations on Intellectual Property Management* as well as *Standards for Patent Management of Shandong Xinhua Pharmaceutical Company Limited*, covering the protection of patent rights, technology (trade) secrets and trademarks as well as non-competition.

Xinhua Pharmaceutical participated in the 24th National Patent Award, Shandong High-value Patent Cultivation Competition, and Zibo High-value Patent Selection, and declared to Zibo Municipal Intellectual Property Protection Center for filing in 2022.





Strengthening quality management

Quality control

Product quality is the key factor for the survival and development of enterprises. The Company strictly adheres to Drug Administration Law of the People's Republic of China, Good Supply Practice for Pharmaceutical Products, Good Manufacture Practice of Medical Products (GMP), Measures for the Administration of Drug Registration, Regulations for the Implementation of the Drug Administration Law of the People's Republic of China, the Specifications for Pharmacovigilance Quality Management, Measures for the Reporting and Monitoring of Adverse Drug Reactions, the Specifications for Pharmacovigilance Quality Management, the Announcement on the Direct Reporting of Adverse Reactions by Marketing Authorization Holders, the Guidelines for the Collection and Reporting of Adverse Drug Reactions in Individual Cases, Guidelines for the Preparation of Pharmacovigilance System Procedures for Marketing Authorization Holders of Drugs in Shandong Province (trial implementation), and other laws and regulations. The Company has built a complete, scientific, modern, professional and systematic quality management system complying with the Company's actual situations and has formulated some documents on quality management such as *Standards for Management of Raw and Auxiliary Materials of Preparations*, *Standards for Management of Quality Audit on Preparation Suppliers*, *Standards for Management of Preparation Release*, *Procedures of Preparation Change Management*, *Standards for Management of Preparation Deviations and Other Quality Management Systems as well as Pharmacovigilance System and Quality Management System*. Furthermore, a risk management philosophy has been implemented in the Company to ensure product quality.

In 2022, the Company received no major quality complaints, and no general or higher-level quality incidents accorded.

Upholding the philosophy of "In China, for Global", the Company relies on FDA's quality metrics to establish a mature and prudent corrective and preventive action (CAPA) system. As the core of effective quality management and a key element of a quality management system (QMS), the CAPA system can provide a basis for management review, drive the continuous improvement of QMS, promote the spiral advancement of QMS, and boost the quality culture level on a continual basis.

As of 2022, the Company has passed the new edition of GMP in China and ISO9001 quality management system certification. Successively, the Company has passed the inspections of the Food and Drug Administration (FDA), Medicines and Healthcare Products Regulatory Agency (MHRA), European Medicines Agency (EMA), and other official inspections with excellent results. Its production site meets the management requirements of GMP in China, America, and EU. The Company's quality culture construction is increasing steadily by evaluating the effectiveness of quality culture formulation through quality management reviews and customer satisfaction surveys. In face of global competition and market innovation, the Company sets and continues to realize its strategic goals with leading quality, providing a solid guarantee for itself to march on the road to internationalization.



Measures for quality management

- Released Notice on the *Technical Guidelines for the Study on Blend Uniformity of Oral Solid Preparations and Uniformity of Dosage Units of Central Control Doses of Chemical Drugs (trial implementation)* issued by Center for Drug Evaluation, National Medical Products Administration (No. 19 Notice of 2022); carried out control assessments and gap analysis on the content uniformity as well as the in-process dosage of existing products, amended the *Standards for Management of the Study on Blend Uniformity of Oral Solid Preparations and Uniformity of Dosage Units of Central Control Doses of Chemical Drugs* to guide the studies on the blend uniformity of oral solid preparations and uniformity of dosage units of central control doses of chemical drugs.
- Released and discussed the *Notice on Regulations on the Administration of Annual Reports on Drugs* issued by the National Medical Products Administration, and amended *Standards for Management of Annual Reports on Preparations*.
- Released 2 information technology standards, i.e., *Identification Specification for Drug Traceability Code and Display Specification for Consumer Query Results of Drug Traceability* issued by the National Medical Products Administration, carried out a gap analysis, and updated Xinhua's *Standards for Management of Drug Traceability Code*.
- The Company released two information technology standards, including the *Identification Specification for Drug Traceability Code and Display Specification for Consumer Query Results of Drug Traceability* issued by the National Medical Products Administration; updated the Company's *Standards for Management of Drug Traceability Code* by carrying out a gap analysis.
- Officially adopted and operated Akso eGMP, a quality management system, amended and offered training on *Standards for Management of Preparation Change*, *Rules on Management of Akso eGMP System*, and *Standards for Management of Planned Event Operations*, so as to better guide the workflow setting and operation of QMS.
- Based on the need for continuous optimization of the quality system, the Company amended and offered training on *Standards for Management of Batch Production Records of Preparations*, *Standards for Management of Review on Quality Management*, *Standards for Management of Qualified Person of Preparations*, *Standards for Management of Preparation Suppliers*, *Standards for Management of Quality Audit on Preparation Suppliers*, *Standards for Management of Quality Review*, *Document Management Procedure*, *Standards for Management of Preparation Release*, *Standards for Management of Process Control and Guidance of Sub-contract Production* and other management documents.

Case

Adopting a quality management system (QMS) to promote production management

In 2022, the quality management system (QMS) covered the important modules of quality management, realized information collection, processing, classification, retrieval, and accumulation of quality management as well as the coordination and standardization of daily business. It also effectively managed and promoted the online recording, approval, task allocation, tracking, notification, reminding, query, statistics, and other functions of the GMP events, quality events, deviations, corrective and preventive action (CAPA), change, and other quality management work tasks. QMS eliminated the information silos in the quality management system. Hence, the QMS system simultaneously realized both closed-loop and three-dimensional reticular management by interlinking all parts of quality management, actualizing the effective collection of quality data. Thanks to the big data collected via QMS, the Company could analyze the tendency of quality metrics and forecast risks, so as to take beforehand control, which significantly improved the management and control level of the quality management system.

Particularly, QMS played an important role in guaranteeing the production process of Ibuprofen Tablets for the Company. As QMS processed more efficiently than the previous quality management workflow, the managerial staff could access the progress of quality management via QMS at any time, even when they were at home. Therefore, the managerial staff could make precise decisions to guarantee the production of Ibuprofen Tablets.

Product recall

The Company has formulated *Standards for the Management of Customer Complaints and Disposal of Returned Products of Preparations, Standards for the Management of Drug Recall and other rules*, stipulating the disposal procedure and management requirements for customer complaints and returned products caused by quality problems or unsafe factors of the products (including drugs, food, and health food). These rules specify how the complaints are received and transmitted, how to classify the complaints based on the risks posed to the patients' health and to what extent the complaints affect the patients' health. In light of the quality risk management rules, the Quality Department shall work with other relevant departments to clarify the situation, to figure out why the complaints happen, so as to assess whether there are any potential safety and legal risks, and to confirm proper corrective and preventive actions (CAPA), for the purpose of preventing such complaints from happening again. If any other batches are involved, the survey should cover such batches. If there are any potential safety risks, the Company will carry out a risk assessment on relevant batches to find out whether they are affected, and take relevant measures (such measures should include the consideration of whether it is necessary to recall the products from the market) to cope with the complaints due to product defects, initiate the recall procedure and notify the Medical Products Administration, and prepare a report on complaints within the specified time limit.



Seven stages of drug recall



The Company reviews the complaints every six months. The reviews include the following: to analyze the proportions of the complaint categories, the causes, and tendencies of the complaints; to assess the completion status and effectiveness of relevant corrective and preventive actions (CAPA), to investigate the conditions of repeated complaints and the quantity of the complaints under settlement/already settled, etc., so that the Company will be able to identify the problems which require special attention, which occur repeatedly or may require the Company to recall the products from the market. Then the Company can take corresponding measures according to such reviews.

In 2022, the Company received no major quality complaints, and no general or higher-level quality incidents accorded.

During the past three years

The quantity of the products recycled, the sales volumes of the products recycled, the number of product recalls, and the proportion of products recalled from the sold or delivered products due to environment, safety, and health problems

0

Delivering superior customer service

A sound customer management system is important for the Company to maintain its business development. The Company always adheres to the service concept of "customer centricity". Specifically, each business segment sorts out, analyzes, and conducts graded management of its customers' basic conditions, credit records, and other data through in-depth surveys according to the business characteristics of the Company's customers in different fields. These departments properly control the sales management, marketing management, and customer service management based on their daily businesses.

Customer relationship management (CRM)

Xinhua Pharmaceutical conducts systematic customer management. The Company has a huge customer information system and established customer information control systems in several dimensions by far, which enables it to keep customer information confidential. Moreover, the Company upgrades the systems on a regular basis to make the systems safer and more reliable.

Currently, the Company's domestic customers are spread all over China, including CSPC Pharmaceutical Group Co., Ltd., Harbin Pharmaceutical Group Co., Ltd., JoinTown Pharmaceutical Group Co., Ltd., KPC Pharmaceuticals, Inc., Yunnan Baiyao Group Co., Ltd., Shanghai Johnson & Johnson Pharmaceuticals, Ltd., AstraZeneca as well as other internationally and domestically famous pharmaceutical enterprises. The sales volumes of ibuprofen, analgin, aminopyrine, and aspirin all exceeded CNY100 million. Furthermore, the market shares of these four products have ranked first in China for years.

To cater to the different needs of each customer, the Company has established connections to each kind of customer to learn their different needs through communications and return visits, and offers personalized services for them in a targeted manner based on such connections.

Customer complaints

The Company actively settles customer complaints and offers feedback on their questions. The relevant personnel carefully listen to the customer complaints and take records, and confirm the specific department and person in charge of the settlement of each complaint according to the specific contents of such complaints. The Company also prepares the disposal schemes in a timely manner, follows up on the settlement to learn the settling status on a real-time basis, and timely communicates with and pays return visits to the customers. The Company learns lessons and experience by summarizing and appraising the process of complaint settlement, and puts forward countermeasures for improving the process of business management and operation, so as to perfect customer service quality and enhance the Company's popularity, reputation, and customer loyalty.

Complaints about products	Unit	2020	2021	2022
Number of complaints about products	No.	20	27	23

Customer satisfaction

Following the principle of being responsible for the customers, the Company conducts measurement of customer satisfaction on a regular basis and prepares annual customer satisfaction survey report. As the Company is devoted to learning and mastering the customers' expectations and demands all the time, it can find out the directions and breakthrough points for improving its management level, enhancing its product quality, and properly offering services to the customers. Our goal is to develop new products based on customer demands, and to satisfy the customers through continuous innovation and reform.

