



**Hua Medicine**  
**華領醫藥**

(Incorporated in the Cayman Islands with limited liability)  
Stock Code: 2552



# Environment, Social and Governance Report 2019

## CONTENTS

02

### ABOUT THE REPORT

- 02 Compilation reference
- 02 Report scope
- 02 Report availability

03

### ABOUT US

- 03 Message from CEO
- 03 Business overview
- 03 Innovative R&D model
- 04 Honor and recognitions in 2019
- 05 Highlights of 2019

06

### RESPONSIBILITY MANAGEMENT

- 06 Sustainability strategy
- 07 Stakeholder communication

08

### PROMOTING GREEN OPERATIONS TO PROTECT ENVIRONMENT

- 08 Pollution prevention
- 09 Utilization of energy and resource
- 09 Low-carbon workstyles

10

### CARING FOR EMPLOYEES TO ACHIEVE

#### COMMON DEVELOPMENT

- 10 Employment management
- 12 Employee safety and health
- 13 Employee development and training
- 14 Employee benefits

15

### ADHERING TO QUALITY WITH

#### STRENGTHENED COLLABORATIONS

- 15 Product responsibility
- 18 Supply chain management
- 20 Intellectual property management

22

### ENHANCING AWARENESS OF

#### ANTI-CORRUPTION, INTEGRITY AND COMPLIANCE

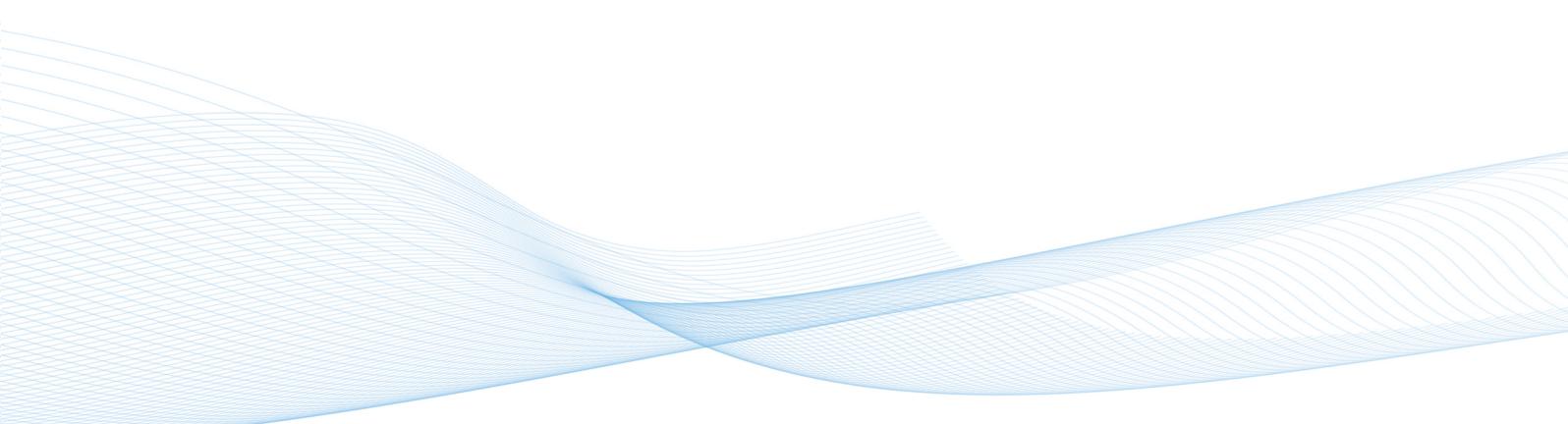
23

### REMAINING TRUE TO ORIGINAL ASPIRATION AND GIVING BACK TO COMMUNITY

24

### APPENDIX

- 24 ESG Guideline Content Index



## About the report

Hua Medicine (the “Company” or together with its subsidiaries, the “Group” or “We”) hereby presents the Environmental, Social and Governance report (“ESG report” or the “Report”) to the public for the year of 2019. This report aims to present the ESG policies and performance during the year.

