中新药业
ZHONGXIN PHARMACEUTICALS

Sustainability Report 2017

Contents

Chairman's Message

Dear Stakeholders,

I am pleased to present the inaugural Sustainability Report of Tianjin Zhong Xin Pharmaceutical Group Corporate Limited ("Zhong Xin Pharmaceutical", the Company or the "Group").

As a highly reputable pharmaceutical supplier that prides itself in the quality and safety of its products, ensuring product health and safety has always been our top priority. We regularly review our policies and manufacturing practices, and strictly comply with industrial regulations to ensure that our drugs are safe and efficacious for patients.

It is the Group's belief that technological advancement of its products and production process is key to the sustainable development of the business. As such, we have put in significant investments into our Research and Development facilities and equipment, as well as pharmaceutical products and production technology, to ensure top-grade product performance and quality for our customers.

I would like to extend my appreciation to all stakeholders, for your support to Zhong Xin Pharmaceuticals all these years.

MR LI LI QUN
Chairman

Our Sustainability Story

Our Vision

To advocate “Healthy China”, protect the nation’s health, and be a pioneer of Chinese patent medicine.

Our Mission

To continuously meet our customers’ health needs

Sustainability Targets

Zhongxin Pharmaceutical adheres to the sustainable development concept of “Inheriting and developing the essence of Chinese medicine, and supporting a healthy and quality lifestyle”. We have always committed to manufacturing a full range of quality and efficacious medications by innovating traditional Chinese medicine through extensive research and development.

In order to achieve this, the Group endeavours to streamline our business operations by optimising workflow throughout our supply chain to improve efficiency and conserve resources.

The Group will continue to foster and deepen its social responsibility awareness and philosophy of sustainable development, and strictly comply with the laws and regulations of the countries where we operate and distribute.

We will continue to uphold Chinese traditions and strike a balance between business growth and social progress.

Noteworthy Awards

The Group has won numerous accolades and awards in recognition of its excellence in the pharmaceutical business.

- Top 100 Chinese Pharmaceutical Industry Enterprises
- Top 20 Most Competitive Pharmaceutical Listed Companies in China
- Top 100 Comprehensive Strengths of Industrial Enterprises in China's Chemical and Pharmaceutical Industry
- Top 5 Exporting Chinese Enterprises
- National High-tech Enterprise
- National AAA grade Credit Enterprise (2015)
- Excellent Enterprise of the National Pharmaceutical Industry for Quality Management Activities

Organisation Profile

Zhong Xin Pharmaceutical is a core company under Tianjin Pharmaceutical Group Co., Ltd. ("Pharmaceutical Group"). Founded in 1992, the company has a long history and is an advanced, top-rated enterprise well-known for its innovations in traditional Chinese medicine. It was listed in Singapore in 1997 and listed in Shanghai in 2001, and its headquarter is in China.

With Chinese medicine as its core business, the Group has a complete industrial and product supply chain and talent pool supporting its manufacturing and distribution of Chinese medicine. The Group is also in strategic collaborations with four world-class pharmaceutical giants, one of which is SmithKline, in the areas of distributing chemical drug and biomedicine. Our two main business segments, Chinese medicine and pharmaceutical drugs, have been achieving steady growth and complementing each other's competitive advantages, allowing Zhong Xin Pharmaceuticals to grow by leaps and bounds and rank among well-performing companies in recent years.

At present, Zhong Xin Pharmaceutical owns 501 certificates of approval for preparations for 17 types of medications. Among them, four Chinese medicines have been honoured as "National Treasure Chinese medicine"; Su Xiao Jiu Xin Pill, Niu Huang Jiang Ya Pill, Niu Huang Jiang Ya Capsule and Jing Wan Hong are designated as "State secrets"; five products have become state-protected Chinese medicines; 94 product varieties are exclusively produced by the Company; 85 drugs have been listed in the National Basic Medicine Catalogue; and 216 products are now available in the national medical insurance service system. The Group has developed a nationwide marketing network, and many of its high-quality products have also been exported to more than 30 countries and regions around the world, enjoying high reputation in the pharmaceutical industry.

Currently, the Company has one state-level enterprise technology centre, five municipality-level enterprise technology centres, one municipality-level modern technology engineering centre on Chinese medicine, and a science and technology work station for post-doctoral studies approved by the Ministry of Manpower. It owns 1,201 patents, including 722 for inventions. The Company has six well-known trademarks in China, namely "Da Ren Tang", "Le Ren Tang", "Long Shun", "Song Bai", "Jing Wan Hong" and "Bi Qi"; as well as four national medicines formulations (Da Ren Tang Qing Gong Shou Tao pill, An Gong Niu Huang pill, Long Shun Rong Wei medicine and Jing Wan Hong ointment) and nine Tianjin municipal intangible cultural heritage.

After years of medical experiments and accumulated experience, the Group has integrated and improved the world's most advanced equipment and technologies on Chinese medicine to form an integrated modern Chinese medicine development

platform with its unique characteristics. It implements the GAP, GLP, GCP, GMP and GSP series of standards on a full scale and carries out full-course quality control to ensure product safety and quality.

Zhong Xin Pharmaceutical will continuously explore the development of Chinese medicine to promote the modernisation and internationalisation of Chinese medicine.

Please refer to our Annual Report for financial year ended 31 December 2017 for more detailed information on our organizational profile and financial performance.

