



ESSEX BIO-TECHNOLOGY LIMITED
億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 1061)

2022
ENVIRONMENTAL, SOCIAL AND
GOVERNANCE REPORT



2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

The board of directors (the “Board”) of Essex Bio-Technology Limited (the “Company,” together with its subsidiaries, the “Group”) hereby presents this environmental, social and governance (the “ESG”) report for the year ended 31 December 2022.

The Board assumes full responsibility for the Company’s ESG strategy and ESG reporting and is responsible for evaluating and determining the ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control system are in place.

The Board supports the Company’s commitment to fulfilling the ESG responsibility by formulating the Company’s ESG management policies and strategies, identifying, prioritising and managing important ESG-related issues in combination with stakeholder communication and materiality assessment results, as well as setting ESG performance objectives and reviewing the completion progress regularly.

The Board is involved in the materiality assessment and prioritisation of ESG-related issues that may have significant influence on the Company’s long-term sustainability. Key ESG risks have been incorporated into the Company’s risk management system and the Company has formulated risk response measures by considering the possibility, impact and trends of key ESG risks. The Board has regularly reviewed these key risks and has made recommendations to the measures taken.

The Board is of the opinion that good environmental conditions, social influence and governance structure are crucial to the development of the Group. As such, while seeking to pursue growth in its performances, the Group has also been constantly striving for excellence in areas such as environmental protection, social responsibility and corporate governance. The principles and benchmarks contained in the “Environmental, Social and Governance Reporting Guide” (the “ESG Reporting Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited have been adopted by the Group as its standards which, together with the experience it has gathered, form the basis towards the establishment of a sound ESG framework.

The data collection of this report encompasses the Group’s principal businesses based in the People’s Republic of China (the “PRC”) (i.e. development, manufacture and sale of biologic drugs) and operations of offices in Hong Kong and Singapore. Covering the businesses operated by the Group, this report sets out its strategies and practices in relation to environmental protection, social responsibility and operational governance in 2022, thereby allowing shareholders, investors as well as the general public to gain a more comprehensive and in-depth understanding of the Group’s ESG issues and culture. This report has been prepared in accordance with the ESG Reporting Guide. There has been no change to the methods or key performance indicators as used in the last published ESG report. The standards, methodologies, assumptions and conversion factors used for the reporting of emissions and energy consumption are with reference to “Reporting Guidance on Environmental KPIs” set out in Appendix 2 to the guide “How to prepare an ESG report” published by The Stock Exchange of Hong Kong Limited.

The Group will publish its ESG reports annually informing our stakeholders and concerned parties of the latest information on the Group’s relevant work on ESG. We welcome any constructive suggestions or comments. This report is available in electronic version which can be viewed and downloaded on the website of HKEXnews (www.hkexnews.hk) and the website of the Company (www.essexbio.com).

STAKEHOLDER INVOLVEMENT AND MATERIALITY ASSESSMENT

The involvement of stakeholders represents an essential component of the Group’s business development and of the performance of its social responsibility. The Group maintains an open communication with its stakeholders through a number of channels in order to understand and respond to their comments and demands in a timely manner, devoting itself to ongoing constructive, win-win interactions for promoting the sustainable development of the enterprise. Our communication channels include but are not limited to regular meetings with investors and press conferences.

Through collecting and sorting the stakeholders’ comments and issues of concern, the Group has determined the key parameters, which are disclosed in this report, with tracking of performance results and strategic planning regarding the work of ESG.

Based upon the aggregated results of the communication with the stakeholders for the year of 2022, the Group has decided that the following (set out in the order of priority) shall be its key ESG tasks:

- 1 Product responsibility
- 2 Supply chain management
- 3 Occupational health and safety
- 4 Employment practices and labour standards
- 5 Staff development and training
- 6 Anti-corruption
- 7 Use of resources and environmental protection
- 8 Waste management
- 9 Packaging materials
- 10 Emission of exhaust and greenhouse gases
- 11 Contribution to the community
- 12 Climate change

A. ENVIRONMENTAL

The Group is principally engaged in the manufacturing, selling, marketing and distribution of pharmaceutical products.

Environmental protection is a cornerstone of the Group's long-term sustainable development. Through adopting practicable measures, the Group performs management over its emissions and use of resources in the course of its specific activities, thereby assuming its responsibility of environmental protection and playing an active role in this connection.

During the reporting period, there was no material breach of any applicable rules and regulations that have a significant impact on the Group in relation to the environment.