## Compilation reference

This report discloses or explains the Group’s sustainable business as of December 31, 2019, and is prepared in accordance with the requirements set out in the “ESG Guide” in Appendix 27 to the Main Board Listing Rules published by Hong Kong Stock Exchange and Clearing Limited (HKEX), with the Group’s own situation considered as well.

The data of this report is derived from the internal database and other statistical data of the Group.

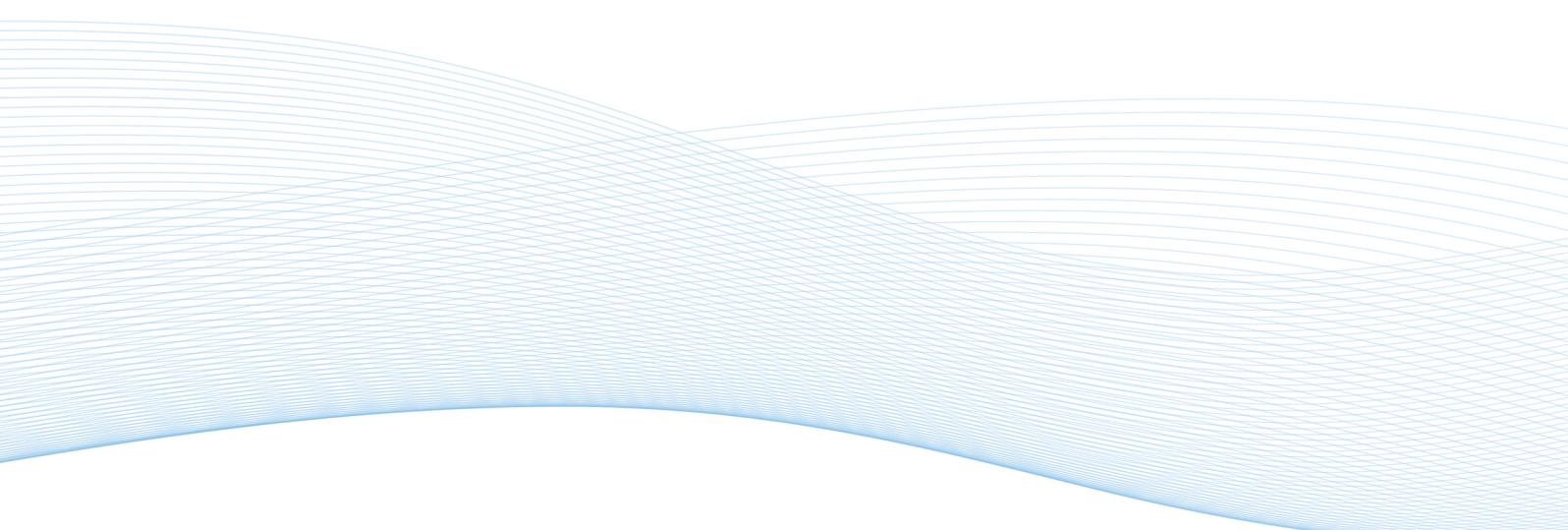
## Report scope

This report outlines the Group’s efforts and achievements in fulfilling corporate social responsibility and promoting sustainable development from January 1, 2019 to December 31, 2019.

## Report availability

The report is available in an electronic version which can be viewed on the website of the Group (<https://www.huamedicine.com/investor-information.asp>) and on the website of HKEX ([www.hkexnews.hk](http://www.hkexnews.hk)).

The report is prepared in both traditional Chinese and English. In the event of discrepancy between two versions, the English version shall prevail.



## About us

### Message from CEO

2019 was an extraordinary year for Hua Medicine. As we are driven by our core values “For Patients, Global Innovation, Effective Medicines”, we strengthened our collaboration with distinguished doctors and leading clinical research institutes to ensure consistent high standards and quality in our drug development process, creating value and contributing to society.

We continue to actively implement green operations and promote low-carbon lifestyles, taking all necessary measures to reduce resource consumption and prevent pollution. We believe employees are the most important assets of our company. While we provide them with extensive career development opportunities, we also commit to maintain a safe, equal and cozy working environment through improved employee benefits and protections. In order to do so, we uphold quality as our most important principle, by focusing on science and our patients, we are able to continuously enhance our ability to control quality and risk.