Practicing responsible procurement

Supplier relationship management

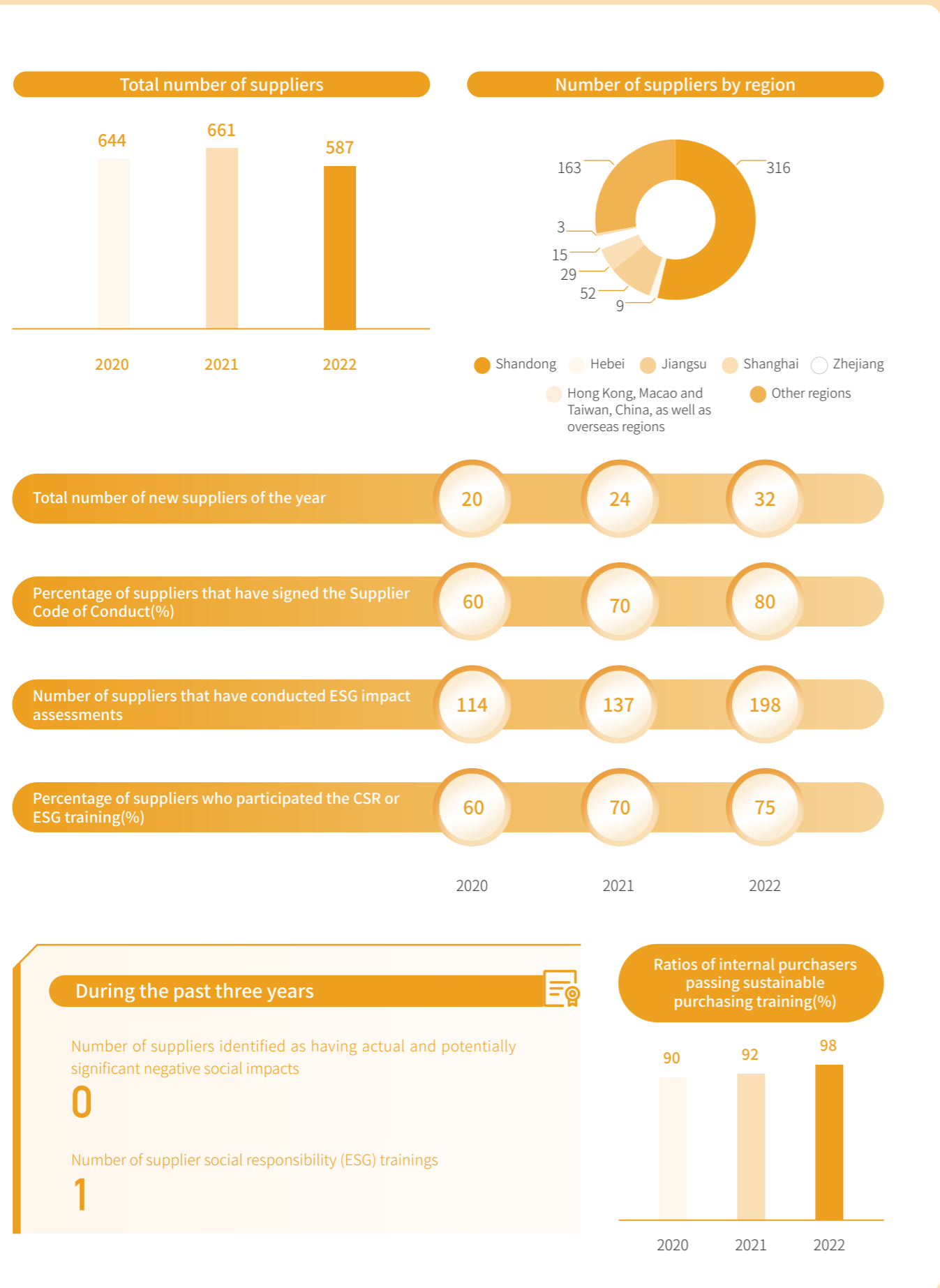
The Company formulated and strictly complies with the following supply chain management policies: *Sunshine Purchase Management Measures (Trial)*, *Purchase and Supply Management Standards of Chemical Raw Materials and Packaging Materials of Active Pharmaceutical Ingredient (API)*, *Auxiliary Material Purchase Management Standards*, *Regulations on Material Purchase Management of the Purchasing Department*, *Regulations on Purchasing Management of Equipment, Spare Parts, Electrical Devices, and Instruments of the Purchasing Department*, *Contract Management Measures*, *Advance Payment Management Measures (Trial)*, *Material Classification and Supplier Management Standards*, *Material Supplier Audit Management Standards*, *Management Standards for Chemical Raw Materials and Intermediates*, and the List of Suppliers. The Company classify and manage our suppliers and conduct regular assessments for them in light of the management requirements specified in these documents. We also manage our contracts with suppliers in accordance with the Contract Management Measures and Detailed Rules for Contract Management of the Purchasing Department.

The Quality Assurance (QA) Department will carry out an urgent risk assessment for any suppliers found by the Company that are involved in major defects of quality and problems in environment, health and safety (EHS) and social ethics and moral. The QA Department will regularly audit suppliers (including on-site audit and audit in paper) according to the Supplier Audit Plan the department made and issued each year. Besides, the QA Department will ask suppliers to complete questionnaires and sign quality agreements as required to better manage them. Unqualified suppliers will be required to rectify the situation or disqualified from supplying.

Changes to materials and suppliers shall be reviewed in line with the *Material Classification and Supplier Management Standards* and approved by the QA Department.

When new suppliers are introduced, they will be required to complete two paper questionnaires including the *Supplier Investigation Form* and the *Relevant Party EHS Investigation Form* in addition to the investigation on their basic qualifications. During the official introduction, qualified suppliers will be audited on site with social, safety and environmental elements as the newly-added elements for investigation. Suppliers that have been officially introduced shall receive an on-site quality audit and complete several questionnaires such as *Supplier Status Quo Investigation Form*, *Relevant Party EHS Investigation Form*, and *Relevant Party EHS Auditing List*.





Procurement risk management

To reduce the external and internal potential risks during the procurement process, the Company mainly takes the following measures: further examine the material requirement plan and material purchase plan; thoroughly review contract authentication; better manage the implementation of material procurement contracts; and enhance the management of material procurement performance assessment. We strictly comply with relevant systems in procurement process and procurement standards. We also lower the impact of regional safety, environmental protection, major event control and other factors on material support and supply through introducing new suppliers from different regions. Moreover, we pay close attention to trends in the market, prepare goods in advance, and formulate alternative plans for suppliers in medium and high risks regions.

The Company seeks to establish long-term strategic cooperation relations with suppliers certified by credit ratings and reputable enterprises that have dominance in the industry. And we evaluate our partners' supply and support capacity, environmental and social risks and other aspects through auditing and their annual performance. To encourage suppliers to undertake their social responsibilities in energy conservation and energy reduction, we give preference to those who have obtained the environment management system certificate, followed safety and environmental management regulations, and maintained a strong sense of social responsibility under same conditions.

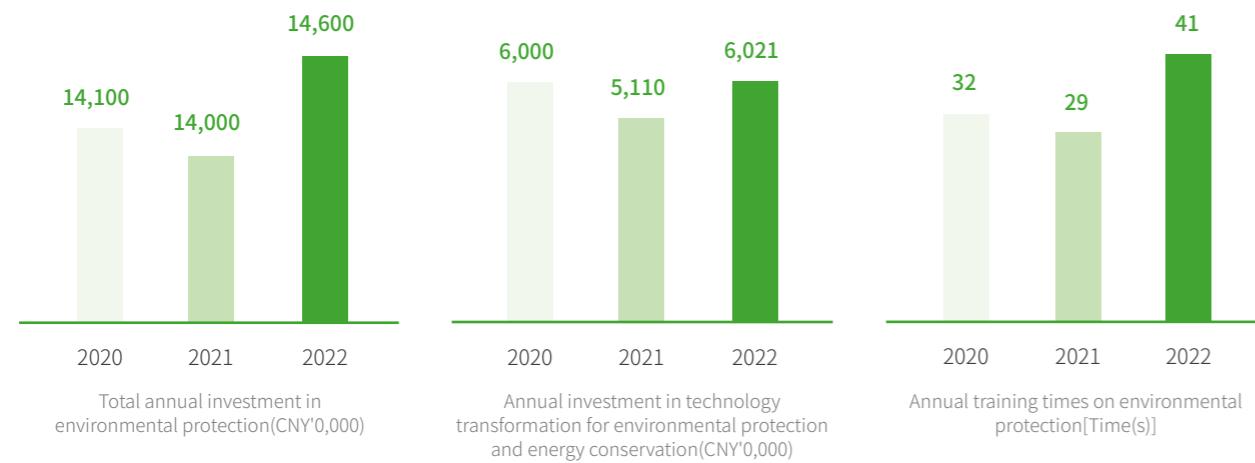
A scenic landscape of a lake surrounded by lush green mountains under a blue sky with clouds. The water is clear and reflects the surrounding greenery and sky. The mountains are covered in dense forests, and the sky is a vibrant blue with scattered white clouds. The overall scene is peaceful and natural.

Chapter III

Caring for the Environment, Safeguarding the Landscape of Shandong Province

Adhering to environment management

The Company strictly abides by laws and regulations such as the PRC Law on Prevention and Control of Atmospheric Pollution, the PRC Law on Prevention and Control of Water Pollution, Soil Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes, the PRC Law on Prevention and Control of Environmental Noise, the PRC Law on Cleaner Production, the Directory of National Hazardous Wastes, and Regulation on the Administration of Permitting of Pollution Discharge. We also carry out a series of national and local guidelines and policies. Besides, we formulated several systems like the Wastewater Pollution Control and Management Procedures, Air Pollutant Emission Control and Management Procedures, Noise Pollution Control and Management Procedures, Environmental Objective Management Procedures, Environmental Risk and Hidden Danger Identification and Treatment Standards, and Pollution Prevention and Control Measures Management Standards. We take energy conservation and environmental protection as the key measures to transform our development strategies, improve efficiency, fulfill our ESG responsibilities, and make solid advancements in energy conservation and environmental protection.

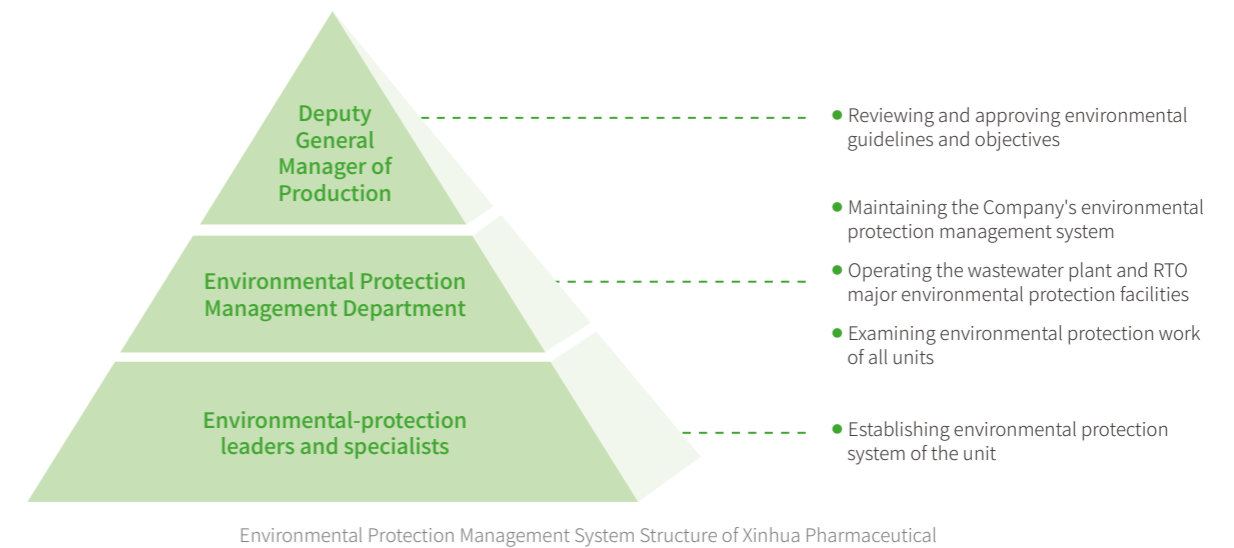


Reinforcing the environmental protection investment

The Company continues pollution treatment with technologies and source point control, increases funds for environmental protection, and takes advanced producing process and treatment technologies to ensure emission up to standards. In 2022, the Company invested about CNY146 million in environmental protection, mainly including CNY68 million for the cost of wastewater treatment and supporting facility operation, CNY60.21 million for investment in environmental protection measures, and CNY18 million for hazardous waste disposal. We completed the following projects: project of circulating hydropower scale removal with chemical detergents of the Production Department, No. 2 Factory, AEA exhaust gas comprehensive treatment project in Workshop 104, the overall venting transformation project in Workshop 105, the roof exhaust transformation project in Workshop 202, transformation project for dichloromethane carbon fiber adsorption device in Workshop 203, the comprehensive treatment project for roof exhaust gas on the second floor, the Industrialization Center in Workshop 204, the upgrading and transformation project for the alkali absorption tower of propyl antipyrine methylated exhaust gas on the top of the building in Workshop 205, and the salicylic acid gas recycling project in Workshop 207, RTO white smoke elimination project in the south of No. 1 Factory, and RTO surplus heat exporting projects in the north of No. 1 Factory and No. 2 Factory.