1. *Emissions Management*

Constantly concerned about the issue of emissions arising from its production and operations, the Group strictly complies with the various environmental protection laws and regulations and emission standards of the PRC, where the principal production zone of the Group locates, and exercises maximum control over various types of emissions. The Group's factory in Zhuhai is fully equipped with production plants for the production of active pharmaceutical substance (i.e. rb-bFGF) for the Group's flagship biologic formulations.

During the reporting period, the principal emissions arising in the course of the Group's production include liquid waste, solid waste, exhaust and noise. In order to ensure that the relevant emission standards are met, the Group has formulated an internal protocol named as "Protocol on Pollutant Emissions Management" in accordance with the requirements of the national environmental regulations of the PRC.

Key elements of the "Protocol on Pollutant Emissions Management" are as follows:

1. General liquid waste is required to be treated in a wastewater treatment facility located at the industrial site such that the treated water will meet the requirements of the respective emission standards relating to water pollutants.
2. Centralised collection is implemented in respect of general solid waste, whereby the relevant environmental hygiene authorities are solely in charge of its removal, transportation and treatment.
3. The hazardous liquid and solid wastes arising in the course of a small number of product inspections are required to be separated for collection purposes, stored in a dangerous goods store, and handed over periodically to a professional institution licensed with the national environmental protection authorities for compliant treatment.

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4. The Group strictly adheres to the Local Standards for Emission Limits of Air Pollutants of Guangdong Province such that its exhaust emissions comply with the requirements of the applicable regulations.
5. With regard to noise at the factory boundaries, the Group emphasises the selection of electromechanical devices with low levels of noise and vibration, proactively employs noise insulation, acoustic and noise reduction measures and enhances the day-to-day repair and maintenance of its devices, so as to ensure the compliance of its noise emissions with the requirements of the national limits.

The Group's Environmental and Occupational Health and Safety (the "EHS") Management System Unit is responsible for supervising the management over its various emissions. In 2022, the Group was subject to non-periodic supervisory spot checks performed by the national environmental protection authorities, in which the monitoring results indicated that the various emissions of the Group complied with the relevant national and regional standards.

Key performance indicators

Air emissions	2022		2021	
	kg	Intensity (kg/number of vehicles)	kg	Intensity (kg/number of vehicles)
Nitrogen oxides	110.07	6.12	138.95	7.31
Sulphur oxides	0.39	0.02	0.49	0.03
Particulate matter	7.08	0.39	9.12	0.48

The air emissions produced by the Group were generated from vehicles used for the business operation of the Group. In order to reduce air emissions produced by the Group, we have set a target to gradually replace petrol and diesel vehicles with hybrid vehicles by 2025 which can lower the fuel consumption by 20%.

The Group has adopted the following measures to mitigate air emissions generated from petrol and diesel vehicles:

- Submitting a detailed plan for the replacement of petrol and diesel vehicles by hybrid vehicles to the Board for approval.
- Planning the reasonable driving route to reduce the frequency of use of vehicles.
- Increasing the temperature of air conditioners in vehicles to reduce the petrol and diesel consumption.

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Greenhouse gas emissions	2022 Tonne	2021 Tonne
Direct emissions	62.62	78.48
Indirect emissions (Note)	3,345.10	2,988.40
Other indirect emissions	26.27	24.97
Total	3,433.99	3,091.85
Intensity of greenhouse gas emissions (kg/unit of production volume)	0.06	0.08

Note: Emission factor (average) of 0.6379 kg/kWh was used for purchased electricity in Guangdong Province.

The greenhouse gases produced by the Group were mainly due to indirect emissions generated from purchased electricity. In order to mitigate greenhouse gases emissions, we have set a target to lower the electricity intensity by 4% per year from 2021 to 2023.

To achieve our target, our staff are encouraged to disable the standby mode for all electrical appliances, including computers, photocopying machines and printers when they are not in use. They are also required to ensure that the windows and doors are closed when air conditioners are on, and turn off the air conditioners during non-office hours. In addition, frequency converters have been installed on large equipment to reduce reactive power consumption. We have also replaced traditional light bulbs with induction light bulbs.

Total hazardous waste produced	2022	2021
Total hazardous waste produced (Tonne)	3.47	2.10
Intensity of hazardous waste (g/unit of production volume)	0.1	0.1

The hazardous waste produced by the Group mainly consisted of wastewater solution containing methanol and acetonitrile. The intensity of hazardous waste measured by the unit of production volume was extremely low.