In the past year, we have received support and recognitions from government, clinical experts and industry peers, witnessing the transformation the healthcare industry is undergoing, which has strengthened our belief in a brighter business outlook. Diabetes is one of the largest chronic non-infectious diseases globally. In China, the population of diabetes patients is over 120 million. These patients bear great burden from the disease, also have extremely high expectations for effective treatment. We will continue to carry out research with high standards and quality, strive to provide high-value therapies for diabetes patients, to ultimately become the first Chinese company to focus on a global first-in-class, first launch in China drug!



CEO, Dr. Li CHEN

### Business overview

Hua Medicine is a leading, clinical-stage innovative drug development company in China focused on developing novel therapies for the treatment of diabetes. Founded by an experienced group of entrepreneurs and international investment firms, Hua Medicine advanced a first-in-class oral drug for the treatment of type 2 diabetes into NDA-enabling stage, and is currently evaluating the therapy in adults with diabetes in two Phase III trials in China, and various earlier stage clinical trials in China and the United States. Dorzagliatin has achieved its first primary endpoint in a Phase III monotherapy trial. In preparation for our eventual new drug application (NDA) submission for dorzagliatin with the National Medical Products Administration (NMPA), we completed the required active pharmaceutical ingredient commercial manufacturing process validation. We established the leadership team for our China Commercialization Strategy and Marketing (CSM) team for dorzagliatin in 2018, and plan to grow our CSM team in anticipation of China launch of dorzagliatin in 2021.

### Innovative R&D model

In the drug discovery phase, we adopted the innovative “VIC” model: VC (Venture Capital) + IP (Intellectual Property) + CRO (Contract Research Organization). In the drug development phase, we adopted “RPP” Model: Regulation + Policy + Practice, and throughout the drug’s full life cycle, our team has always placed an emphasis on management of “Q” (Quality). Hua Medicine has established the Drug Safety Management Committee and the Quality Risk Management Committee, which focus on drug safety and quality issues within our clinical trials, manufacturing and sales, to ensure that the trial design, research execution, and operations can all be implemented in accordance with international standards. Our R&D model not only enables us to improve efficiency and reduce costs of drug innovation, but also ensures the drug quality and data rigorousness.

Honor and recognitions in 2019

Dr. Li Chen, CEO of Hua Medicine, was appointed as “Bio-Medicine Committee Director” by the 2<sup>nd</sup> Shanghai Municipal Commission of Economy and Information System Young and Middle-Aged Intellectual Association.



Hua Medicine received “Innovation Award” for the year of 2019 from Zhangjiang Science City.



In 2019, Research of Dr. Li Chen was honored “Most Influential Research Award on Diabetes in China of 2018”.



Dr. Li Chen, CEO of Hua Medicine, was appointed as “Adjunct Researcher of New Drug Industry” by Shanghai Institute of Materia Medica, Chinese Academy of Sciences.

## Highlights of 2019



Videos on Hua Medicine, dorzagliatin, and glucokinase activators were broadcast at the American Diabetes Association (ADA) 79<sup>th</sup> Scientific Sessions



Hua Medicine announced Phase III 24-week topline data of dorzagliatin Monotherapy Trial



Hua Medicine's Phase III clinical study 24-week topline results of dorzagliatin were presented in the plenary session at 2019 Chinese Diabetes Society (CDS)



Hua Medicine committed to establishing its global headquarter and R&D Center in the center of Zhangjiang Science City

## Responsibility management

### Sustainability strategy

#### Our mission

To focus on innovative, first-in-class medicines that address unmet medical needs globally

#### Our core values



##### For Patients

Focus on patients' needs to provide truly valuable products.



##### Global Innovation

Utilize "innovative ideas" to promote "innovative technology", utilize "innovative models" to produce new drug and develop "innovative talent", and create "innovative environment" altogether.



##### Effective Medicines

Emphasis on quality management to continuously enhance ability on quality and risk control.

Our core ESG strategy is reflected in our mission and values. As we continue to deliver innovation and address global needs of diabetes patients, we remain committed to improving the Company's sustainability. We work hard to integrate ESG concept into our sustainability strategy, which guides our everyday decisions and actions, so that we can improve corporate management and create sustainable values for all stakeholders.