Constructing environmental protection system

The Company conducts three-level management with the environmental protection management system, solidifies the basic work of environmental protection, and adopts an environmental protection accountability system. The Deputy General Manager of Production, a corporate-level leader in environmental protection of the Company, is responsible for reviewing and approving the Company's environmental guidelines and objectives. The Environmental Protection Management Department is responsible for environmental protection management and the Company's environmental protection management system maintenance. It also takes charge of the operation of the wastewater plant and RTO major environmental protection facilities and the examination of environmental protection work of all units of the Company. All units of the Company have environmental protection leaders and specialists in charge of operating the environmental protection system of the unit.



Establishing environmental awareness

The Company vigorously carries out environmental protection publicity and organizes various forms of publicity and education activities to enhance employees' awareness for environmental protection.

In 2022

we totally implemented **41** training programs in environmental protection education with an attendance of **1,354**. In detail, there were **5** training programs in environmental protection at corporate level, with an attendance of **127**, **24** at workshop level, with an attendance of **1,062**, and **12** at team level, with an attendance of **165**.

The Company launched Environmental Day theme activities and organized various units to set environmental protection and energy conservation publicity slogans and banners in factories. We also encouraged employees to learn about low-carbon production modes and lifestyles, highlighted the importance of a green office environment, and raised their awareness of resource conservation and environmental protection. Besides, we set up classes for employees to learn the Environmental Protection Law of the People's Republic of China, trained them on the Law, and promoted the concept of low-carbon life and green consumption. Publicity and education activities in multiple forms further enhanced the awareness of the Company and employees in environmental protection and energy preservation. We have developed circular economy, and made positive efforts to transform our production modes and lifestyles in to low-carbon and circular ones.

Case

Training for VOCs emission complete process management and supervision key points

In 2022, the Company provided a special training program, Training for VOCs emission complete process management and supervision key points. The training clarified the items and details of VOCs inspected in enterprises during government law enforcement inspection, and showed each unit how to make preparations item by item based on that. This remarkably improved the training personnel's ability to control and supervise the entire process of VOCs, and played a role in detecting deficiencies, filling gaps, and preventing tiny problems.

Enhancing emission control

The Company adheres to the path of sustainable development, optimizes and adjusts its product mix, and vigorously develops new drugs and preparations that feature low pollution, low consumption, high quality, high efficacy, and high efficiency. The Company deepens its research on environmental protection technology, improves equipment, makes better use of pollutants, eliminates products with severe pollution, reduces pollutant emissions step by step, and fundamentally completes the task of environmental governance.

In 2022

The implementation rate of new, extended, and rebuilt projects' environmental impact assessment mechanism, as well as "three simultaneous" mechanism, reached **100%**

We also ensure **100%** of synchronous operation of environmental protection facilities and production facilities.

Facing the increasingly severe situation in environmental protection, the Company keeps strengthening internal environmental control, focuses on the overall situation, and gradually realizes the upgrading and transformation of its environmental protection work. The Company has controlled pollutant emissions to meet standards through strict management, improved its ability to deal with environmental pollution emergencies, and taken targeted environmental protection measures based on industry characteristics. The Company also has increased investment in environmental measures. During the year, the Company passed the Management System Review in ISO, over fulfilled environmental protection tasks assigned by the local government, and leveled up its overall environmental protection work.



Key measures for environment management of the Company in 2022

- Dealing with pollution with technologies, conducting source point control, and increasing funds for environmental governance projects:** In 2022, the Company carried out the following major environmental protection projects: exhaust gas comprehensive treatment projects in Workshops 102, 104, 105, 204 and 205, the salicylic acid gas recycling project in Workshop 207, RTO de-whitening and upgrading project in the south of No. 1 Factory, and RTO surplus heat exporting projects in the north of No. 1 Factory and No. 2 Factory, and new RTO projects of No. 1 Factory. These environmental governance projects helped the Company realize standard emission of waste gas, waste water and waste residues, achieve the annual emission reduction goal, and improve its environment management performance.
- Enhancing training and examination on environmental protection:** We employed environmental protection experts and internal trainers to explain the new situation of environmental protection, new requirements and new standards of environmental laws and regulations. They also provided training on requirements of applying for pollutant discharge permits for preparations, exhaust gas and hazardous waste management, and clean production. In addition, we provided opportunities for employees to exchange environmental protection experience and take part in technical training. This further improved the professional level of environmental management personnel, and strengthened the environmental risk awareness of all employees, and enhanced the professional level of our environmental management.
- Better managing the emission of exhaust gas and improving the overall environment and air quality of the park:** We managed the quality of air and environment professionally and adopted a regional accountability system. As a comprehensive management department for environmental protection, the Environmental Protection Management Department coordinated with various production units to strengthen the inspection of production sites and environmental protection facilities, and promptly addressed the problems found during the process. We entrusted a third-party monitoring agency to conduct LDAR testing twice a year in accordance with laws and regulations and as required by relevant bureaus in the city and district. Departments of the Company performed their own duties and ensured the all-around stability of the overall environment inside and outside the park.
- Strengthening the management of wastewater discharge in workshops:** We required that the production wastewater from different workshops be mixed uniformly before discharge to minimize impact on the wastewater treatment plant. An environmental protection work permit shall be obtained 24 hours prior to workshop abnormal wastewater discharge. We implemented high-density automatic sampling and monitoring of wastewater discharge in various workshops, and improved the wastewater monitoring information management system.
- The wastewater treatment plant worked responsibly with the meticulous operation, and optimized operation to discharge wastewater up to standards:** Each park of the Company operated independently and allocated wastewater discharge indicators for each workshop based on the treatment capacity of the three sets of wastewater systems. They ensured up-to-standard discharge with environmental protection measure projects and facility operation, guaranteed stable operation of these systems, and made sure that each workshop was under stable production.
- Realizing standard management of hazardous wastes:** We standardized the application and transfer procedures on the Shandong Hazardous Waste Management Platform to transfer hazardous wastes in a timely manner. We also established a good production order for the generation, storage, and disposal of hazardous wastes with the goal to keep hazardous wastes of both temporary storage sites within the Company less than 100 tons. We enhanced the management of temporary storage sites for hazardous wastes in the Company and workshop, ensured that our systems, and facilities to prevent fire, disasters, accidents, signs, packaging, etc., meet standardized requirements and remain in compliance at all times. We also strictly inspected the generation and transfer records of hazardous wastes in the workshop and updated them in a timely manner. Moreover, we did more to manage hazardous waste archives and the acceptance through standardized management of hazardous wastes.



Environmental protection work objectives of the Company in 2023

Commitment to environmental protection is the Company's philosophy to survive and develop. We will stick to the low-carbon green growth, emission reduction in the source, engineering governance, and circular economy development. We will develop new technologies in environmental protection and implement environmental measure projects as planned.

We will keep the bottom line of standard emission of pollution sources, standard discharge of wastewater and exhaust gas, compliant disposal of hazardous wastes, online monitoring and self-monitoring to fully meet the standards, and implement the main responsibility of corporate environmental protection. We will also take multiple measures at the same time, uphold fundamental principles and break new ground, and comprehensively improve our environmental protection management performance.

Items	Indicators in 2023
Major and above environmental accidents	0
Administrative penalties from government environmental protection departments	0
Daily average qualification rate of 26 sets of online monitoring systems	100%
Self-monitoring qualification rate of each park of the Company	100%
Compliance disposal rate of hazardous wastes	100%
Completion rate of environmental measure projects in 2023	100%

Waste management

In accordance with the national waste management requirements, the Company has developed the Domestic Waste Pollution Control Management Procedures to classify and manage wastes strictly. We classify our wastes as domestic waste, kitchen waste, construction waste, recyclables, and hazardous waste to manage and dispose of them. We have also entrusted Zibo Environmental Sanitation Bureau to manage and remove our domestic waste, thus preventing various types of wastes from mixing.

The Company comprehensively manages hazardous wastes, and develops systems such as Hazardous Waste Pollution Control Management Procedures, Waste Packaging and Waste Container Management Standards, and Biochemical Sludge Management Standards to classify, store, manage, and dispose of hazardous wastes in strict accordance with national and local requirements. According to the Directory of National Hazardous Wastes, the Company has identified a total of 15 types of hazardous wastes, including waste colloids, residues, discarded pharmaceutical preparations, discarded chemicals, waste activated carbon, waste mineral oil, waste nickel, waste mother liquor, waste packaging of hazardous wastes, waste selenium drums, waste adsorbents, mercury-containing waste lighting equipment, laboratory waste organic solvents, waste filter cartridges, and biochemical sludge. The Company has obtained the Work Safety Standardization Certificate and signed an agreement with a qualified waste disposal unit for the disposal of all hazardous wastes to ensure the harmless treatment of hazardous wastes.



Waste treatment	Unit	2020	2021	2022
Total domestic waste	Tons	2,500	2,500	2,850
Density of domestic waste	kg/output per CNY10,000	4.82	7.11	6.50
Total hazardous solid waste	Tons	8,315.00	9,436.50	8,408.90
Density of hazardous solid waste	Ton(s)/output per CNY10,000	0.0160	0.0268	0.0101

Exhaust gas abatement

The Company utilizes pre-treatment technologies such as carbon adsorption, resin adsorption, membrane concentration recovery, cryogenic recovery, multi-stage condensation recovery, spray absorption, and three sets of RTO end treatment devices to purify exhaust gas containing VOCs released in an organized manner. In unorganized exhaust gas treatment, we apply measures such as "dual pipe" technology for liquid material loading and unloading, and RTO treatment for waste gas from storage tanks. In this way, we can ensure that the exhaust gas discharged meets the requirements of relevant standards such as Emission Standard of Volatile Organic Compounds Part 6: Organic Chemical Industry, Emission Standard of Air Pollutants for Pharmaceutical Industry, Standard for Fugitive Emission of Volatile Organic Compounds, Regional and Integrated Emission Standard of Air Pollutants, and Emission Standard of Volatile Organic Compounds and Odor Pollutants from Wastewater Treatment Plant of Organic Chemical Enterprises in Shandong Province.



RTO exhaust gas incineration facility

Exhaust gas treatment	Unit	2020	2021	2022
Particulate	Tons	3.8	1.38	1.26
Nitrogen oxide	Tons	11	0.17	0.15
Sulfur dioxide	Tons	6	0.13	0.12
VOC emissions	Tons	36.5	24	22.3

Wastewater treatment

The Company adopts a combined method of source control and end treatment. The high COD organic wastewater from each workshop is recycled by adsorption filtration, extraction separation, fractionation to recycle organic substances. High ammonia nitrogen wastewater is recovered for ammonium hydroxide by steam stripping. High salt wastewater is recovered for inorganic salts by MVR and CWO. After being treated by the wastewater treatment plant, our drainage reaches Grade B in the Wastewater Quality Standards for Discharge to Municipal Sewers. With the main pollutant discharge indicators of COD 500 mg/L and ammonia nitrogen 45 mg/L, the wastewater is finally discharged into the municipal wastewater treatment plant. The pretreated high-concentration organic wastewater is discharged into our wastewater treatment system.

Wastewater treatment	Unit	2020	2021	2022
Total wastewater discharged	Tons	2,627,818	2,738,190	1,841,902
Chemical oxygen demand (COD)	Tons	715.56	584.11	391.90
Ammonia nitrogen	Tons	51.36	21.01	15.70

Carbon emission management

The Company actively responds to the national goal of carbon peak and carbon neutrality and conducts carbon inventory every year. In 2022, the Company carried out carbon inventory for Scope I and Scope II, and it is expected to gradually refine the scope of carbon inventory and strengthen carbon emission management in the future.