Ethics and Integrity

Anti-corruption *(GRI 205 -1, 205-2, 205-3)*

The Group strictly forbids any form of corruption or falsification in the course of business. All employees and associates are informed and educated on the Group's zero tolerance against corruption, and have signed the "Commitment on Anti-Commerce Bribery" to strengthen employee anti-corruption awareness and sense of integrity. Every year, all departments, branches and subsidiaries will undertake risk prevention and control measures to mitigate corruption. These measures have effectively improved the Group's ability to resist corruption.

In the event of a probable corruption incident, we will conduct independent investigations promptly where required, followed by the implementation of mitigating measures to prevent a recurrence.

There was no reported incident of corruption in FY2017.

Whistle-blowing Policy

The Group has a mailbox and phone line designated for whistle-blowing purposes, and there are anti-corruption staffs handling whistle-blowing reports 24 hours every day. We accept all kinds of whistle-blowing reports.

Interested-Party/Persons Transactions

The Group has adopted an internal policy in respect of any transactions with interested persons and established procedures for the review and approval of such transactions. All interested person transactions will be properly documented and submitted to the Audit Committee for quarterly review to ensure that they are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the shareholders.

In FY2017, there were two categories of interested person transactions. For the first category, the company had daily transactions with the interested party, such as

purchasing and selling goods. These transactions were conducted in accordance with the General Mandate approved by shareholders at the annual general meeting. As such, these transactions were compliant with SGX listing requirements. For the second category, the company signed a financial services agreement with interested party Tianjin Pharmaceutical Group Finance Co., Ltd. based on the principle of “Equal Choice, Mutual Benefit and Development”. The agreement is valid from 1 July 2017 to 30 June 2020. Tianjin Pharmaceutical Group Finance Co., Ltd. provides financial services such as settlement and intermediary business services, deposit services and credit business. The transaction was reviewed and approved at the extraordinary general meeting on 30 June 2017.

Dealing in Securities

The Group has adopted and implemented policies in line with the SGX-ST’s best practices in relation to the dealing of shares of the Company.

The Group has advised Directors and all key executives not to deal in the Company’s shares during the period commencing one month prior to the announcement of the Company’s interim, half-yearly and full-year results and ending on the date of the announcement of the results. The Group has also recommended its Directors and officers to not deal in the Company’s securities based on short-term considerations.

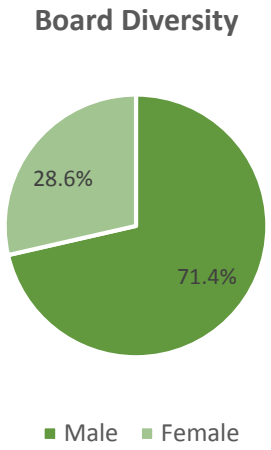
Governance and Statement of the Board

At Zhong Xin Pharmaceutical, sustainability is prioritised at the board level. We have established a Sustainability Task Force to implement and manage the Group's sustainability measures. The Task Force is chaired by the Secretary of the Board, Madam Jiao Yan.

The Board incorporates sustainability issues into the strategic formulation of the Group. The Board approves the material environmental, social and economic factors identified by the Sustainability Task Force, and ensures that the factors identified are well-managed and monitored by the Task Force.

Please refer to the Corporate Governance Report in our 2017 Annual Report for more information on corporate governance practices and risk management structure.

Board Diversity *(GRI 405-1)*



Zhong Xin Pharmaceuticals values employee diversity at all levels of the organization, and this is reflected in the gender diversity of the Board, whereby the proportion of female Board members is higher than the average of listed companies. We believe that a diverse Board will nurture an overall corporate culture of mutual respect and fair competition, and boost the Group's performance.

Stakeholder Engagement

The Group believes that sustainable growth is dependent upon meeting and exceeding the reasonable expectations of its key stakeholders. We determine material issues based on the principle of materiality to stakeholders. We actively engage in meaningful and productive dialogues with our stakeholders and participate in various industry and government forums to keep abreast of any material stakeholder issues.

We identify key stakeholders as groups which have material impact or could potentially be impacted by our operations. The following table summarises our key stakeholders, engagement platforms and their key concerns.

Stakeholders	Engagement platforms	Key concerns	Read more in the following sections
Customers	• Annual reports • Product quality feedback	• Quality and safety of products • Certificate of Pharmaceutical Product (CPP) • Compliance with local health and safety regulations • Compliance with local marketing and labelling regulations	• Product Health and Safety • Marketing and Labelling
Employees	• Performance appraisal system	• Employee Health and Safety • Remuneration • Staff Benefits • Ethics and Conduct • Compliance with local labour laws	• Our People, Our Assets
Suppliers	• Suppliers assessment	• Product quality and compliance	• Managing our Suppliers

Governments and Regulators	• Quarterly announcements on SGX • Annual reports • Sustainability reporting • Ongoing dialogues	• Compliance with Regulatory and Industrial requirements • Environmental compliance	• Employee Health and Safety • Product Health and Safety • Marketing and Labelling • Social compliance
Community	• Engagement in community services	• Environmental impact • Social development	• Giving Back to Society • Environmental Awareness
Shareholders and investors	• Annual reports • Investor relations management • Annual general meetings	• Anti-corruption	• Anti-corruption

Reporting Practice

Our first sustainability report is produced in accordance with the GRI standards' **"Core"** option, covering our Group's performance from 1 January 2017 to 31 December 2017.