We have set a target to reduce the intensity of hazardous waste by 4% per year from 2021 to 2023. The Group has adopted the following measures to achieve the target:

- Urging laboratory staff to rinse and recycle used reagent bottles.
- Gradually using equipment such as shredder to legally detoxify the hazardous waste.

Total non-hazardous waste produced	2022	2021
Total non-hazardous waste produced (Tonne)	14.17	10.30
Intensity of non-hazardous waste (g/unit of production volume)	0.25	0.26

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The non-hazardous waste produced by the Group mainly consisted of waste paper and sludge from sewage treatment station. Sludge are dealt with by a qualified environmental protection company. The intensity of non-hazardous waste measured by the unit of production volume was extremely low.

The Group has required its packaging materials suppliers to recycle the used packaging cardboard in order to achieve the target of 100% packaging cardboard recycling.

During the reporting period, the Group's measures to mitigate emissions have been successful in reducing the intensity of greenhouse gas emissions. Also, our wastes have been properly treated according to the aforesaid measures.

2. *Use of Resources and Environmental Friendliness*

As an advocate of green and environmental protection notions, the Group adheres to the principle of treasuring and making the best use of resources, striving to reduce its consumption of resources and lessen the corresponding environmental impact.

In particular, the Group has set targets for resources conversation in its daily operation, including:

- Lowering electricity intensity by 4% per year from 2021 to 2023.
- Using natural gas as its heat source in the production process with an aim to maintain thermal efficiency at 95% from 2021 to 2025.
- Saving water resources by 10,000 m³ every year.

To achieve the above targets, the Group has adopted the following clean production measures:

- Exercising stringent control over the energy consumed in the course of the production of its products for the continuous enhancement of its energy use efficiency.
- Employing a circulating water system for its production steps, whereby the wastewater generated in the course of the production of purified water was reused for, among others, industrial park greening and cleaning purposes, so as to boost the use efficiency of, and reduce the consumption of, water resources.
- Employing non-toxic and non-hazardous raw materials or those with a low degree of toxicity and hazard, such as using environmentally friendly materials as the refrigerant in air-conditioning systems and chiller plants, so as to lessen the environmental impact of the materials used.
- Strengthening inspection at job shops (i.e. production workplaces) and equipment maintenance so as to discover losses resulting from improper operation or malfunction of equipment in time.

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- Investing RMB2,800,000 in the solar photovoltaics project with installation area of more than 3,000 square metres during 2018. The annual electricity generation is around 532,400 kWh and the energy efficiency can reach 78% which saves electricity charges of around RMB349,000 annually. This project will last for more than 20 years, and can significantly reduce the carbon emissions caused by electricity consumption and realise the concept of environmental protection and efficiency.
- Installing frequency converters on large equipment to reduce the reactive power consumption.
- Engaging a professional party to perform maintenance of the natural gas boiler in order to maintain the thermal efficiency of the natural gas boiler.

The Group also advocates the notion of green office by formulating the “Employee Code of Conduct”, and by striving to enhance its employees’ awareness of environmental protection and reduce the energy and resources consumption of the office area. Continuous efforts have been made in connection with day-to-day work procedures for transforming the Group’s offices into paperless and decarbonised ones for the conservation of energy.

Energy conservation measures adopted by the Group include:

- Gradually introducing the use of modernised office systems such as office automation system and enterprise resource planning system for reducing the resources consumed at offices.
- Proactively switching to conference calls and/or online video conferences in order to lower the frequency of business trips undertaken by employees and lessening the greenhouse gas emissions caused by such trips.
- Offering commuter bus services connecting to industrial sites for effective reduction of the number of staff members who drive their own vehicles to work.
- Diminishing the use of disposable cutlery and cups for reducing plastic-related pollution.
- Promoting the double-sided use of paper in order to save the paper used for office purposes.
- Replacing traditional light bulbs with induction light bulbs.
- Installing sensor faucets to conserve water.

We aim to continue to adopt the above-listed measures to improve energy use efficiency and water efficiency, and have achieved lower energy and water consumption intensity during the reporting period.

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Key performance indicators

Direct and indirect energy consumption by type in total and intensity	2022	2021
Electricity consumption (kWh)	5,246,623	4,697,675
Electricity consumption intensity (kWh/unit of production volume)	0.09	0.12
Fuel consumption (L)	25,922	32,434

The fuel consumed by the Group was due to the use of vehicles of the Group, and no fuel had been consumed in the production of biologic drugs.

Water consumption in total and intensity	2022	2021
Water consumption in total (m ³)	51,990	37,418
Water consumption intensity (m ³ /unit of production volume)	0.00091	0.00093

During the reporting period, the Group has no issue in sourcing water that is fit for purpose.