Carbon emission	Unit	2020	2021	2022
Scope I and Scope II	tCO ₂ e	264,170	250,960	258,465

Using resources effectively

The Company manages energy in strict accordance with the ISO50001-2018 energy management systems and implements an accountability system for energy conservation goals. It decomposes energy use cost saving goals to major production units in a scientific manner according to requirements in its annual production and operation work plan. It also requests each unit to sign a statement of responsibility for energy conservation goals, clarifies target indicators, and details management requirements and work measures. The Company develops and implements supporting energy management systems such as Power Supply and Energy Management Procedures, Power Transfer Management Measures, Power Supply and Consumption Management Standards, and Warm Water Use Management Regulations. The implementation of relevant systems is reviewed monthly in accordance with the energy assessment methods. In addition, the Company organizes quarterly energy-saving special inspections, reports any problems found for rectification, and conducts serious assessments. The Company's energy use cost savings target for 2023 is CNY5 million.

Resource utilization	Unit	2020	2021	2022
Steam	10,000 tons	51.47	51.12	46.61
Power consumption	100 million kWh	1.90	1.85	2.01
Circulating water	10,000 m ³	7,503.05	8,859.64	9,656.08
Tap water	10,000 m ³	296.42	338.30	338.29
Power consumption (energy consumption per unit output value)	kWh/output per CNY10,000	387.13	481.83	431.70
Steam consumption (energy consumption per unit output value)	Ton(s)/output per CNY10,000	1.05	1.33	1.01
Water consumption (energy consumption per unit output value)	m ³ /output per CNY10,000	6.03	8.81	7.28
Packaging materials used for finished products	Tons	9,487	9,219	8,898

In 2022

Saving about **229,200** tons of water. Compared with 2021, the amount of water-saving increased **189,100** tons.


To reduce the consumption of water, electricity and gas, the Company has developed new environmental protection technologies, actively introduced new technologies to solve environmental challenges, and ensures the effective use of resources.

| Case

Water cooling pump power saving transformation project in No. 1 Factory

In 2022, the Company installed a dedicated water pump integrated power saving device in No. 1 Factory. The set achieved automatic, timely, and accurate detection and control of the operation of the cooling water system to save electricity costs through supplying water based on the usage with closed-loop control, and improved the safety and stability of the local power grid. The control system of the comprehensive energy-saving device for the water pump consists of an electricity-saving device, a pressure transmitter, an actuator, etc. It can automatically detect and regulate the operations of the water pump in real time.

After transformation, **8-12%** of electricity was saved.



Case

Liquid nitrogen vaporization cooling energy recovery and transformation project in No. 2 Factory

In 2022, No. 2 Factory carried out the recovery of liquid nitrogen gasification cooling energy to produce -50°C cryogenic brine and -5°C brine. -50°C cryogenic brine is used to replace the -30°C to 35°C low-temperature refrigeration unit as the cooling source in Workshop 203, and -5 °C brine is used to supplement for the operation of the brine refrigeration unit in the park. After transformation, the low-temperature refrigeration unit in Workshop 203 was shut down, and the power consumption for preparation of -5°C brine was slightly reduced.



The power consumption for cooling operation was saved by **800** kWh per day.

Case

Aspirin centrifugal dilute acid multi-effect distillation transformation project

The Company implemented a transformation project for aspirin centrifugal dilute acid multi-effect distillation. Two stages of preheating were added to make full use of surplus heat and reduce steam consumption. After transformation, the dilute acetic acid first entered the primary preheater, where the steam condensate from the concentration tank was preheated to increase the feed liquid temperature. Then it entered the secondary preheater, where the high-temperature gas phase of the concentration tank is used for further heating. Finally, it entered the concentration tank, where steam was used to assist in heating to the required process temperature through internal and external coils, achieving vaporization and concentration of the dilute acetic acid.



After the transformation, the steam consumption per ton of product distillation is reduced to about **0.33** t, saving **5.6** t of steam per day, and about **160** m³ of circulating cooling water.

Case

Diverse water saving transformation project in the park

No. 1 Factory and No. 2 Factory carried out water saving transformation projects such as the reuse of concentrated purified water, the collection and utilization of steam condensate, and the recycling and purification of rainwater to replace tap water,



saving about **50,000** m³ of water annually.

Responding climate change

As economy develops and business activities increase around the world, climate change has become a problem that cannot be ignored in the global society. The Company attaches great importance to the potential opportunities and risks brought by climate change to enterprises, identifies major climate related issues that may have an impact on the Company, and prepares response measures.

Type	Risk identification	Response measures
Physical risks	The headquarters and production bases of the Company may be affected by extreme events such as typhoons, storms, heavy rainfall, sandstorms, and high temperature. Events such as water and power outages, road outages, equipment losses, forced outages, and supply chain disruptions may occur, affecting production capacity and asset values and increasing operating costs.	<ul style="list-style-type: none"> In response to the impact of major climate change, the Company has developed an Emergency Plan for Extreme Abnormal Weather. Different preventive measures based on the severity of extreme abnormal weather can be taken to ensure the normal operation of production and operation. At the same time, the Company organizes an annual emergency drill for the Emergency Plan to ensure its compliance and effectiveness. The Company has been connected to the weather forecast network of Zibo Meteorological Department to provide early warning of extreme abnormal weather. It also releases daily weather forecast information through the internal LAN to overcome the adverse impact of climate change on production and operation.
		<ul style="list-style-type: none"> The Company strictly complies with national environmental policies and regulations, and will continue to increase investment in environmental protection, and advance the upgrading and transformation of environmental protection facilities. The Company will actively carry out safety and environmental protection training and education, abide by internal control standards, further monitor key pollution discharge points, reduce environmental risks, and achieve standard emissions.
Transformation risks	A certain amount of wastewater, exhaust gas, and waste residue will be generated in the production of API products. National and local environmental protection departments have strengthened their environmental protection supervision and people have stronger awareness for environmental protection. Therefore, they have higher environmental requirements for API enterprises. The continuously growing environmental protection costs cause many pharmaceutical enterprises to face production suspension and restriction.	<ul style="list-style-type: none"> The Company will better monitor and analyze the market and arrange inventory and procurement cycles reasonably to reduce risks. The Company will actively organize product technology research to effectively reduce product costs.
		<ul style="list-style-type: none"> Chemical raw materials, auxiliary materials, packaging materials and other raw materials have been affected by various factors such as macro economy, monetary policy, environmental protection management, and natural disasters. This may lead to supply constraints or significant price fluctuations, which will to some extent affect the Company's profitability.

Chapter IV

Working Together to
Create a Happy Life

保利·克洛维

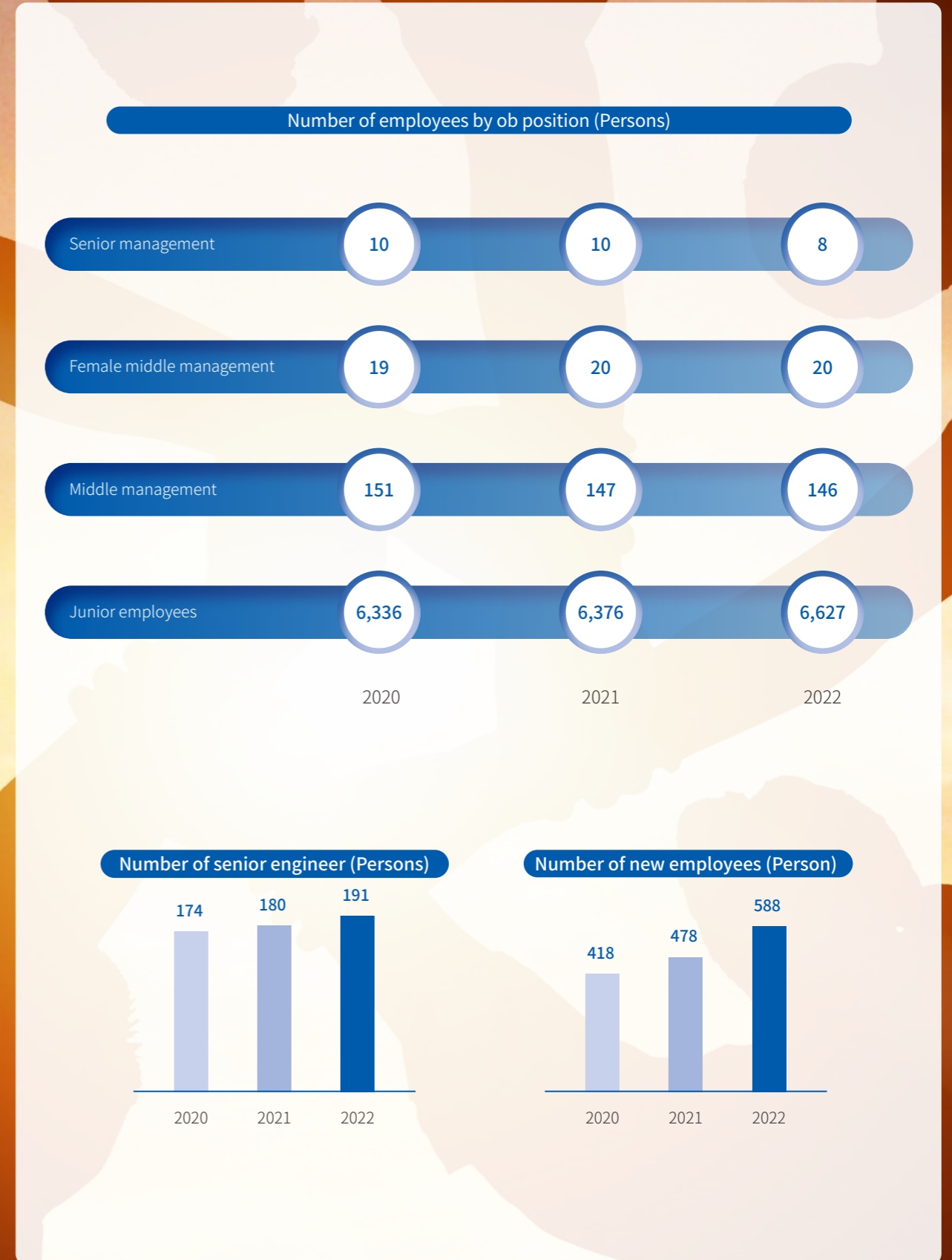
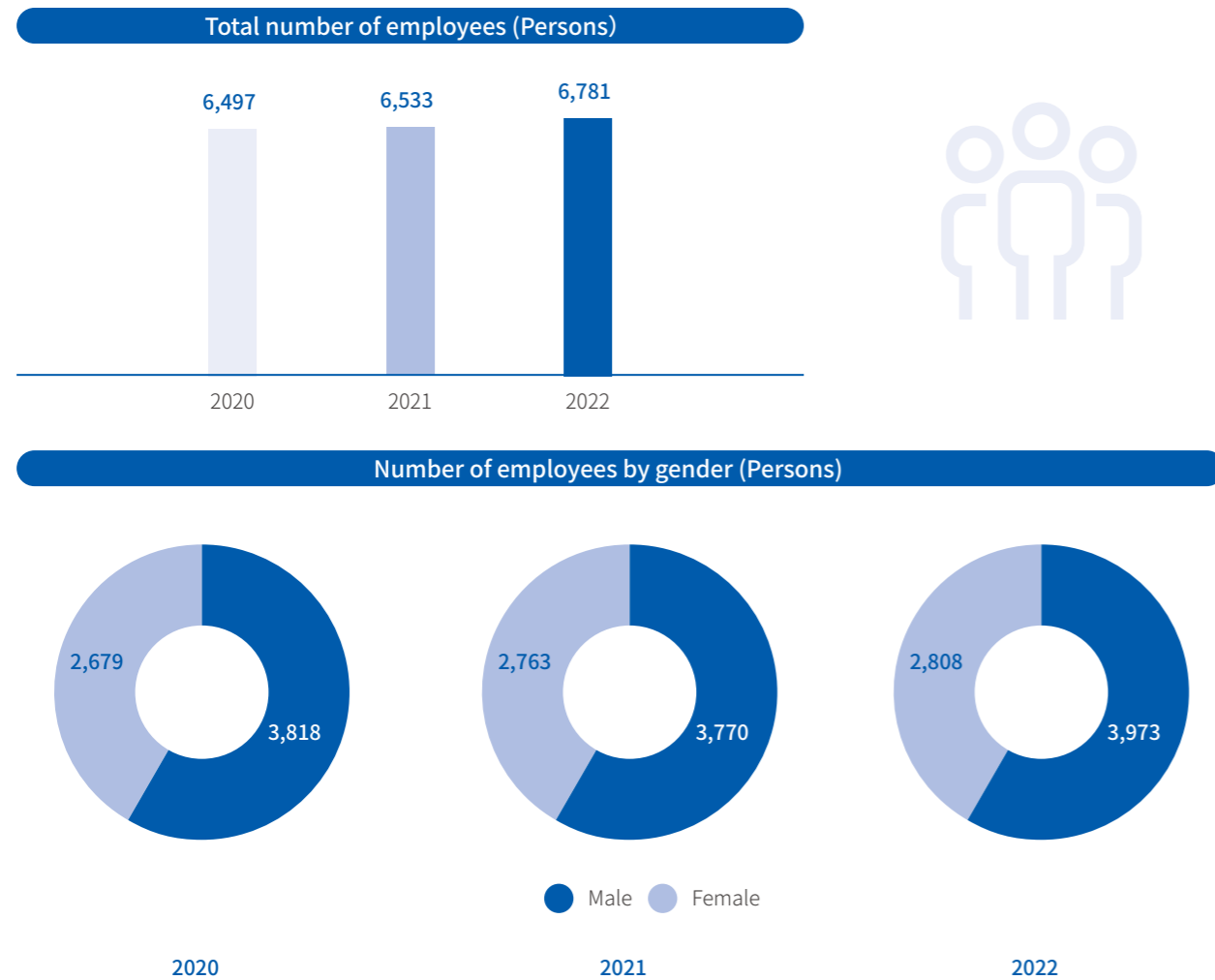
Protecting the right of employee