The GRI standards represent the global best practices for reporting on economic, environmental and social topics.

The report also incorporates the primary components of report content as set out by the SGX's "Comply or Explain" requirements on sustainability reporting under Listing Rule 711B.

GRI does not require external assurance and the Group's Sustainability Task Force has assessed that external assurance is not required as the Group is laying the foundations for a sustainability reporting framework this year.

This report supplements the Group's 2017 Annual Report. Detailed section reference with GRI Standards is found at the GRI Standards Content Index section of this report.

The Group's material topics are identified based on its impacts on our internal and external stakeholders, as outlined in the Stakeholders Engagement section.

Material Topics	Boundaries (i.e. which segment, country or subsidiary, where applicable)
ECONOMIC	
Market Presence	The Group
Indirect Economic Impacts	
Anti-corruption	
ENVIRONMENTAL	
Energy	Manufacturing
Water	
Emissions	
Effluents and Waste	
SOCIAL	
Employment	The Group
Occupational Health and Safety	Group-wide including Manufacturing
Training and Education	The Group
Diversity and Equal	

Opportunity	
Non-discrimination	
Child Labour	The Group
Forced or Compulsory Labour	
Human Rights Assessment	
Local Communities	
Customer Health and Safety	Manufacturing and Distribution (includes distribution of self-manufactured and third party products)
Marketing and Labelling	

Customer Health and Safety

At Zhong Xin Pharmaceutical, serving public health is our top priority. We endeavour to produce consistent, quality products and we enforce strict quality control to ensure product health and safety. We use the latest technology, and work closely with our suppliers, customers, government departments and research institutions to ensure our products are of satisfactory quality.

Product Health and Safety *(GRI 416-1, 416-2)*

The Group strictly complies with the laws and regulations of the People's Republic of China on Drug Administration and Good Manufacturing Practices (GMP). All eight industrial enterprises under Zhong Xin Pharmaceutical have obtained the Chinese GMP certification.

Manufacturing

We strictly comply with international GMP, domestic GMP and pharmaceutical regulations. Notably, Da Ren Tang, Long Shun Rong and Zhong Xin Pharmaceutical Plant received the Therapeutic Goods Administration (TGA) certification. Da Ren Tang Pharmaceutical Factory, Long Shun Rong, Le Ren Tang and No. 6 Chinese Medicine Plant passed the annual audit of ISO10012 measurement management system.

We have implemented a complete industrial quality management system throughout the Group and our associates to ensure product quality. Through the system, we strengthened the monitoring of product quality and performed data analysis on key aspects of the production process. This allows us to identify safety hazards early and implement mitigating measures in a timely manner.

Zhong Xin Pharmaceutical conducts strict quality audit and inspection on its pharmaceutical plants annually, and we require all plants to strictly comply with quality management standards for pharmaceutical production and reduce quality risks in the production process.

All these measures ensure the effectiveness and safety of our manufactured medicines.

In FY2017, our subsidiary, Tianjin Chinese Medicinal Slices Co., Ltd, received a penalty of 321,201 Yuan due to a failed supplementary inspection of a batch of safflower in 2015. The company did not meet the drug standards required by China's Drug Administration law. On 12 January 2017, the National Food and Drug Administration Bureau issued a notice on the batch of unqualified safflower, and the Tianjin Xi Qing Market and Quality Supervision and Administration Bureau issued the "Administrative Punishment Advance Notice" on 8 February 2017.

After investigation, we established that there was strict compliance throughout the procurement, testing and production processes. The batch of unqualified safflower was procured from a qualified supplier, and our quality control inspectors tested and approved it in strict accordance with the Chinese Pharmacopoeia 2010 edition First Supplement. The production process was also in strict compliance with the Tianjin Chinese Medicine Production Standards, and no artificial colourants were added.

Following the incident, we recalled the batch of safflower and handed it over to the Tianjin Xi Qing Market and Quality Supervision and Administration Bureau. To mitigate such issues, we adjusted the safflower raw materials and added more inspection methods to strengthen quality control of the end-product. We sent the rest of the safflower batches to third-party institutions for further testing to ensure they are all qualified. On top of this, we also invested 410,000 Yuan to purchase a high-performance liquid chromatograph with diode array detector (DAD) to better detect colourants in safflower and other varieties. All these were done to improve the quality inspection of our Chinese medicines, prevent the recurrence of safflower issues and to ensure product quality.

Distribution (Includes distribution of self-manufactured products and third party products)

The Group strictly complies with China's laws and regulations on Drug Administration and Guidelines to Good Storage Practices (GSP) for pharmaceuticals. We obtained GSP certifications in 2014-2015, and are now within the validity period.

During the financial year, there were three reported cases of minor fines imposed on product safety non-compliance. We performed investigations on the above three batches of unqualified products, and concluded that the procurement procedures, visual inspection of drugs and storage conditions were in compliance with regulations. However, to prevent such recurrences, moving forward, we will strengthen the review of our suppliers to ensure that their logistics and storage conditions meet our requirements and do not compromise our product quality.

Marketing and Labelling *(GRI 417-1, 417-2, 417-3)*

The Group enforces strict management on our front-line marketing staff as we only engage in legal, compliant and ethical marketing practices. Our subsidiaries and associates have implemented the "Code of Conduct for Drug Promotion" and proper marketing regulations, and we heavily penalise any non-compliant marketing activities that take place at our enterprises.