## Stakeholder communication

We believe understanding stakeholder expectations is a vital element in sustainability strategy. Through actively creating innovative channels to strengthen communications with stakeholders, the Group continuously revises and optimizes its environmental and corporate social responsibility initiatives.

Stakeholder	Expectations	Communication Channels
 <b>Government/ Regulatory Agencies</b>	<ul style="list-style-type: none"> <li>Compliance with the Law</li> <li>Promote industry innovation</li> </ul>	<ul style="list-style-type: none"> <li>Work report</li> <li>Government-Enterprise meetings</li> <li>Policy consultation</li> </ul>
 <b>Shareholders/Investors</b>	<ul style="list-style-type: none"> <li>Protect shareholders' rights and interests</li> <li>Satisfactory investment return</li> <li>Compliance management</li> </ul>	<ul style="list-style-type: none"> <li>Timely information disclosure</li> <li>Shareholder meetings</li> <li>Sound legal risk control system</li> </ul>
 <b>Employees</b>	<ul style="list-style-type: none"> <li>Protect employees' rights and interests</li> <li>Democratic management and humanitarian caring</li> <li>Focus on health and safety</li> <li>Provide trainings and career development channels</li> </ul>	<ul style="list-style-type: none"> <li>Performance evaluation mechanism</li> <li>Periodic safety drill</li> <li>Labor union and employee caring activities</li> <li>Professional trainings</li> </ul>
 <b>Medical Community</b>	<ul style="list-style-type: none"> <li>Provide safe and high-quality drug</li> <li>Protect safety of patients</li> <li>Protect privacy of patients</li> <li>Listen to feedbacks from patients</li> </ul>	<ul style="list-style-type: none"> <li>Innovative drug research</li> <li>Product quality control</li> <li>Personal data protection</li> <li>Effective helplines, complaint filling channels</li> </ul>
 <b>Suppliers/Partners</b>	<ul style="list-style-type: none"> <li>Fulfill contracts</li> <li>Ensure open and transparent cooperation</li> <li>Create a win-win situation</li> </ul>	<ul style="list-style-type: none"> <li>Long-term strategic cooperation</li> <li>Procurement guidance</li> <li>Management visits</li> <li>Emails and phone calls</li> </ul>
 <b>Community/Public</b>	<ul style="list-style-type: none"> <li>Create environmental-friendly workplace</li> <li>Hold community charity events</li> </ul>	<ul style="list-style-type: none"> <li>Resource saving promotion</li> <li>Industry forum</li> <li>Public speeches</li> <li>Social Media</li> </ul>

## Promoting green operations to protect environment

### Pollution prevention

The Group upholds the concept of green development and strictly follow Environmental Protection Law of the People's Republic of China ("the PRC"), the Law of the PRC on the Prevention and Control of Water Pollution, and the Law of the PRC on the Prevention and Control of Atmospheric Pollution, etc. We have also formulated and implemented relevant internal policies such as the Hua Medicine Pharmaceutical R&D Center Contingency Plan for Environment Emergencies and Chemicals Safety Management. With our environmental protection management, we aim to maximize resource utilization efficiency and minimize impact on the environment, and to practically assume our corporate social responsibility. In 2019, the Group abided by all applicable laws and regulations which have major impact on us. No major environment pollution incident was reported, and no complaint was received resulting from environment pollution or non-compliance with environmental laws and regulations.

Hua Medicine's R&D model enables us to work closely with multiple third parties in both drug development and drug manufacturing phases. When we choose our partners, we not only have strict requirements on the quality of their services, but also scrutinize their environment and social awareness, to ensure our partners have well-established pollution prevention standards for green emissions. In daily operations, we mainly consume electricity provided by State Grid, through which we discharge little greenhouse gas indirectly.

Within the reporting period, we completed the construction of two laboratories in Shanghai Zhangjiang Hi-tech Park, mainly for biology and pharmacology experiments, sample analysis and product formulation study. Upon project completion, according to requirements set out in state regulations including Regulations on the Environmental Protection for Construction Projects and Interim Measures for the Acceptance of Environmental Protection on the Completion of Construction Projects, we organized a team to perform inspection on environment protection measures implemented in the laboratories. Hence, we ensured that all pollutants are to be properly treated, minimizing the adverse impact on environment.