The Company upholds the concept of selecting talents based on their moralities and abilities, seeks concordant labor relations, protects employees rights and interests and creates a diverse, inclusive and harmonious work environment.

Legal employment

The Company complies with laws and regulations related to labor employment, such as the *Labor Law*, *Labor Contract Law*, and *Trade Union Law*. It also improves internal management systems like the *Employee Recruitment Management Measures* and *Employee Handbook (2022 Edition)* to standardize labor employment. It strictly follows legal procedures to handle contract signing, modification, and renewal procedures, timely records labor employment, and handles the rescission and termination of labor contracts in accordance with the law. In personnel demand planning, recruitment forms, recruitment channels, and personnel selection and recruitment, the Company extensively hires necessary employees, and ensures fairness and impartiality in the recruitment process without any discriminatory behavior following the *Labor and Ethics Management Code*.

By the end of 2022, the Company's labor contract signing rate reached 100%.



Employee turnover		Unit	2020	2021	2022
Total number of resigned employees		Persons	216	146	151
Total employee turnover rate		%	3.32	2.23	2.20
Employee turnover rate by gender	Male	%	2.70	1.82	1.53
	Female	%	0.62	0.41	0.67
Employee turnover rate by age	51 and above	%	0.02	0.00	0.00
	41-50	%	0.41	0.24	0.10
	31-40	%	0.80	0.40	1.10
	30 and under	%	2.09	1.59	1.00
Employee turnover rate by work area	China's mainland	%	3.32	2.23	2.20
	Hong Kong, Macau, and Taiwan, China	%	0	0	0
	Others	%	0	0	0
Employees turnover rate by employment type	Labor contract system	%	3.32	2.23	2.20
	Labor dispatch system	%	0	0	0
	Others	%	0	0	0

Labor standards

According to the laws, regulations and standards related to labor and ethics, the Company formulated the *Labor and Ethics Management Code* to better comply with national laws, better protect the interests of workers, and assume more labor moral responsibilities. It has continued to improve labor ethics, including child laborers and juvenile laborers, forced labor, health, safety, environment, freedom of association, discrimination, rewards and penalties, working hours, salary, and integrity.

The Company prohibits any form of forced labor, strictly complies with the *Labor Law* and *Provisions of the State Council on Working Hours of Employees*. It adopts the standard working system of 8 hours per day and 40 hours per week. To avoid the recruitment of child laborers by mistake, the Company has developed a system of *Child Laborer Rescue and Juvenile Laborer Protection*, which specifies departmental responsibilities, rescue procedures for child laborers or juvenile laborers recruited, and other matters.

In 2022, there was no recruitment of child labor or forced labor.

Rescue measures for the recruitment of child labor by mistake:

- The Administration and Human Resources Department shall be responsible for contacting the family or guardians of the child laborer the labor management department in the place where the child labor is registered to investigate, confirm and record the true age/identity and family background, and report to the Labor Bureau for filing in a timely manner.
- The Company shall immediately arrange for someone to send the child labor to his or her original place of residence and have his or her parents or guardian sign for confirmation. The Company will fully bear the cost of sending child labor back to their original places of residence and provide appropriate support according to the circumstances. It may encourage and provide financial aid to them until they complete nine years of compulsory education. The Company will take charge of the treatment of the child labor who are sick or disabled before being sent back to their original places of residence and bear all medical and living expenses during the treatment.
- The Company will analyze the reasons for recruiting child labor by mistake and take preventive measures.

Employees' rights and interests

The Company has formulated the *Regulations on the Management of Paid Annual Leave for Employees*, which specifies the requirements and the number of days of leave for employees. It also requires all units to make arrangements for employees' leave in advance to ensure that the Regulations are implemented. The Company provides marriage and funeral leave, family visit leave, maternity leave, breastfeeding leave, and family planning leave in accordance with relevant national regulations, to ensure that employees can enjoy legal leave. The Company shall purchase various social insurances for all employees in accordance with government regulations, and pay endowment insurance, employment injury insurance, unemployment insurance, medical insurance, maternity insurance, and housing provident fund for employees in full and on time. By the end of 2022, there was no default of payment in salaries, the above insurances and housing provident fund.

Since 2000, the Company has signed collective agreements for eight consecutive times upon consensus with the Labor Union. When the collective agreement is about to expire, the Company representatives will communicate and negotiate with the Labor Union and employee representatives on matters of concern to both parties. After being approved by the Workers' Congress, the collective agreement will be re-signed. At the same time, the Company actively introduced the collective negotiation system for salaries. During the annual Workers' Congress, representatives of the Company and employee representatives will negotiate together on issues such as the salary distribution system, employee income levels, and salary growth. Then they will jointly draw the *Collective Negotiation Agreement on Wages* and submit it to the Workers' Congress for discussion and approval before it is officially implemented. The execution and performance of the collective contract and collective negotiation agreement on salaries ensures that employees' salaries can grow with the increase of the Company's economic benefits.

The Company has formulated and issued the *Organization and Working Rules of the Labor Dispute Mediation Committee* to clarify the establishment and responsibilities of the mediation organization, the scope of mediation by mediation committees at all levels, the working procedures of the mediation organization, and the criteria for their staff. In terms of mediation methods, we mainly adopt the policy of prevention first, grassroots first, mediation by law, timely handling, safeguarding rights and interests, and maintaining stability to carry out our work. We take the effectiveness of labor dispute resolution and the realization of harmonious and stable labor relations as one of the main criteria for measuring the effectiveness of grassroots work. In 2022, there were no labor disputes arising from the signing, modification, renewal, rescission, or termination of contracts.

Focusing on talent cultivation and development

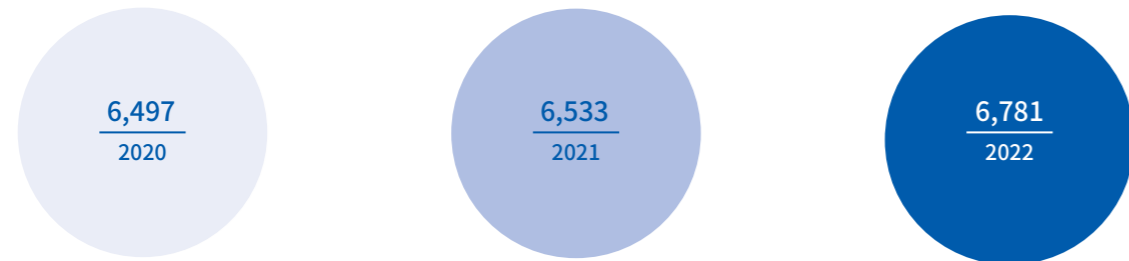
Upholding the philosophy of "learning makes me progress", the Company stays committed to talent cultivation and actively conducts various training activities to foster employees in multiple directions. The Company creates opportunities for the development of innovative talents and provides more paths and platforms for the development of employees.

Strengthening employee training

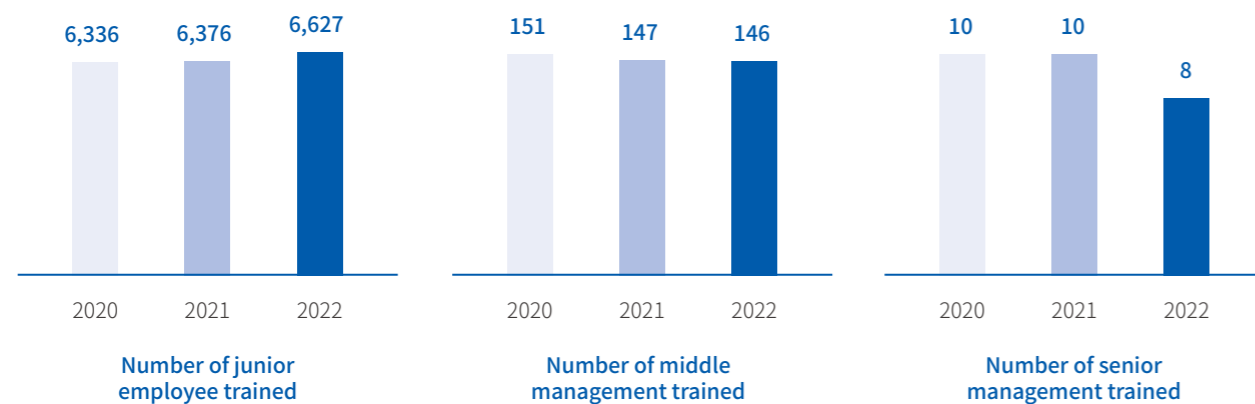
The Company pays attention to the combination of organizational and domestic demands to make talent cultivation customized, delicate, and practical. The Company has formulated the *Management Regulations on Employee Education and Training* to strengthen customized cultivation. Through the talent review, the Company identifies excellent young cadres and versatile talents who are urgently needed and are worthy of cultivation. According to their majors, experience, characteristics of personality, personal willingness, and organizational needs, the Company develops the "Five-Sphere" customized cultivation plan for them. By assigning growth mentors, drawing dedicated learning maps, following up on key programs, rotating positions within the Company, and honing skills outside the Company, the experience of cadres is expanded.

The Company builds a "Four Eagles" growth system for talents in different echelons. The four eagles refer to Fledgling Eagle, Ordinary Eagle, Strong Eagle, and Elite Eagle. The Company takes multiple measures such as targeted cultivation based on one person one archive, regular assessment, dynamic management and adjustment to ensure their rapid and comprehensive growth. In 2022, the Company carried out the Strong Eagle training program to cultivate excellent young cadres, providing each of them with a cultivation mentor. The centralized training took management by objectives and project management as its main line and focused on the Company's groundbreaking development programs for them to learn and practice.