Distribution of Self-manufactured Products

We comply strictly with local regulations regarding marketing and labelling for all of our products, as we strongly believe in being truthful and transparent with our consumers, in keeping with our reputation as a pharmaceutical supplier.

The Group implemented the “Tianjin Zhong Xin Pharmaceutical Group Print Media Advertising Policy” to standardise the advertising activities of its affiliated products and subsidiaries and avoid unnecessary business risks. The policy was formulated according to the overall development strategy of the Group, and provides clarity on the process of product release advertisements. All advertising contents must comply with China’s Advertising Laws and have to be submitted to the relevant management departments for approval prior to release to ensure regulatory compliance of our marketing activities.

Distribution of Third-party Products

The third party medicines distributed by Zhong Xin Pharmaceutical are procured from qualified and certified suppliers. During the first qualification examination, the labels of the procured medicines were examined to ensure that the medicines were in compliance with the “Drug Instructions and Label Management” regulations (Order No. 24) and drug quality standards.

There was no incident of serious non-compliance of marketing and labelling regulations in FY2017.

Managing our Suppliers *(GRI 416-1)*

At Zhong Xin Pharmaceutical, we prioritise the safety of all our manufactured and distributed products. As such, we go through rigorous and stringent checks, and uphold high standards when assessing our suppliers to ensure product safety and quality assurance.

Manufacturing

According to the approved procurement procedures, the procurement team uploads electronic tender requirements to an e-procurement platform to create a tendering plan, and we select our suppliers through the platform. Suppliers are assessed comprehensively from seven factors, namely capacity, capital, delivery, controls, return policy and contracts to ensure that we not only have high quality raw material supplies, but also enjoy a strategically advantageous supply chain.

Distribution of Third-party Products

We adopt a collaborative supply chain information platform, and constantly establish innovative business ideas, clear business principles, effective business strategies, and efficient management systems to provide our customers with comprehensive pharmaceutical distribution, value-adding and logistic services.

Our procurement officers are kept abreast on the latest market information on pharmaceutical product quality and adverse drug reactions to prevent the Group from procuring products of adverse quality. In order to ensure the quality and safety standards of our distributed products, we only procure from reputable

pharmaceutical suppliers with drug production license, related qualifications and high creditworthiness. We also review their product quality system to ensure its soundness and that there is sufficient quality assurance. Our suppliers are also in compliance with the national GSP management regulations to ensure efficiency in our supply chain.

We will conduct an annual assessment on our existing suppliers to assess their operations and trustworthiness, as well as an overall analysis on their product sales to ensure our selection of quality suppliers and the profitability of our distribution business.

Research and Development

Essential medicines are medicines that satisfy the priority medical and health needs of the population. They are selected with due regard to public health relevance, evidence on efficacy and safety, and comparative cost-effectiveness. The Essential Medicines List (EML) applies to both Chinese and Western medicines, and focuses on medicines for common diseases and chronic diseases, especially major diseases and drugs for the elderly, women and children. The EML is applicable to medical and health institutions at all levels. As such, we endeavour to put our medicines on the EML for the opportunity to serve the community.

The 2012 National EML is currently the latest edition, and it includes 85 medicines manufactured and distributed by Zhong Xin Pharmaceutical. The Group has been actively responding to the call from the state, and we have prioritised China's centralised procurement for a new round of essential medicines. We are constantly adjusting and refining our productions, to comply with the relevant national policies and regulations and satisfy the ever-changing market demands.

Continuing Innovation *(GRI 203-2)*

1. Technical Centres

Our technical centres have technical committees, expert advisory committees and post-doctoral research stations to facilitate and execute the Research and Development of our technologies. Our highly-advanced equipment include large-scale equipment such as ultra-performance liquid chromatography-tandem mass spectrometer (UPLC-MS/MS), gas chromatography-mass spectrometer (GC-MS), atomic absorption spectrometer, automated mercury analysers and medium pressure liquid chromatography (MPLC). We also import advanced pilot and small-scale equipment from countries such as Germany, Japan, Singapore and Denmark to further develop the technical capabilities of the Group.

The research teams within our technical centres come with diverse academic backgrounds and professions. Nearly 30% of the front-line researchers possess a masters or doctoral degrees. Over the years, the Zhong Xin Pharmaceutical Technology Centre has undertaken a number of major projects for the National Development and Reform Commission and the Ministry of Science and Technology to research on new drug projects. This is due to our extensive, prompt and high-quality product research. Notably, the testing department of Tianjin Zhong Xin Pharmaceutical Research Centre has passed the National Accreditation (CNAS) laboratory test and its inspection report has been accepted by major international countries and regions.

After years of development, the Zhong Xin Pharmaceutical Technology Centre has gradually developed into an important technology platform for the Group to develop

new medicines and intellectual property rights. This is one of our core strengths which ensures and propels the Group's technological advancement.

We have five Municipal Enterprise Technology Centres which have modern analytical equipment that can adapt to the needs of new drug research and development, drug analysis and testing. Our Enterprise Technology Centres also perform secondary development of our key products to continuously improve on existing products. We invest significantly in the Tianjin Pharmaceutical Research Institute, Tianjin University of Traditional Chinese Medicine and other research institutes, and established a close technical cooperation relationship with scientific research institutes through the Ministry of Science and Technology and the Tianjin Science and Technology Innovation Project.