Emission	Source	Treatment
Wastewater	Laboratory wastewater and domestic sewage	Wastewater is pretreated and discharged into the municipal sewage network, then into sewage treatment plant; Wastewater meets relevant effluent standards.
Air Emission	Laboratory exhaust gas	Exhaust gas collected from fume hood is discharged after purification by active carbon absorber.
Noise	Laboratory equipment noise	Use low-noise advanced equipment, or high-noise equipment with vibration-isolated foundation, sound cushion, etc..
Solid Waste	Hazardous waste (laboratory waste · liquid waste, etc.)	The waste is sorted and processed by qualified third party/property after chemical ablation.
	Household garbage	The garbage is sorted and disposed in waste container, then collected and recycled by sanitation department.

Over the reporting period, our laboratories were not put into use officially. Therefore, emissions mainly came from domestic sewage and household garbage. No other hazardous emissions were generated by the Company.

### Utilization of energy and resource

In daily operations, the Group mainly consumes water, electricity, and a little quantity of gasoline, all from procurement. We actively respond to the environmental protection and resource conservation measures implemented by the government to fully, reasonably, and efficiently utilize current resources, at the same time reducing operation costs.

Over the reporting period, resource and energy consumption of Hua Medicine is as follow:

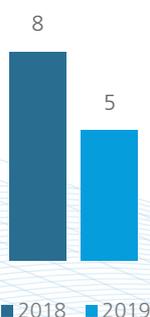
Resource	Data
Executive Water Consumption	774 Ton
Water Consumption Per Capita	5 Ton
Executive Electricity Consumption	397,566 kWh
Electricity Consumption Per Capita	2,516 kWh
Executive Gasoline Consumption	9,600 Liter
Gasoline Consumption Per Capita	61 Liter

Through calculation, 275,561 Kg of greenhouse gas (CO<sub>2</sub>) was generated by the Group indirectly through electricity and gasoline usage, which converts to 1,744 Kg per capita emission.

### Low-carbon workstyles

We integrate our green development concept into each aspect of our daily operation. We proactively advocate that we handle business with minimal impact on environment, and encourage our employees to start from details such as saving every piece of paper, every drop of water, and enhancing the conservation awareness within the Group; We continue to promote digitalization and paperless office to save energy and resources, and also to improve work efficiency. Through our process improvement and optimized administrative policies, the consumption per capita of water, gasoline, and greenhouse gas all decreased compared to the previous reporting period:

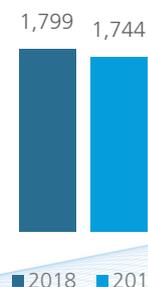
**Water consumption per capita (Ton)**



**Gasoline consumption per capita (Liter)**



**Green house gas emission per capita (Kg)**



## Caring for employees to achieve common development

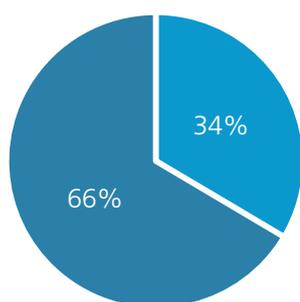
### Employment management

#### Talent acquisition

The Group strictly abides by laws and regulations such as the Labor Law of the PRC, the Labor Contract Law of the PRC, and the Regulations for the Implementation of the Labor Contract Law of the PRC. Based on the regulations of open and non-discriminative recruitment, we hire talents that are competitive and meet the needs of the company, and clearly state that the age must be at least 18 years old. As at the end of 2019, there were 158 talents in the Group, an increase of 37% compared with 2018.