Total number of employees trained (Persons)



Categories by job position (Persons)



Total hours of training for employees

160,476

161,295

155,963

Total hours of training for male employees

94,305

93,110

91,379

Total hours of training for female employees

66,171

68,185

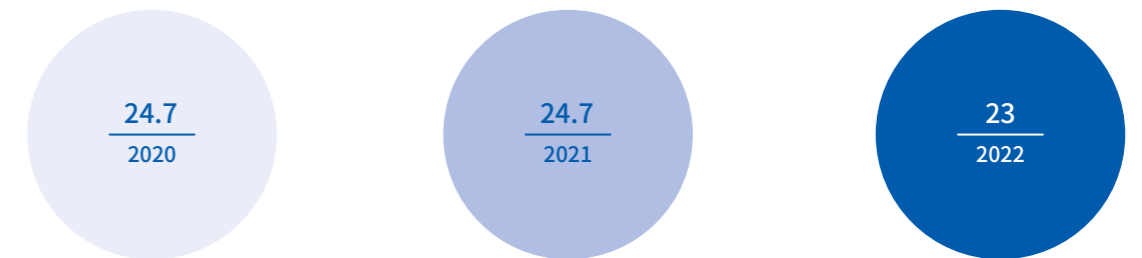
64,584

2020

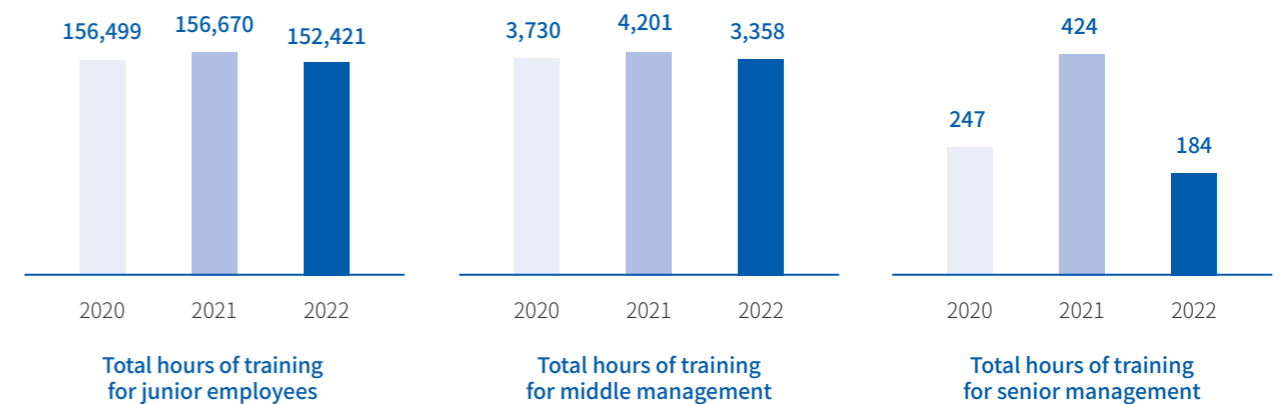
2021

2022

Average training hours per employee (Hours)



Categories by job position (Hours)



Upgrading employee skills

The Company attaches great importance to the professional skill development of employees and carries out enterprise skills training with the help of government training programs, significantly improving the professional skills of employees. At the same time, the Company signs a joint cultivation agreement with the College of Continuing Education, Qingdao University of Science and Technology to upgrade the skills and academic education of employees with customized courses.

By the end of 2022, a total of 42 employees have been cultivated, all of whom have obtained junior college or bachelor degree certificates.

Xinhua Pharmaceutical skills training program

In 2005

- The Company was identified as the first "Gold Blue Collar" training base in Shandong province, mainly cultivating technicians and senior technicians. By the end of 2022, a total of 1,914 people have been cultivated in 18 consecutive training sessions.

In 2018

- The Company became the first batch of enterprises to adopt a new apprenticeship system in Zibo city, mainly cultivating senior workers and intermediate workers. By the end of 2022, a total of 355 people have been cultivated in five consecutive years.

In 2019

- The Company became the first batch of enterprises to conduct independent evaluations for enterprise skill talents in Shandong province. The Company can carry out independent evaluations for chemosynthetic pharmaceutical workers, pharmaceutical preparation workers, and drug inspectors.

In 2020

- The Company gained the first batch of order-type training programs in a school-enterprise cooperation manner in Zibo city, mainly cultivating intermediate workers. By the end of 2022, a total of 261 people have been cultivated in three consecutive years.

In 2021

- The Company became the first enterprise to train special-grade technicians in Zibo city.

In 2022

- Seven new types of work were added to the order-type training programs in a school-enterprise cooperation manner, including electrician, fitter, industrial wastewater treatment worker, instrument maintenance worker, compressor operator, warehouse keeper, and e-commerce engineer.

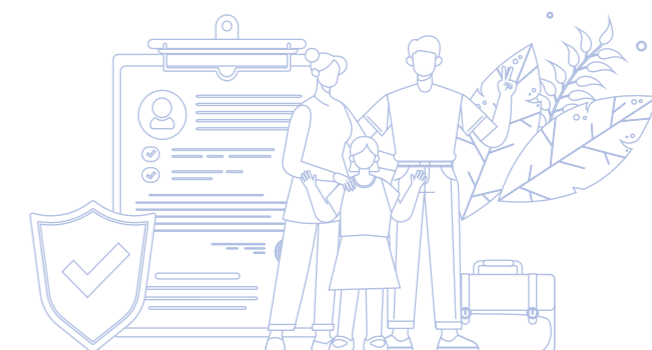
Occupational health and safety

The Company adheres to the production management concept of "safety is the basis of employee happiness and the guarantee of enterprise performance" and implements the occupational health prevention and treatment policy of "prevention first and integrating prevention with treatment". The Company focuses on the standardization construction of safety and the consolidation of safety management and aims to improve the environment through training and inspection. By doing so, the Company ensures the continuous improvement of occupational health and safety management.

The Company identifies and accesses safety production-related laws and regulations documents in a timely manner according to procedural standards. In 2022, the Company identified and accessed a total of 25 regulatory documents and notices. We gave compliance evaluation on the *Measures of Shandong Municipality for the Investigation and Handling of Hidden Risks of Work Safety Accidents* (Order No. 347), the *Negative List of Key Production Safety Behaviors of Hazardous Chemical Production and Operation Units in Shandong Province* (L.Y.J.Zi [2022] No. 124), the *Specification of the Morning Meeting System for Safety Production in Shandong Province* (for Trial Implementation) (L.A.F. [2022] No. 4), *Safety Risk Management Guide for Contractors of Hazardous Chemical Enterprises in Shandong Province* (for Trial Implementation) (L.Y.J.Zi [2022] No. 135) and other documents, and formed work action items to reduce safety risks in the production process involving hazardous chemicals and ensure employees' occupational health and safety.

Occupational health and safety		Unit	2020	2021	2022
Employee health and safety	Lost days due to work injury	Days	798	780	363
	Number of work-related fatalities	Persons	0	0	0
	Rate of work-related fatalities	%	0	0	0
	Number of employees exposed to occupational health hazards	Persons	2,556	2,865	2,888
	Number of employees that have received occupational disease examination	Persons	2,649	2,893	2,914
	Number of employees suffering from occupational diseases	Persons	0	0	0
	Investment in safety production	CNY10,000	1,629	1,920	2,105
Safety drills	Number of safety drills	Time(s)	745	962	798
	Rate of employees covered by safety drills	%	95.25	96.16	94.37

*Note: Data in the table represent the headquarters of Xinhua Pharmaceutical



Technical safety measures

Technical safety measures are an important way and method for enterprises to realize intrinsic security. In order to promote the Company's intrinsic safety level and mitigate the work safety risks, as well as improve the working conditions and environment for employees, the Company prepares technical safety measure plans every year in accordance with national laws, regulations, and standards on work safety, and maintains the necessary investment in technical safety measures. With the development of the Company, the investment in technical safety measures has increased year by year, exceeding CNY10 million for the first time in 2018 and reaching CNY21.05 million in 2022.

In terms of intellectual, smart, and information development, the Company has implemented more technical safety measures in automatic control and interlocking for major hazards and hazardous processes (hydrogenation, distillation, methylation, chlorination, polymerization, etc.), established and improved the monitoring platform for major hazards, as well as key equipment and parts; the Company has completed the secure networking of important process parameters in No. 1 Factory and No. 2 Factory, and realized the three-level (company, workshop, and team) regulation for 575 pieces of data from hazardous process and major hazards and 889 pieces of camera alarm information about flammable gas; by doing so, the Company has improved the automatic interlocking and safety management of "two key and one major" items (major hazards, key process, and hazardous chemicals closely regulated). The Company highlights the point and source management of occupational hazards including dust, high toxicity, high temperature, and noise, and implements technical safety measures such as renovating ventilation and cooling facilities in high-temperature positions, installing air conditioners in operation rooms, hermetically feeding and automating packaging in positions with excessive dust; by doing so, the Company has improved the working environment, reduced the labor intensity, and protected the health of employees, as well as realized secure, civilized production and basically achieved the production safety.



Case

Intelligent edge perception and security control system

The system monitors key sites in the park and captures safety problems in real time, such as not wearing safety helmets, not conducting regular patrols, not walking on zebra crossings, and not fully monitoring the unloading of vehicles. It urges employees to comply with safety operation specifications and effectively improves all employees' safety awareness, mitigating safety risks across the board.



Intelligent edge perception and security control system

Safety emergency response management

The Company has established an emergency rescue command and steering group with the general manager as the chief commander, the deputy general manager as the deputy chief commander, and the heads of relevant professional departments such as the Safety Management Department as members, improving the emergency response mechanism in the three levels of company, workshop, and team. The Company has organized a professional fire rescue team to stay on-duty 24 hours a day; the Company also has organized other emergency rescue teams with different functions such as fire disaster relief, information liaison, early warning and evacuation, emergency repair, environmental monitoring, and first-aid support. The Company has built an emergency response management system to implement the emergency response responsibilities of organizations and personnel at all levels. According to the analysis and evaluation results of accident risks, the Company has prepared various emergency response plans and on-site response plans, and carried out emergency response knowledge and equipment use training according to the training plans, constantly improving the emergency response level of the Company and employees. In line with relevant laws, regulations, and requirements of superior departments, the Company has prepared emergency response drill plans with crucial work highlighted, promoted emergency response drills during non-regular working hours and quantified the index assessments, and organized relevant departments to jointly conduct special inspections for emergency response.

In 2022, the Company carried out 12 company-level comprehensive and special emergency response drills and 786 workshop and team-level emergency response drills, covering 94.37% of employees.



Safety training and education

Starting from the primary level, the Company pays attention to hands-on guidance and warning education and continuously conducts company-wide, innovative, tailored, effective, and all-around training. With the combination of theory and practice, warning education and face-to-face teaching, specialty and versatility, internal training and external expansion, computer test and Q&A evaluation, whether managers or primary-level employees, the Company conducts training according to their concrete situations and differentiates training in line with their positions. The Company leverages technical lectures, fault case analysis, hands-on guidance, and qualification granting to carry out systematic and specific training. By doing so, the Company further improves the primary-level employees' abilities to conduct hands-on operations and respond to emergencies, and managers' safety literacy and management level, laying a solid foundation for the Company's production safety.

In 2022, the Company organized 17 safety training sessions with more than 15,700 people.