Through the research and development of new products, we expand our product variety, and improve on our key products through secondary development. We aim to accelerate the transformation of scientific research in the pharmaceutical market and focus on strengthening intellectual property protection for the development of new technology.

2. Development of Equipment and Technology

In order to ensure product quality and improve production efficiency, we focus on developing leading technologies and introducing advanced equipment for the manufacturing of Chinese medicine.

In FY2017, Da Ren Tang introduced an intelligent production system that is capable of manufacturing Da Mi Wan end-to-end -- from the preparation stage all the way to the final product stage. This has effectively reduced the labour and water intensity of our operations. This advanced operating system ensures that we meet the GMP standard, and remain at the forefront of China's pharmaceutical industry.

In the same year, Le Ren Tang successfully automated the Chinese medicine extraction process and strengthened its information control by upgrading the extraction equipment and automating the control system. The automated control system is able to automatically control an entire production process to produce a batch of drugs according to its corresponding production instruction. This ensures, to a large extent, the quality of drugs produced, and avoids operational risks such as material confusion and liquid contamination arising from human error.

Le Ren Tang also procured an intelligent packaging system with computerized counting methods to ensure accurate drug loading. There are detection and elimination devices within the packaging process to ensure that the rate of unqualified drugs is controlled within 0.05%. With this new technology, productivity is increased and the drug loading process is now fully automated. It also ensures that our production process control is in line with GMP requirements.

The Group values the improvement of our existing pharmaceutical production processes, and endeavours to achieve our goal of “guaranteed quality, reduced costs and increased efficiency” through process development. In FY2017, a total of 12 technological developments were implemented, 6 were completed and achieved its target results.

3. Collaboration with Universities and Research Institutions

The Group is in regular research collaboration with university research institutions on pharmaceutical raw materials to enhance the medical value of our products.

Le Ren Tang collaborated with Tianjin University of Traditional Chinese Medicine and University of Milan to respectively research on the pharmacodynamics and electrophysiological study effects of the Tongmai Yangxin Pill, such as the effect of the medicine on boosting angiogenesis to treat myocardial ischemia. These collaborations have helped us understand the drug and serve patients better, thus enhancing the technological competitiveness and expanding the international influence of the product.

4. Newly developed drugs beneficial to the pharmaceutical industry

The Group strictly complies with the development policy of “Traditional Chinese Medicine Innovation” and we strongly encourage and invest in our Research and Development staff to promote active innovation.

We are currently researching on a new Chinese medicine to treat stable chronic obstructive pulmonary disease (COPD), jointly developed by the Zhong Xin Pharmaceutical Research Centre and Da Ren Tang. We have obtained clinical approval for the drug in September 2014 and are currently in Phase II of the clinical research. This research project is funded by the Group’s Science and Technology Innovation Project, and received support from the Tianjin New Drug Creation Technology Special Project in 2015. It was also considered a national major new drug creation project in 2017.

In recent years, the use of traditional Chinese medicine on the treatment of COPD has received extensive attention, and its safety and effectiveness have also been clinically recognized. Through syndrome differentiation and treatment of traditional Chinese medicine, it can effectively alleviate chronic cough, sputum, dyspnoea and other symptoms, and also improve a patient's immunity, nutritional status, and overall disease resistance. It reduces recurrence and aggravation of the disease, thereby promoting a patient’s recovery from the disease and ultimately improving the patient’s quality of life.

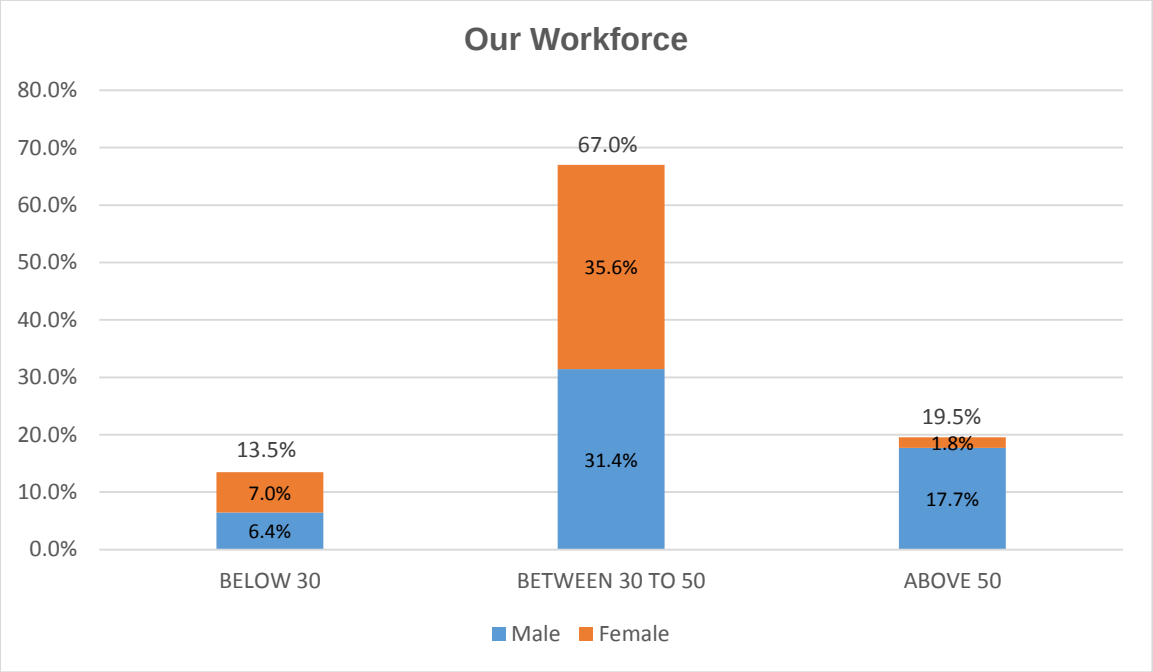
When the new drug is released in the market, it will fill the gap in the current stable COPD treatment using Chinese patent medicines, and improve the wellbeing of patients with the disease