Total packaging material used for finished products and intensity	2022 Tonne	2021 Tonne
Packaging cardboard used	227.56	226.09
Packaging plastic used	42.08	56.95
Packaging aluminium tube used	46.58	47.97

The intensity of packaging materials measured by the unit of production volume was extremely low.

The Group is also highly concerned about the effects of the packaging materials of its products on the environment and on the health of their users. Regarding the selection of packaging materials, the primary criterion is to ensure that the packaging materials are non-toxic and non-hazardous and those that are readily degradable and recyclable are preferred. In addition, over-packaging is avoided as it would lead to wastage of resources and additional packaging waste.

3. *Climate change*

The Group recognises climate change as a significant issue and actively assesses the climate risks posed to the business operations. Climate risks can be categorised into physical and transition risks.

Physical climate risks

Physical climate risks are posed by extreme weather condition such as typhoon and rainstorm in greater frequency and severity, which may cause disruption to our operation and the safety of our staff. Therefore, the Group has formulated the “Emergency Plan on Production Safety Accidents” which sets out the safety precautions to be taken under extreme weather condition as follows:

- Reinforcing or dismantling outdoor facilities of the factory before extreme weather strikes in order to prevent substantial damages to the factory.
- Ensuring smooth drainage by inspecting catch basins regularly to prevent flooding during rainstorm.
- Observing government’s policy under extreme weather conditions and cooperating with the government to shut down the work and production in order to ensure the personal safety of employees.

Transition climate risks

Transition climate risks result from the transition to a low-carbon economy, which may require changes in policies, regulations, technology and market to address mitigation and adaptation requirements related to climate change. The Group does not expect the transition to a low-carbon economy to have a significant impact on the Group’s operation. However, the Group will regularly monitor the regulatory market environment and take relevant measures to address potential transition climate risks.

Saved as disclosed above, the Group’s operating activities have no significant impact on the environment and natural resources. Apart from the above-mentioned activities related to emissions and energy and water consumption, the Group has no other activities that have significant impacts on the environment and natural resources.

B. SOCIAL

1. *Employment and Labour Practices*

(a) *Employment*

As human resources represent one of the Group's valuable assets, we offer competitive remuneration packages to our employees while adhering to the principle of "equality and fairness (同工同酬)". Individuals' background, including their ethnicity, race, nationality, gender, religion, age, political affiliation and marital status, has no bearing on our decision to employ, promote or transfer them nor on the compensation and benefits offered to them. We uphold the notions of equality, willingness, and agreement based upon negotiations, and provide all our staff members with equal advancement opportunities under an equitable platform.

The Group's operations are primarily situated in the PRC, and therefore the staff recruitment and management strictly complied with the relevant laws and regulations in the PRC that have a significant impact on the Group during the reporting period. The eligibility criteria and requirements for the various positions in the Group have been laid down as recruitment standards. The Group's recruitment channels include on-campus recruitment, open recruitment and internal referral.

As of 31 December 2022, the Group had altogether 1,471 staff members, who were mainly located in the PRC. All of our staff members in the PRC had entered into a written labour contract in accordance with the requirements of the Labour Law of the PRC.

In addition, the Group has established rigorous and prudent procedures in relation to staff dismissal pursuant to the relevant national laws and regulations of the PRC. Where a staff member of the Group has committed a serious dereliction of duty, a serious breach of the PRC laws and regulations or a serious breach of the Group's respective rules and policies, the labour contract entered into with him/her may be terminated, and the matters relating to his/her vacating the office shall be dealt with in accordance with the Administrative Measures for Labour Contracts of the PRC and staff handbook of the Group.

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The staff remuneration offered by the Group is based upon a wage band that is determined with reference to market levels and the relevant staff member's capabilities, academic qualifications, work experience and job position, while bonus may be paid out subject to his/her work outcomes, sales results and individual performance, such that the contribution made to the Group by the staff is duly recognised. In addition, in order to enhance the protection extended to its staff, the Group maintains pension, medical, work-related injury, unemployment and maternity insurance as well as a housing provident fund for them in accordance with the relevant laws and regulations. The Group constantly refines its remuneration and staff welfare policies to allow its staff to share in the performance results associated with its development.

Apart from their entitlement to national statutory festivals and holidays, the Group's employees are also entitled to paid annual leave, marriage leave and bereavement leave, etc. The wages, subsidies and awards, etc. in respect of paid leave are offered in accordance with the relevant national policies and the Group's staff handbook.