Case

Improving awareness via training: safety training for middle-level cadres and functional personnel

In June 2022, the Company conducted training on the knowledge of addressing safety risks and vulnerabilities. More than 230 middle-level cadres and safety management personnel from the Company's production department attended this training. The training detailedly interpreted the latest edition of the *Safety Specifications of Special Work in Hazardous Chemicals Enterprises*, and put forward standardized requirements for the Company's status quo of addressing vulnerabilities, significantly improving employees' awareness of safety management.



Case

Taking competition as exercise: the 9th Emergency Response Skills Competition for Young Workers

In July 2022, the Company held the 9th Emergency Response Skills Competition for Young Workers, organized 892 young workers to carry out theory learning and integrate it with hands-on guidance, and improved the simulation learning platform via online tests with 1,700 questions. The Company provided hands-on guidance for working at height, fire extinction, use of breathing apparatus, cardiopulmonary resuscitation, and working in confined space. The Company actively promoted employees to conduct online learning and computer theory test. By doing so, the Company not only strengthened employees' safety knowledge but also improved their hands-on abilities.



Theory Test of the Skills Competition for Young Workers



Hands-on Assessment of the Skills Competition for Young Workers

Occupational safety detection

The Company conducts outsourcing detection on 1,346 sites involving occupational hazards in accordance with regulations, and the detection results show that all sites satisfy the requirements. The Company provides occupational health examinations for employees before, during, and after their work, and informs the employees of their examination results in time in written form. In order to ensure the health of female employees, the Company regularly provides the general examination of gynecological diseases for female employees and pays the fees for them. In 2022, no case of occupational diseases was found in the Company, and one person with occupational contraindication was detected and then promptly transferred from the position influenced by noise.

Employment communication and care

Employee communication

The Company formulates the System of Handling and Supervising Employees' Appeals to effectively respond to their most concerned, direct, and realistic reasonable appeals, building a harmonious labor relationship. The Company carries out many communication activities together with employees to enhance their awareness of ownership and practice the work idea of relying on employees for development. By finding out the problems around, the Company constantly improves the operation quality and level of its multiple aspects such as production, operation, scientific research, safety, environmental protection, quality, and daily management, facilitating the Company's better and faster development.

Case

"Offering a stratagem for the Company's development"

In November 2022, the Company's labor union initiated an activity of "offering a stratagem for the Company's development" for employees to contribute their reasonable proposals, and the activity received wide support, attracting a total of 38 units and 4,872 employees. After the centralized discussion and deliberation, the Review Committee selected 80 pieces of the most reasonable proposals and provided souvenirs as rewards for employees taking part in the activity.

Case

Internal talkfest

In November 2022, the Company held a talkfest between team leaders, employee representatives, and company leaders. The Company extensively and intensively listened to the opinions and suggestions from front-line employees through various forms to solve the Company's difficulties and obstacles, as well as the most pressing difficulties and concerns of the employees. A total of 18 problems were summarized at the talkfest.

Employee care

The Company cares about employees lives, and establishes an activity brand of caring and helping employees. The Company launches a series of activities each year to offer heating and cooling devices and items in festivals and hot days, entertainment, schooling support, and assistance to those in need. By doing so, the Company improved the service function and work capability of the labor union and effectively solved small difficulties and problems impacting the employees' life, creating a harmonious atmosphere in the Company and carrying forward positive energy.

Case

Offering cooling items

The Company's labor union carries out an "offering cooling items" activity based on work priorities and actual positions. The labor union provided the most needed, practical and satisfactory cooling items by customizing cooling packages, toilet water, essential balm, clean spray and other items, so that employees can enjoy a cooling environment when they are working.



The activity of offering cooling items

Case

"Three-person" basketball match

The Company held a "three-person" basketball match for employees at Shandong Xinhua Vestibule School. Leaders of the Company attended the match and cheered for the employees to advocate the spirit of building a harmonious sports event together. A total of 38 men's and 16 women's representative teams from 33 grassroots branches of the Company participated in the competition, fully demonstrating the team cooperation spirit and positive and enterprising spirit of Xinhua people.



The intense "three-person" basketball match

Case

Kicking shuttlecock

The Company cares about employee physical fitness and held a staff shuttlecock competition at the Zibo Ethnic Sports Association Training Center. There were over 100 shuttlecock masters from 26 units competing on the field. This activity greatly stimulated the enthusiasm of employees for fitness, and enhanced communication and cohesion among them.



The fierce shuttlecock kicking competition



The Company's labor union set up the Female Employee Committee, whose primary-level branches have set up posts for female employees as their members. Relevant activities were tailored for female employees, which made female employees feel the Company's care and love across the board.

 Special care activities for female employees

- The Company organizes health preservation training every year and provides all kinds of services such as detecting bone density micro-elements and vascular elasticity for female employees participating in the training with professional instruments on site.
- On the afternoon of March 8, nearly 200 representatives of female employees participated in the award celebration of "Xinhua Pharmaceutical Female Professional Talent" and attended the health knowledge lecture.
- In November, the Company invited national first-class athletes and fitness instructors to conduct training on healthy diet and fitness for female members and family planning members.

The Company is committed to providing humanized, normalized, long-term, and targeted support for employees in difficulty.

In 2022, three caring service teams with more than 60 members provided services for more than 40 times, including simple home maintenance, household cleaning for employees with financial problems, as well as visiting and condolences.

In 2022



The Company helped **333** employees in difficulty with CNY **538,332** of relief funds

Providing **218** employees in difficulty with CNY **458,799** of relief funds

Providing **13** children of employees in difficulty with CNY **43,000** of grants

Giving **102** employees' children newly admitted to universities with enrollment gifts of CNY **36,533**



In addition, the Company conducted a series of activities to send warmth before New Year's Day and the Spring Festival. The Company leaders went into the homes of employees in difficulty and model workers for visiting and condolences, mainly helping primary-level employees and caring about employees in difficulty across the board.



Visiting and condolences for retired employees



Grants for students in golden autumn



Visiting and condolences for in-service employees



Visiting and condolences for employees in difficulty



Chapter V

Remaining True to the
Original Aspiration and
Embracing a Better Life



Caring for public welfare and health

Public donation

Xinhua Pharmaceutical insists on fulfilling its public welfare responsibilities, and keeps moving forward with determination to become a large state-owned enterprise with responsibility and dignity, always closely combining corporate development with public welfare undertakings, and steadfastly achieving a win-win situation for both social interests and corporate benefits.

Since its establishment, the Company has been adhering to the tenet of "For Good Health and Better Life" and has assumed the social responsibility and accountability as a patriotic pharmaceutical company. The Company has saved the lives of critical patients from the verge of death dozens of times and always escorted the health of the people.

Case

Emergency delivery of drugs

In September, Nanjing Office of Shandong Xinhua Pharmaceutical Trade Co., Ltd. delivered acetamide injection to the General Hospital of Eastern Theater Command, saving a child who mistakenly took rat poison in time.

In 2022

The Company responded positively to the "working together in pairs" activities initiated by Zibo Federation of Trade Unions by working with Boshan Huaji Agriculture to help vegetable farmers sell **101,380** kg vegetables, amounting to CNY **405,509**. Additionally, the Company responded positively to the poverty alleviation activities initiated by Zibo Labor Union by helping Chongqing Shizhu Tujia Autonomous County purchase **200** kg tea, amounting to CNY **34,000**. In the same year, the Company organized a one-day donation activity, with **5,501** employees donating CNY **208,087** in total.

Volunteer service

Xinhua Pharmaceutical vigorously carries forward the volunteerism of dedication, fraternity, mutual assistance and progress. In 2022, more than 10 volunteer teams of Xinhua Pharmaceutical organized more than 60 volunteer services, encouraging more than 1,000 employees to contribute their part, effectively stimulating the enthusiasm and initiative of employees to "Learn the Spirit of Lei Feng" and creating a good volunteering atmosphere, which was well received by the Company and the society.

Serving the Company by practice

The Company encourages employees to practice the spirit of Lei Feng and dedicate themselves to their work. The Workshop 105 volunteer team used the noon break to clean up both sides of the south gate of No. 1 Factory and two parking lots, and to fill the pot holes on both sides of the road in the east parking lot of No. 1 Factory. The employees used their off hours to clean such public area as the parking lot of the factory. Workshop 207 carried out "Learning from Lei Feng, Helping Each Other" activities by organizing mutual help and solidarity and cooperation between posts and shifts, and worked together to solve production problems. Workshop 301 carried out "Advocating Civilization during the Festival, Promoting Voluntary Care and Love" activities by organizing 20 volunteers to participate in workshop environmental improvement and electromobile charging pile maintenance. Shandong Xinhua Mechanical and Electrical Engineering Co., Ltd. organized league members, youth and trade union members to use their off hours to thoroughly clean the factory. Perrigo Pharmaceutical organized more than 20 employees to carry out voluntary tree planting activities and other corporate service activities in the factory, so that the employees have more opportunities to serve the Company.

Members of the volunteer team clean the garbage in the green belt outside the Company



Workshop 105 volunteer team repaired the pavement of the east parking lot in No. 1 Factory of the Company

Workshop 105 volunteer team organized personnel to voluntarily guide employees in form filling

Caring for community people to serve the society

The Company leads employees into the community and cares for the community people. In 2022, Workshop 105 volunteer team carried out volunteer service activities at the vaccination site three times. Workshop 207 volunteer team visited the elderly in Jinqiao Senior Citizen Apartment in Zhangdian District, helped them to do some cleaning, and performed special inspection on the electric facilities such as the distribution boxes in the new apartment. In addition, the Company also organized party members, league members, and production backbones to carry out "Learning from Lei Feng" activities in their respective communities and the Company's bachelor dormitory, help the cleaning staff to clean up the front and back of the building and corridor. Xinhua Pharmaceutical (Gaomi) Co., Ltd. sent 10 representatives of party members and league members to Xiazhuang Geracomium to carry out voluntary activity entitled "Xinhua, Taking Actions to Care for the Elderly". The party branch and league branch of Xincat Pharmaceutical and the Party Committee of Yintai Community jointly held the voluntary activity named "Caring for the Elderly, Respecting Life; Shining the Party Emblem by Volunteering". The Company leaders gave lectures on the History of the Chinese Communist Party, Medical Protection and Geriatric Medicine, and sent care materials to each elderly person.



Gaomi Company carried out voluntary services in the geracomium

Promoting inclusive development of the industry

As a leading enterprise in the pharmaceutical industry, Xinhua Pharmaceutical shoulders the mission and responsibility to lead the construction and development of the industry as well as actively promote the cooperation of domestic and foreign pharmaceutical platforms and pharmaceutical innovative research and development. In recent years, the Company has passed the official inspections of the U.S. Food and Drug Administration (FDA), the U.K. Medicines and Healthcare Products Regulatory Agency (MHRA) and the European Medicines Agency (EMA) for many times with excellent results, successfully opening up high-end markets in Europe and the United States, while being highly recognized by leading international pharmaceutical companies. Based on this, the Company has successfully implemented a number of cooperation projects with international pharmaceutical giants such as Roche (Switzerland), Merck (Germany), Bayer (Germany), Perrigo (UK) and STADA (Germany), and the products are exported to high-end markets such as the EU and the US.

The Company takes advantage of its own characteristics, gives full play to the value of its own products and shares the responsibility of drug supply with the peers to coordinate drug demand. In 2022, Mr. He, general manager of Bayer Consumer Health China, and his delegation visited Xinhua Pharmaceutical. He fully affirmed that Xinhua Pharmaceutical has taken on the heavy responsibilities for many consecutive times, fully guaranteed market changes and supply demand, and made significant contributions to the drug demand and business development of both sides. He expressed his sincere gratitude to Xinhua Pharmaceutical.

In 2022, the Company entered into strategic cooperation agreements with a number of customers and reached cooperation on a number of product export projects, seeing nearly foreign exchange income of USD400 million.