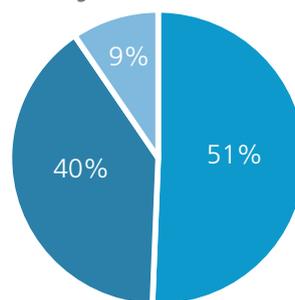
#### Employment data

Percentage of employees by gender



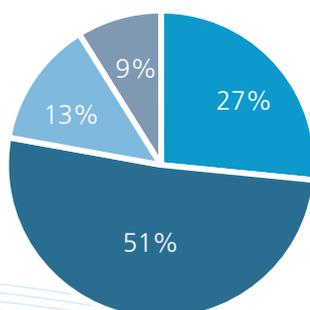
- Male Staff
- Female Staff

Percentage of employees by education



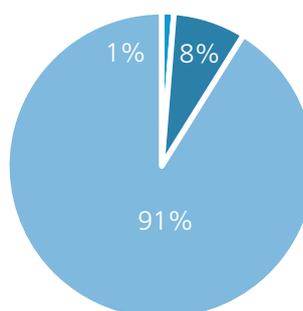
- Postgraduate and above
- Undergraduate
- Below undergraduate

Percentage of employees by age



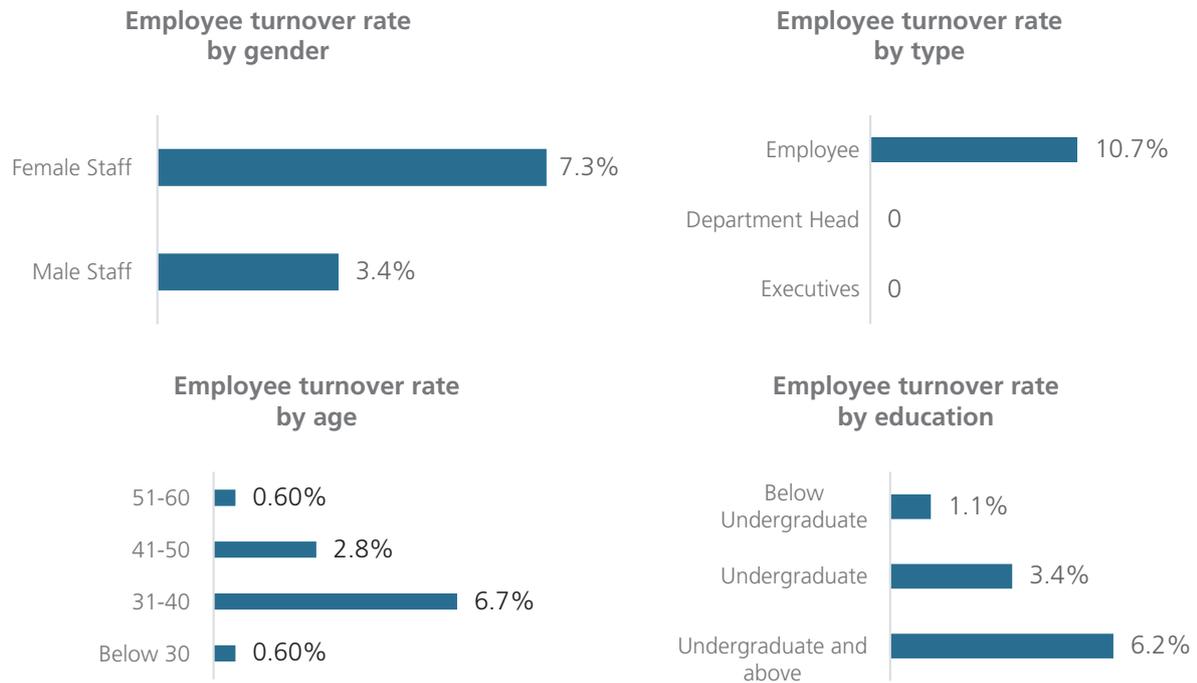
- below 30
- 31-40
- 41-50
- 51-60

Percentage of employees by type



- Executives
- Department Head
- Employee

**Turnover rate data**



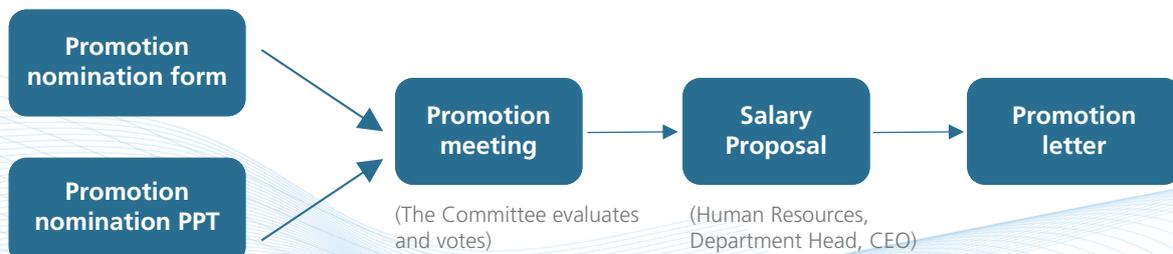
**Working hours and holidays**

Hua Medicine’s non-R&D employees enjoy a 5-day 8-hour work schedule with working hours from 8:30 to 17:00, including a half-hour lunch break; R&D employees enjoy flexible working hours due to the needs of their work, and the detailed schedule of R&D employee is managed by each Department Head according to the status of each project. In addition to public holidays, the employees also enjoy a 12-day annual leave per year, or a 15-day of annual leave per year for those with more than 20 years of work experience. There is also marriage leave, maternity leave, paternity leave, bereavement leave, work injury leave and paid sick leave.

**Promotion process**

The Group has developed a comprehensive compensation system and promotion process. The Human Resources Department organizes promotion meetings where members of the promotion committee objectively discuss, evaluate and finally confirm the employees’ capabilities in all aspects. The aim is to ensure that employees can make full use of their skills in appropriate positions and encourage employees to make continuous improvement.

Promotion process flow:



### KPI

The Group sets milestone awards for employees. The Group sets overall quarterly and annual goals based on each employee's position, then set quantitative indicators, qualitative indicators and weights based on the goals. The Group evaluates, scores the performance of each employee, and work out results fairly and objectively, and finally issue a KPI report for each employee.