Our People, Our Assets

The Group is committed to the development, safety and wellbeing of our staff. We value and fairly compensate the contributions of all our staff, and treat everyone equally and with respect. We strive for zero fatal accidents at all manufacturing sites and have implemented measures to ensure workplace safety.

Our Workforce *(GRI 401-1, 405-1)*

The Group does not discriminate against gender or age in staff employment to ensure continuity in the pipeline of skilled employees. In FY2017, our total staff strength stood at 4,430 employees. A total of 78 employees were hired, equivalent to a new hire rate of 1.76%. The graph below shows the gender and age distribution of the Group's employees. Our employee diversity is a major force in driving change and innovation in the Group.



Employee Benefits *(GRI 202-1, 401-2, 401-3, 404-3, 405-2)*

At Zhong Xin Pharmaceutical, we ensure that our employees are rewarded with competitive benefits and wages in line with industry standards. The wages for our staff are well above the local legislated minimum wages. We implement a merit-based remuneration system and strongly believe in equal work for equal pay. Annual performance appraisals are conducted for all staff to ensure they are compensated fairly, based on their performance and contributions. Performance appraisals are tailored to the nature of their jobs to establish a fair and justifiable assessment process.

In addition, all employees are entitled to a range of benefits to promote staff well-being and productivity, including but not limited to pension funds, medical insurance, work-related injury insurance, childbirth insurance, housing accumulation funds and unemployment insurance.

Eligible staff is entitled to Maternity and Paternity Leave where applicable. In FY2017, a total of 60 employees were entitled to Parental Leave, and the return-to-work rate was 90%.

To further enrich the lives of our employees and promote employee interaction, the Group's trade union went the extra mile to organise table tennis competitions for the past 15 consecutive years. We set aside more than 250,000 Yuan per year to subsidise the activities of our trade union targeted at the wellbeing of our employees. We strongly support the development of staff cultural activities, and constantly enrich the lives of our employees and meet their cultural needs.

We strongly believe in protecting our employees and safeguarding their physical and emotional wellbeing, within and outside of work. Over the past three years, the company's trade unions have assisted more than 300 employees in need each year, and funded a total of 1.55 million Yuan to help them overcome their difficult period.

Training and Progression *(GRI 404-1, 404-2)*

At Zhong Xin Pharmaceutical, we are devoted to developing our human capital and advancing our staff's skills and knowledge through our strategic "Distinguished Employee Development Platform". We do this through maximising the Zhong Xin Pharmaceutical Training Centre and our knowledge management framework to construct an established training programme for our employees. We provide training for employees in a variety of areas including management, professional technology, marketing, production operations and scientific research, with all training programmes specifically tailored to meet the respective departments' needs.

This ensures a pool of skilled talents that is vital to our growth in the dynamic and progressive pharmaceutical industry.

In FY2017, the Group conducted various training courses for a total of 15,469 employees.

Occupational Health and Safety *(GRI 403-1, 403-2, 403-3, 403-4)*

The Group endeavours to prevent occupational hazards on a group-wide level. We have always been safety-oriented, and we strictly implement and comply with our safety polices and principles.

We declared our safety responsibilities and objectives, so all enterprises effectively assumed the responsibility of production safety. In FY2017, our CPC (Communist Party of China) committee, departments and individuals signed the Confirmation of

Production Safety Responsibility to institutionalise their responsibility in upholding workplace safety. They will be subjected to safety spot checks and annual safety assessments to monitor their workplace safety practices. The company holds regular workplace safety meetings to communicate and implement safety measures established by the senior management. We developed our Workplace Safety and Health (WSH) department in FY2017 to specialise and professionalise our production safety management and system.

In addition, we have been strengthening our Emergency Response Management (ERM) framework and investing heavily in our safety system. By innovating and improving on our safety management, we endeavour to achieve a sustainable production safety system and have all subsidiaries safety-certified.

We take a preventive stance in the management of our safety policies and manage them comprehensively to ensure that there are no safety blind spots or hidden dangers. We prioritise the implementation of the production safety system and have established a bottom line which sets on-site risk management as the core safety measure.

The Group conducts regular production safety trainings for all employees to ensure proper safety education and inculcate a safety culture on a group-wide level. In an effort to promote safety awareness and development, we added a “Safety Production” column in our internal publication “Zhong Xin Today” to publicise the Group’s safety performance and share safety management experiences and safety culture concepts. We even organised activities such as “Safety month” to emphasise on the importance of safety.