Placing emphasis on our staff's development and career planning, we have been continuously refining our performance appraisal and promotion mechanisms. The Group performs half-yearly and annual appraisals that cover three major aspects, where the performance outcomes, professional attributes and attitude of the staff are assessed. The appraisal programme adheres to the principles of fairness, impartiality and objectiveness. Staff members may lodge a complaint with our human resources department should they have any objections to their appraisal results.

The Group offers promotion opportunities to those staff members who have achieved exceptional outcomes. By taking into consideration an array of factors including the performance appraisal results, personal capabilities and strengths of the staff, the Group guides them to pursue advancement towards higher management or technical positions and provides them with related training, offering assistance to them for the fulfilment of their personal career aspirations.

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Staff structure

	As of 31 December 2022	As of 31 December 2021
Group headcount	1,471	1,379
New recruits during the reporting period	306	285
Departed employees during the reporting period	214	148
Current staff categorised by:		
Academic qualifications		
Postgraduate or above	77	71
Undergraduate	523	457
Post-secondary vocational education	529	504
Secondary vocational education or below	342	347
Rank		
Middle management or above	146	130
Production workers	65	82
Sales representatives	783	778
Technical staff	200	176
Other office staff	277	213
Professional titles		
Senior titles or senior technicians	32	23
Mid-level titles	51	35
Junior titles	70	84

Key performance indicators

Total workforce

	As of 31 December 2022	As of 31 December 2021
By gender		
Male	716	665
Female	755	714
Total	1,471	1,379

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By age group	As of 31 December 2022	As of 31 December 2021
18-29	308	279
30-39	667	670
40-49	408	345
Above 50	88	85
Total	1,471	1,379

By geographical region	As of 31 December 2022	As of 31 December 2021
PRC	1,367	1,298
Hong Kong	9	9
Overseas	95	72
Total	1,471	1,379

Employee turnover rate

By gender	2022	2021
Male	14%	12%
Female	12%	8%

By age group	2022	2021
18-29	17%	15%
30-39	13%	8%
40-49	6%	6%
Above 50	21%	15%

By geographical region	2022	2021
PRC	11%	10%
Hong Kong	18%	10%
Overseas	29%	12%

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(b) *Health and Safety*

Adhering to its “nature-integrated, environmental betterment, people-oriented and continuous improvement (融入自然, 改善環境。以人為本, 持續改進)” approach, the Group is committed to offering a safe and healthy work environment to its staff.

With reference to the OHSAS 18001 standard for occupational health and safety management systems, the Group has established its EHS management system for the specific implementation of a safe production system. The EHS Management System Unit performs inspections and offers training in respect of safe production on a periodic basis such that knowledge and skills relating to safe production are imparted to the staff. Fire evacuation, self-rescue and escape drills, etc. are held every 6 months and are intended to enhance the staff’s fire safety awareness and relevant skills.

Job shops adopt dust removal and noise reduction measures. Requirements for the storage and use of dangerous goods such as flammable and explosive substances have been laid down, and those workplaces presenting hazards are identified, assessed and managed in a comprehensive manner for maximum reduction of the impact on the health of the staff. Professional institutions are engaged annually to perform tests on the workplaces in order to supervise, prevent and diminish the risk of occupational diseases.

Medical check-ups are arranged for all staff every year on a periodic basis, and occupational medical check-ups are arranged on a periodic basis for those who are engaged in work or duties associated with potential occupational health and safety risks in strict compliance with the Law of the PRC on the Prevention and Control of Occupational Diseases and related labour protection regulations. The occupational disease hazards presented at the production premises are monitored and assessed on a periodic basis. During the reporting period, medical checkups were arranged by the Group for all of its operational staff who might be subject to occupational disease hazards, and the results indicated that all of them were in good health.

The Group is also attentive to the mental health of employees by communicating regularly with employees to understand their mental health conditions and concerns over work and life. In 2022, the Group (i) organised team building activities; and (ii) engaged an external mental health consulting firm to provide online training courses for employees.

Key performance indicators

	2022	2021
Lost days due to work injury	35	–

In 2022, seven minor work injuries occurred in the Group. The compensation claimed by all the injured staff had been covered by the employees’ compensation insurance policy and the Group did not have to pay additional compensation to the injured staff.

During 2022, 2021 and 2020, (i) no work-related fatalities occurred in the Group; and (ii) the Group has been in compliance with all relevant laws and regulations relating to its employees’ health and safety which have a significant impact on the Group.