Mr. He, general manager of Bayer Consumer Health China, and his delegation visit Xinhua Pharmaceutical

Strategic cooperation and product export

- Signed a strategic cooperation agreement with Bayer Consumer Health.
- Oral solid dosage Madopar products processed for Roche Pharmaceuticals, the world's largest innovative pharmaceutical company: After the commercialization and official production, the production of such products has progressed steadily, **with an annual supply of more than 720 million tablets.**
- Formally signed a pharmaceutical commissioning agreement with Zhejiang Huanling Pharmaceutical for the processing of calcium carbonate D3 chewable tablets.
- Phenobarbital tablet products were exported to the Venezuelan in South America for the first time.



Appendix

Appendix I: List of Key Performance Indicators (KPIs)

Anti-corruption	Unit	2020	2021	2022
Number of employees receiving anti-corruption training	Persons	1,205	1,131	1,143
Hours of training received by employees	Hours	4	4	4
Number of Directors receiving anti-corruption training	Persons	4	4	4
Hours of training received by Directors	Hours	8	8	8
Number of anti-corruption reporting incidents	-	0	0	0
Number of corruption proceedings concluded	-	0	0	0

Technological R&D	Unit	2020	2021	2022
R&D investment	CNY10,000	29,129	32,803	35,160
Number of R&D staff	Persons	737	732	822

Patent application	Unit	2020	2021	2022
Number of patents held	-	134	138	150
Number of newly applied patents in the year	-	38	32	28

Complaints about products	Unit	2020	2021	2022
Number of complaints about products	-	20	27	23

Supplier management	Unit	2020	2021	2022	
Total number of suppliers	-	644	661	587	
Number of suppliers by region	Shandong	-	298	355	316
	Hebei	-	8	9	9

Supplier management	Unit	2020	2021	2022	
Number of suppliers by region	Jiangsu	-	72	57	52
	Shanghai	-	80	55	29
	Zhejiang	-	33	28	15
	Hong Kong, Macao and Taiwan, China, as well as overseas regions	-	2	7	3
	Other regions	-	59	50	163
Total number of new suppliers of the year	-	20	24	32	
Percentage of suppliers that have signed the Supplier Code of Conduct	%	60	70	80	
Number of suppliers that have conducted ESG impact assessments	-	114	137	198	
Number of suppliers identified as having actual and potentially significant negative social impacts	-	0	0	0	
Number of supplier social responsibility (ESG) trainings	Time(s)	1	1	1	
Percentage of suppliers who participated the CSR or ESG training	%	60	70	75	
Ratios of internal purchasers passing sustainable purchasing training	%	90	92	98	

Investment in environmental protection	Unit	2020	2021	2022
Total annual investment in environmental protection	CNY10,000	14,100	14,000	14,600
Annual investment in technology transformation for environmental protection and energy conservation	CNY10,000	6,000	5,110	6,021
Annual training times on environmental protection	Time(s)	32	29	41

Waste treatment	Unit	2020	2021	2022
Total domestic waste	Tons	2,500	2,500	2,850
Density of domestic waste	kg/output per CNY10,000	4.82	7.11	6.50
Total hazardous solid waste	Tons	8,315.00	9,436.50	8,408.90
Density of hazardous solid waste	Ton(s)/output per CNY10,000	0.0160	0.0268	0.0101

Exhaust gas treatment	Unit	2020	2021	2022
Particulate	Tons	3.8	1.38	1.26
Nitrogen oxide	Tons	11	0.17	0.15
Sulfur dioxide	Tons	6	0.13	0.12
VOC emissions	Tons	36.5	24	22.3

Wastewater treatment	Unit	2020	2021	2022
Total wastewater discharged	Tons	2,627,818	2,738,190	1,841,902
Chemical oxygen demand (COD)	Tons	715.56	584.11	391.90
Ammonia nitrogen	Tons	51.36	21.01	15.70

Carbon emission	Unit	2020	2021	2022
Scope I and Scope II	tCO ₂ e	264,170	250,960	258,465

Resource utilization	Unit	2020	2021	2022
Steam	10,000 tons	51.47	51.12	46.61
Power consumption	100 million kWh	1.90	1.85	2.01
Circulating water	10,000 m ³	7,503.05	8,859.64	9,656.08
Tap water	10,000 m ³	296.42	338.30	338.29
Power consumption (energy consumption per unit output value)	kWh/output per CNY10,000	387.13	481.83	431.70
Steam consumption (energy consumption per unit output value)	Ton(s)/output per CNY10,000	1.05	1.33	1.01
Water consumption (energy consumption per unit output value)	m ³ /output per CNY10,000	6.03	8.81	7.28
Water saved	10,000 tons	13.01	3.01	22.92
Packaging materials used for finished products	Tons	9,487	9,219	8,898

Note: Saving water consumption is the data of saving water year-on-year.

Employee employment	Unit	2020	2021	2022	
Total number of employees	Persons	6,497	6,533	6,781	
Number of employees by gender	Male	Persons	3,818	3,770	3,973
	Female	Persons	2,679	2,763	2,808
Number of employees by type of employment	Labor contract system	Persons	6,497	6,533	6,781
	Labor dispatch system	Persons	0	0	0
Number of employees by age	> 55 years old	Persons	107	129	147
	35-55 years old (inclusive)	Persons	3,246	3,197	3,186
	35 years old and below	Persons	3,144	3,207	3,448
Number of employees by working area	China's mainland	Persons	6,487	6,525	6,775
	Hong Kong, Macau, and Taiwan, China	Persons	0	0	0
	Others	Persons	10	8	6
Number of employees by educational background	Doctoral degree	Persons	17	20	19
	Master's degree	Persons	272	311	358
	Bachelor's degree	Persons	1,013	1,068	1,258
	Below bachelor's degree	Persons	5,195	5,134	5,146
Number of employees by level	Total number of primary employees	Persons	6,336	6,376	6,627
	Total number of middle management employees	Persons	151	147	146
	Number of female middle management employees	Persons	19	20	20
	Total number of senior management employees	Persons	10	10	8
	Number of female senior management employees	Persons	0	0	0

Employee employment		Unit	2020	2021	2022
Number of employees by job category	Production personnel	Persons	3,743	3,744	3,733
	Sales personnel	Persons	1,017	892	920
	Engineering and product developer	Persons	853	895	1,091
	Quality supervision and testing personnel	Persons	505	550	579
	Other personnel	Persons	379	452	458
Number of employees by honorary title or designation	Senior engineer	Persons	174	180	191
Number of employees hired under labor contracts		%	100	100	100
Number of new employees		Persons	418	478	588

Employee turnover		Unit	2020	2021	2022
Total number of resigned employees		Persons	216	146	151
Total employee turnover rate		%	3.32	2.23	2.20
Employee turnover rate by gender	Male	%	2.70	1.82	1.53
	Female	%	0.62	0.41	0.67
Employee turnover rate by age	51 and above	%	0.02	0.00	0.00
	41-50	%	0.41	0.24	0.10
	31-40	%	0.80	0.40	1.10
	30 and under	%	2.09	1.59	1.00
Employee turnover rate by work area	China's mainland	%	3.32	2.23	2.20
	Hong Kong, Macau, and Taiwan, China	%	0	0	0
	Others	%	0	0	0
Employees turnover rate by employment type	Labor contract system	%	3.32	2.23	2.20
	Labor dispatch system	%	0	0	0
	Others	%	0	0	0

Employee training		Unit	2020	2021	2022
Total number of employees trained		Persons	6,497	6,533	6,781
Number of male employees trained		Persons	3,818	3,770	3,973
Number of female employees trained		Persons	2,679	2,763	2,808
Number of junior employees trained		Persons	6,336	6,376	6,627
Number of middle management trained		Persons	151	147	146
Number of senior management trained		Persons	10	10	8
Total numbers of training for employees		Hours	160,476	161,295	155,963
Average training hours for employees		Hours	24.7	24.7	23
Total hours of training for male employees		Hours	94,305	93,110	91,379
Total hours of training for female employees		Hours	66,171	68,185	64,584
Total hours of training for junior employees		Hours	156,499	156,670	152,421
Total hours of training for middle management		Hours	3,730	4,201	3,358
Total hours of training for senior management employees		Hours	247	424	184

Occupational health and safety		Unit	2020	2021	2022
Employee health and safety	Lost days due to work injury	Days	798	780	363
	Number of work-related fatalities	Persons	0	0	0
	Rate of work-related fatalities	%	0	0	0
	Number of employees exposed to occupational health hazards	Persons	2,556	2,865	2,888
	Number of employees that have received occupational disease examination	Persons	2,649	2,893	2,914
	Number of employees suffering from occupational diseases	Persons	0	0	0
Safety drills	Investment in safety production	CNY10,000	1,629	1,920	2,105
	Number of safety drills	Time(s)	745	962	798
	Rate of employees covered by safety drills	%	95.25	96.16	94.37

Note: The statistics are for Xinhua Pharmaceutical Headquarters.

Appendix II: Index Table of HKEx ESG Reporting Guide

Instructions for use: This section is used in the guideline and index of this report on the last page of the report.		
Scope, aspects and KPIs	Description and indicator	Reference page
A. Environmental		
Aspect A1	Emissions	
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		
KPI A1.1	The types of emissions and respective emissions data.	Pages 44-48
KPI 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).	Page 47
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 47
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Page 47
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Pages 45-46, Page 48
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Page 50
Aspect A2	Use of Resources	
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.		
KPI 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).	Page 49
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Page 49
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Pages 48-49
KPI 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.	Page 49-50
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Page 49
Aspect A3	The Environment and Natural Resources	
General Disclosure Policies on minimising the issuer's significant impacts on the environment and natural resources.		
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Pages 45-46, Pages 49-50

Aspect A4	Climate change	
General Disclosure Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.		
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Page 51
B. Social		
Aspect B1	Employment	
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		
KPI B1.1	Total workforce by gender, employment type (for example, full- or parttime), age group and geographical region.	Page 54, Page 57
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Pages 54-56
Aspect B2	Health and safety	
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Page 61
KPI B2.2	Lost days due to work injury.	Page 61
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Pages 62-65
Aspect B3	Development and training	
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Page 58, Page 60
KPI B3.2	The average training hours completed per employee by gender and employee category.	Page 59
Aspect B4	Labor standards	
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Page 57
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Page 57

Aspect B5		Supply chain management
General Disclosure		
Policies on managing environmental and social risks of the supply chain.		Page 37
KPI B5.1	Number of suppliers by geographical region.	Page 38
KPI 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.	Page 37
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Page 39
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Page 39
Aspect B6		Product responsibility
General Disclosure		
Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		Page 32
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Page 36
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Page 36
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Page 31
KPI B6.4	Description of quality assurance process and recall procedures.	Pages 33-35
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Page 36
Aspect B7		Anti-corruption
General Disclosure		
Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Page 19
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Page 19
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Page 21
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Pages 19-20
Aspect B8		Community investment
General Disclosure		
Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Pages 72
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Pages 73-75
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Page 72

Appendix III: Reader Feedback Form

Dear readers,

Thank you for taking the time to read this report. In order to provide you and other stakeholders with more complete, more professional and more valuable information on the development of ESG reports, and to enhance the quality of our ESG reports, we sincerely invite you to assist in completing the relevant questions in the feedback form. Please do not hesitate to give us your comments.

1. Are you satisfied with this report in general?

Yes Fair No

2. Do you think this report reflects the significant impact of Xinhua Pharmaceutical on social responsibility?

Yes Fair No

3. Do you think the analysis of the stakeholders identified in this report and their relationship with Xinhua Pharmaceutical is accurate and comprehensive?

Yes Fair No

4. Do you think the information provided in this report is comprehensive?

Yes Fair No

5. Do you think the information provided in this report is readable?

Yes Fair No

6. Do you think the overall design of this report is satisfactory?

Yes Fair No

7. Your other comments and recommendations on the Environmental, Social and Governance Report of Xinhua Pharmaceutical 2022 are welcome.

You can inform us of your valuable comments by:

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