Other than safety education, we endeavour to instil safety awareness in all employees through practical means such as inspections and assessments. The Group established a safety inspection team headed by our main leaders to conduct safety inspections throughout our production line and check for safety blind spots and hidden dangers. Should there be any safety risk, rectifications will be carried out immediately to eliminate it in a timely manner. We endeavour to implement proper rectification of safety hazards through increasing funds for rectification and strengthening our safety accountability system.

Our continuous efforts in strengthening our safety implementations and measures have resulted in a steady improvement in our production safety system in FY2017, and provided strong support for the realization of the company's development targets.

The Group and seven of its affiliated enterprises have trade unionists certified as labour relations coordinators to resolve any workplace issues and ensure a safe working environment. As a testament to our efforts in ensuring a safe and harmonious working environment on a group level across all segments, 12 affiliated companies were awarded the title of “Tianjin Harmonious Enterprise”. Our subsidiary,

Da Ren Tang, was also honoured as the “2017 National Safety Culture Demonstration Enterprise”.

In FY2017, we achieved our safety target of zero safety hazards. There were no workplace fatalities or serious injuries, and no workers were found to be engaged in high-risk occupations or at high risk of diseases.

Social Compliance *(GRI 406-1, 408-1, 409-1, 412-1)*

The Group endeavours to be a socially responsible corporation. There was no serious incident of discrimination, child labour, forced or compulsory labour and human rights violation in FY2017.

Environmental Awareness

The Group regularly monitors its energy consumption from daily operations. This allows us to continuously and effectively improve on our environmental sustainability measures based on the data collected. All management have their respective delegated environmental responsibilities, and sustainability efforts are implemented on a group-wide level.

Energy, Emissions and Water Management *(GRI 302-1, 302-3, 302-4, 303-1, 303-3, 305-2, 305-4, 305-5, 305-7)*

The Group has achieved positive results in energy conservation by increasing the energy efficiency of its equipment and performing more energy audits. We also conserve water by implementing measures such as recycling condensed steam back into the boiler to reuse. This reduces the energy needed to heat water for hot water supply as well.

Manufacturing

We installed energy-efficient features such as LED lights and sound-automated lights and upgraded the transformer substations at our factories to reduce our overall energy consumption. By enhancing our transformers and substations, we effectively saved 30,353 kWh of electrical energy in FY2017. We also implemented measures such as improving our process flow and upgrading steam pipelines to further reduce energy usage.

The total energy consumption of our factories stood at 16.9 million kWh in FY2017 and 15.2 million kWh in FY2016. Due to the successful implementation of our energy conservation measures, our energy consumption increased by only 11.1% despite an increase of 24.2% in production. As such, our total energy intensity increased from 80.2 kWh/m^2 in FY2016 to 90.3 kWh/m^2 in FY2017, and our CO2 emission increased from 11.3 million kg in FY2016 to 12.5 million kg in FY2017. We will continue to improve our energy conservation measures and their implementation to reduce our carbon footprint in the future.

The main source of nitrogen oxides (NO_x), sulphur oxides (SO_x) and major gas emissions is the emission of flue gas from the gas boilers of our subsidiaries. The boiler smoke emission of each enterprise complies with the national standard "Boiler Air Pollutant Emission Standard" (GB13271-2014) and Tianjin Local Standard "Boiler Air Pollutant Emission Standard" (DB12/151-2016), $SO_2 \leqq 20mg/Nm^3$, $NO_x \leqq 80mg/Nm^3$ requirements.

Other than ensuring environmental compliance, the Group has been updating its emissions treatment equipment and facilities regularly, resulting in us successfully attaining the “three wastes” emission standards. In the event of heavy pollution, emergency response plans will be executed promptly to manage the haze situation.

In FY2017, our total water consumption stood at 302,000 m^3 at the factories, significantly lower than the total water consumption of 316,000 m^3 in FY2016. This is a clear testament to our water conservation efforts, and we will continue to further reduce our water consumption and increase our water efficiency in daily operations.

Effluents and Waste Management *(GRI 306-1,306-2, 306-3)*

We implemented various measures across the Group and all subsidiaries to better manage factory waste and effluents.

Manufacturing

Effluents are produced during manufacturing. After sewage is treated by the septic tank, it is combined with the production effluents and discharged to the enterprise sewage treatment station. The waste will be sent to the waste recycling station for recycling.

According to the "Water Pollution Control Law of the People's Republic of China", the post-treatment water quality has to meet the requirements of the Class III standard of Integrated Wastewater Discharge Standard (GB 8978-1996).

Should the treated discharge meet the required standard, it can be discharged to the municipal sewage pipe network, following which it will finally be discharged to the municipal sewage treatment plant. The sludge from the wastewater treatment station is then sent to the landfill designated by the environmental protection department for disposal.

Waste packaging materials produced during manufacturing is sent to the waste recycling station for recycling, and the remaining garbage is sent to the landfill designated by the environmental protection department for disposal.

Hazardous wastes and residual effluents from manufacturing are outsourced to qualified third parties to manage.

There were no serious leaks of effluents and waste in FY2017.

Corporate Social Responsibility

As a company that focuses on improving the wellbeing of the population, we strive to do our best in giving back to the community and enhance the people's quality of life through various means other than supplying quality medicine.

Giving Back to Society *(GRI 413-1)*

Since 2013, the Group has assisted the municipal government in the deployment of resources and assistance to villages. We sent our staff to the villages to assist in voluntary works and help villagers create more employment and business opportunities through new projects such as herb planting.