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(c) *Development and Training*

The Group places emphasis on staff nurturing and provides on-the-job training opportunities. Committed to realising the development of both our staff and the enterprise, we adopt a mode of training that is characterised by centralised management, rank-based training, management techniques and business skills. Specialised training is organised in respect of different positions every year, covering numerous aspects such as content related to administration, quality management, skills and sinology. Besides, induction training is offered to new recruits, while specific training on, among others, corruption-free business practices and senior management knowledge is additionally offered to the middle and senior management. Through our comprehensive training system, we ensure that each of our staff members is equipped with the knowledge and skills that are necessary for fulfilling the requirements of his/her position. The Group also offers financial assistance for education and training to encourage its staff to pursue continuing education and self-improvement.

In 2022, the Group organised 1,437 training sessions attracting an aggregate of 1,491 attendees, equivalent to approximately 25 hours of training per employee on average.

Key performance indicators

Percentage of employee trained

By gender	2022	2021
Male	49%	47%
Female	51%	53%

By employee category	2022	2021
Production workers	91%	91%
Middle management	8%	8%
Senior management	1%	1%

Average training hours completed per employee

By gender	2022 Number of hours	2021 Number of hours
Male	19.1	4.9
Female	18.3	5.1

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By employee category	2022 Number of hours	2021 Number of hours
Production workers	19.4	5.0
Middle management	12.2	5.0
Senior management	2.5	1.8

(d) *Labour Standards*

During the reporting period, the Group strictly complied with the national and local laws and regulations that have a significant impact on the Group relating to human rights and labour rights, including but not limited to those preventing child and forced labour. Regarding the management over recruitment and staff induction, it is expressly stipulated, as a rigorous ban of child labour practices, that new recruits must be aged 18 or above. In the event of a forced labour incident, the forced labour can file a complaint with the trade union or human resources department and the Group will coordinate and handle it internally. If the internal coordination fails, the forced labour may request the relevant labour administrative supervision department of the government to intervene.

The working hours of the Group's employees are enforced in compliance with the requirements of the relevant local laws and regulations, and no forced labour or compulsory overtime work is allowed. In accordance with the stipulations, overtime payment should be made to, or an alternative holiday should be arranged for, those staff members who have been engaged in overtime work.

The Group has established a staff representative congress to conduct discussions on those policies relating to staff benefits, and formed a trade union committee which exercises the rights and performs the obligations of a trade union in compliance with the Trade Union Law of the PRC for safeguarding the legitimate interests of the staff. In addition, the Group has formulated a set of "Staff Complaint Management Policies" to ensure that appropriate means are made available to its staff for expressing their wishes.

With the implementation of the EHS management system, the Group's concern for its staff's occupational health has been boosted and good quality of their work environment is ensured. Besides, the staff handbook has been formulated as the Group's employment guidelines and serves to further protect the legitimate interests of the staff.

2. *Operational Practices*

The Group strives to offer high-quality and safe products to its customers, and to build a good reputation and achieve positive word-of-mouth.

In the course of our operations, we focus on the continuous and effective management of the supply chain and exercise stringent control over our production process in order to ensure the quality of our products. We consistently conduct our business in a compliant manner, and are determined to eliminate corruption, the giving or acceptance of bribes, fraud and any other acts of dishonesty with the aim of enhancing our corporate integrity, and as our commitment to upholding a sound and orderly business environment.

(a) *Supply Chain Management*

Supply chain management remains to be one of the important aspects that the Group is concerned about. While placing emphasis on the control over its product quality risks, the Group seeks to ensure that such activities comply with the requirements regarding the sustainable development of both the environment and the society.

In order to ensure the quality of the raw materials, ancillary materials and packaging materials supplied, the Group has formulated the Audit and Management Protocol for Material Suppliers in strict compliance with the requirements of the Pharmaceutical Administration Law of the PRC, the Good Manufacturing Practices for Pharmaceutical Products and other related laws and regulations. According to the said Protocol, the Group performs standardised management over the procurement of its raw materials, ancillary materials and packaging materials, and maintains a sound supply system through the creation of a Qualified Supplier List. All of the Group's suppliers are located in the PRC.