As of December 2017, the company has invested a total of 1.465 million Yuan in charitable initiatives.

Socioeconomic Compliance *(GRI 419-1)*

We strictly comply with social and economic regulations in all countries where we operate. There was no incident of serious non-compliance with social and economic laws and regulations in FY2017. There were no on-going or foreseeable major lawsuits of penalties, serious violations and records of dishonesty in FY2017.

SGX Five Primary Components Index

S/N	Primary Component	Section Reference
1	Material Topics	▪ Stakeholder Engagement
2	Policies, Practices and Performance	▪ Chairman's Message ▪ Our Sustainability Story
3	Board Statement	Governance and Statement of the Board
4	Targets	Our Sustainability Story
5	Framework	Reporting Practice

GRI Standards Content Index

GRI Standards	Disclosure Content	Section Reference
102-1	Name of the organisation	Organisation Profile
102-2	Activities, brands, products, and services	Organisation Profile
102-3	Location of headquarters	Organisation Profile
102-4	Location of operations	Organisation Profile
102-5	Ownership and legal form	Organisation Profile
102-6	Markets served	Organisation Profile
102-7	Scale of the organisation	Organisation Profile
102-8	Information on employees and other workers	Organisation Profile
102-9	Supply chain	Organisation Profile
102-10	Significant changes to the organisation and its supply chain	Organisation Profile
102-11	Precautionary Principle or approach	Organisation Profile
102-12	External initiatives	Organisation Profile
102-13	Membership of associations	Organisation Profile
102-14	Statement from senior decision-maker	Chairman's Message
102-15	Key impacts, risks, and opportunities	Chairman's Message, Our Sustainability Story
102-16	Values, principles, standards, and norms of behaviour	Ethics and Integrity
102-17	Mechanisms for advice and concerns about ethics	Ethics and Integrity
102-18	Governance structure	Governance and Statement of the Board
102-40	List of stakeholder groups	Stakeholder Engagement
102-42	Identifying and selecting stakeholders	Stakeholder Engagement
102-43	Approach to stakeholder engagement	Stakeholder Engagement
102-44	Key topics and concerns raised	Stakeholder Engagement

GRI Standards	Disclosure Content	Section Reference
102-46	Defining report content and topic boundaries	Reporting Practice
201-1	Direct economic value generated and distributed	Annual Report 2017
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Employee Benefits
203-2	Significant indirect economic impacts	Continuing Innovation
205-1	Operations assessed for risks related to corruption	Anti-corruption
205-2	Communication and training on anti-corruption policies and procedures	Anti-corruption
205-3	Confirmed incidents of corruption and actions taken	Anti-corruption
302-1	Energy consumption within the organisation	Energy, Emissions and Water Management
302-3	Energy Intensity	Energy, Emissions and Water Management
302-4	Reduction of energy consumption	Energy, Emissions and Water Management
303-1	Water withdrawal by source	Energy, Emissions and Water Management
303-3	Water recycled and reused	Energy, Emissions and Water Management
305-2	Energy Indirect Greenhouse Gas Emissions (Scope 2)	Energy, Emissions and Water Management
305-4	Greenhouse Gas Emissions Intensity	Energy, Emissions and Water Management
305-5	Reductions in GHG Emissions	Energy, Emissions and Water Management
305-7	Nitrogen oxides (NO_x), sulphur oxides (SO_x), and other significant air emissions	Energy, Emissions and Water Management
306-1	Total water discharged by quality and destination	Effluents and Waste Management
306-2	Waste by type and disposal method	Effluents and Waste Management

GRI Standards	Disclosure Content	Section Reference
306-3	Significant spills	Effluents and Waste Management
401-1	New employee hires and employee turnover	Our Workforce
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Employee Benefits
401-3	Parental Leave	Employee Benefits
403-1	Formal joint management-worker health and safety committee	Occupational Health and Safety
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Occupational Health and Safety
403-3	Workers with high incidence or high risk of diseases related to his/her occupation	Occupational Health and Safety
403-4	Health and safety topics covered in formal agreements with trade union	Occupational Health and Safety
404-1	Average hours of training per year per employee	Training and Progression
404-2	Programmes for upgrading employee skills and transition assistance programs	Training and Progression
404-3	Regular Performance and Career Development Review	Employee Benefits
405-1	Diversity of governance bodies and employees	Our Workforce
405-2	Ratio of basic salary and remuneration of women to men	Employee Benefits
406-1	Incidents of discrimination and corrective actions taken	Social Compliance
408-1	Operations and suppliers at significant risk for incidents of child labour	Social Compliance
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	Social Compliance
412-1	Operations that have been subject to human rights reviews of impact assessments	Social Compliance
413-1	Operations with local community engagement, impact assessments, and development programs	Giving Back to Society
416-1	Assessment of the health and safety impacts of product and service categories	Managing our Suppliers, Product Health and Safety
416-2	Incidents of non-compliance concerning the health and safety impact of products and services	Product Health and Safety

GRI Standards	Disclosure Content	Section Reference
417-1	Requirements for product and service information and labelling	Marketing and Labelling
417-2	Incidents of non-compliance concerning product and service information and labelling	Marketing and Labelling
417-3	Incidents of non-compliance concerning marketing communications	Marketing and Labelling
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Customer Privacy and Data
419-1	Non-compliance with laws and regulations in the social and economic area	Socioeconomic Compliance