The Group identifies environmental and social risks along the supply chain by performing dynamic management over all of its suppliers and assessing their performance in terms of both goods supply and service quality on a periodic basis. Their qualifications are audited and the certificates of such qualifications are checked for the presence of any update. On-site audits (by physical attendance or video conference) are carried out on them on a non-periodic basis, during which their staff, institutions, plant facilities and equipment, materials management, and production process and procedures are inspected and confirmed. Such audits are intended to result in a comprehensive evaluation of their quality assurance systems and environmental and social risks, which would ensure the quality of the products offered by such suppliers and reduce our quality risk originating from the sources. During 2022, on-site audits were carried out on 25 suppliers.

The Group imposes requirements relating to environmental protection (including the use of environmentally preferable products) and occupational health and safety on its major suppliers. During 2022, the Group has conducted a questionnaire on such requirements on 12 companies before engaging each of them as the Group's supplier. The Group also conducts EHS questionnaire-based surveys on its collaboration partners on a periodic basis for exerting a positive impact on the suppliers' ESG status, prompting them to meet the needs of sustainable development of both the environment and the society. If a supplier is found to be using new products that are not environmentally preferable, we will make recommendations to the supplier to change to more environmentally preferable alternatives.

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(b) *Product Responsibility*

Product Quality Management

The Group's products are primarily pharmaceutical products, and our principal responsibility is to ensure drug safety for each of their patient users.

The Group has published a number of documents on management principles of quality, including the "Protocol on Quality Risk Management" and the "Protocol on the Review, Analysis and Management of Product Quality", in strict compliance with product and drug quality management regulations such as the Pharmaceutical Administration Law of the PRC and the Good Manufacturing Practices for Pharmaceutical Products. According to the said documents, the Group performs comprehensive compliance management over aspects such as the receipt of raw materials, the production process, the inspection and release of products from Customs custody, products circulation and after-sales services. The Group has also taken out product liability insurance, which offers additional protection to both patients and the Group itself.

The Group has been continuously improving and building upon its quality systems, fostering their certification at the same time. All production lines are in compliance with the requirements of the Good Manufacturing Practices issued by National Medical Products Administration.

Product Research and Development ("R&D") and Innovation

Product R&D represents the driving force for the sustainable development of our corporate business. The Group has established an R&D management system, under which the Board is responsible for R&D planning, review and approval while the R&D Centre is responsible for the management of R&D projects. Besides, the Group has formed an internal review committee to perform evaluation and demonstrate the feasibility and phase-based R&D outcomes in respect of all the upcoming and ongoing R&D projects, which enables the Group to make timely decisions regarding incentives and adjustments.

The Group places great emphasis on the management of its intellectual property ("IP") rights. It has engaged experienced personnel for the management of such IP rights to perform management over the application for and the assignment and licensing of patents in accordance with policies relating to the Administrative Measures for Intellectual Property Certification, make payment of application fees and annual fees as they fall due, keep track of the legal status of patents in a timely manner, and update the information on the patents of its competing products.

As of 31 December 2022, the Group has obtained a total of 68 patent certificates or authorisation letters, which include 49 invention patents, 14 utility model patents and 5 design patents.

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Consumer Services

The Group implements the “Protocol on the Management of User Consultation and Quality Complaints” and has established an after-sales service unit, through which it handles matters relating to users’ drug consultation and complaints in a conscientious and timely manner and effectively protects consumers’ legitimate interests.

In the case of a product complaint, the internal investigation and handling procedures are as follows:

Receipt of complaint by the business unit → Commencement of investigation and categorisation of the complaint by the quality assurance department (the determination results are also to be taken as the basis as to whether the complaint should be reported to the drug regulatory authorities) → Formulation of relevant corrective and preventive actions (where necessary) and performance of follow-up work → Notification of investigation and handling outcomes to the customer → Acceptance of the handling outcomes and termination of complaint by the customer, and the filing of relevant information

During 2022, the Group received 24 complaints on the pharmaceutical products which were all related to the product quality. All complaints had been handled properly according to the above procedures and resolved.

Product Recall

In compliance with the stipulations of the Administrative Measures for Drug Recalls of the PRC, the Group has published an internal “Protocol on Drug Recall Management” to ensure that drugs can be effectively and rapidly recalled in the event of an emergency.

The Group has established a mechanism for monitoring drug quality and adverse drug reactions, whereby quality feedback from pharmaceutical companies, hospitals, patients and from within the Group is collected in a timely manner. Based upon the information collected, the unit taking charge of quality matters would convene meetings for discussing and determining whether recall procedures should be activated. Where a drug recall procedure is activated, a leading group for the recall will be set up, the level of recall will be determined and the recall scheme will be formulated. The marketing centre will be immediately notified to ensure that each of the relevant drug-selling enterprises and drug users will receive notification within 24 hours (in the case of a Level 1 recall), 48 hours (in the case of a Level 2 recall) or 72 hours (in the case of a Level 3 recall) to the effect that the sale or use of the relevant batch of products shall be ceased. Any remaining products of such batch shall be sent back to the Group and the remaining inventory shall be subject to preservation and segregation treatment. In addition, the recall scheme and recall progress will be reported to Guangdong Drug Administration within the stipulated time limit, and a recall report will be compiled upon completion of the recall.

During 2022, there was no product sold being subject to recalls for safety and health reasons.

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Product Information Management

Adhering to the principles of honesty and integrity, the Group ensures that accurate information on its commodities is provided in order to safeguard each consumer's "right to know" and create a trustworthy service setting.

In compliance with the requirements of regulations such as the Measures for the Examination of Drug Advertisements and the Provisions on the Administration of Pharmaceutical Directions and Labels of the PRC, the Group implements stringent management, review and approval procedures in respect of the design and production of drug advertising materials such as labels, directions and packaging, and relevant documents shall be filed by the R&D Centre with the provincial drug administration for its review and approval.

Consumer Data Protection and Privacy

The Group has formulated a set of "Commercial Secrets Management Policies" which includes detailed confidentiality scope, segregation of duties, department and personnel management, management of confidential data carriers and penalties, and has strictly implemented and monitored the commercial secrets management in accordance with the policies to prevent consumer data leakage.

During the reporting period, the Group has no material breach of the relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters in relation to its products and services provided.

(c) *Anti-corruption*

The Group is committed to reinforcing and enhancing the level of compliance of its operating activities with the relevant national and local laws and regulations regarding bribery, extortion, fraud and money laundering. The staff are required not to become involved in any impropriety, such as the giving or acceptance of bribes and corruption, in any circumstances, and are required to submit the related party transaction declaration form every year. In connection with any staff who are suspected to have committed an offence, the Group will lodge a report with the relevant judicial authorities in a timely manner in order to uphold a sound and orderly business environment.

In order to prevent corruption, a sound and effective internal control system is essential to the Group. As such, the Group has established an internal control framework and set up an independent risk control and internal audit department to provide independent assurance that the risk management, governance and internal control processes of the Group are operating effectively. The internal auditors assess the operating effectiveness of the risk management and internal control systems during their course of audits. Based on the results of the risk assessment and internal control issues identified, the Group will take remedial actions to address and resolve the identified issues. In addition, the Group will reinforce continuing education for staff members in the risk control and internal audit department to continuously improve their competence. The legal department of the Group also provides anti-corruption trainings to directors and staff. During the trainings in relation to "Anti-Unfair Competition Law" and "Interim Provisions on Prohibiting Commercial Bribery", directors and staff have improved their understanding towards the forms and manifestations of commercial bribery and legal responsibilities which can effectively prevent corrupt behaviour.

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The Group has also formulated and given effect to its “Whistleblowing Policy and Procedures”; and has set up a “General Manager’s Mailbox” and “Audit Committee’s Whistleblowing and Complaint Mailbox” which serves as a complaint and whistleblowing channel for the staff of the Group. Upon the receipt of a report or complaint, the audit committee of the Company will discuss such issue in the subsequent audit committee meeting and decide whether further actions are required. If further actions are required, the issue will be passed to the Board to determine whether to carry out internal investigations, initiate disciplinary process or refer to an external auditor or the relevant authority of the government.

During 2022, there was no case involving any violation of laws that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering being brought against the Group or its staff.

3. *Community Investment*

A good external community setting represents an essential condition for the growth and development of an enterprise. While pursuing its business development, the Group has been proactively giving back to society so as to enable the harmonious development of the Group and the society.

The Group has established the Essex Charitable Fund (the “Fund”) to lend a helping hand to needy groups in the society. In February 2022, the Fund donated RMB19,750 to the Zhuhai Centre for Chronic Disease Control for organising visits to leprosy patients. In July 2022, the Fund donated RMB20,000 to the Zhuhai Red Cross on the “Guangdong Poverty Alleviation Day”. In December 2022, the Fund and the Group donated an aggregate amount of RMB100,000 to the Zhuhai Association for Science and Technology for funding the 38th Zhuhai Youth Science and Technology Innovation Competition.

Besides, in May and September 2022, the Group donated its ophthalmic products to various hospitals in the PRC as a support to anti-epidemic healthcare workers. In August 2022, the Group donated its dermatology products to a charitable organisation for rescuing the injured during the mountain fire in Chongqing.