## Employee safety and health

### Safety Guideline

The Group strictly abides by laws and regulations such as the PRC Work Safety Law, Administrative Measures for Emergency Response Plan for Production Safety Accidents, Occupational Disease Prevention Law of the PRC and other laws and regulations, and is committed to providing employees with a safe and secure office environment and protecting employees' personal safety. The Group has issued the "Safety Precautions for Employees", which requires to conduct training for employees when they join the company, the training includes the escape routes, medical cabinets, etc. For medical laboratories, the Group released the "Laboratory Safety Management Regulations", which regulates the laboratory's operation, the use of hazardous chemicals, and the handling procedures for safety incidents. During the reporting period, there were no work-related injuries or deaths.

### Fire Drill

In accordance with national laws related to fire protection and safety in production, the Company trains employees with fire protection knowledge, and hands-on teaching of fire extinguishers to effectively prevent fire accidents.



On October 18, 2019, the Group invited Mr. Chen Yashu, the training department head of Shanghai Vision Fire School, to conduct fire safety training for all the employees.



Practice of spraying ABC powder with dry powder fire extinguisher.

**Health Guarantee**

The Group arranges physical examination for employees once a year and provides each employee with personal accident insurance and commercial medical insurance. In addition, the Group has purchased gym annual cards and badminton membership cards for all employees, in order to encourage them to exercise and maintain a healthy lifestyle in their spare time.

**Employee development and training**

The Group emphasizes the development of employees with a people-oriented principle. For this goal, Hua Medicine conducts various trainings for employees at different levels:

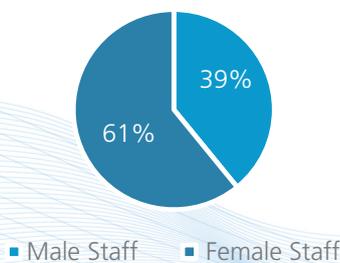
New employee orientation	GMP training	Comprehensive management ability training
Twice per year	External institution and within the Group	For company middle management
Training of company's history, culture, products, values and regulations.	Training of Professional knowledge and new policies and regulations	Training of business management, personnel management and team management

At the end of the training, the Group conducts anonymous surveys to understand trainees' demands and feedback, in order to evaluate and improve the training mechanism effectively. The results of the questionnaire survey demonstrate that employees benefit a lot from the trainings, and strengthen their skills and systematic knowledge.

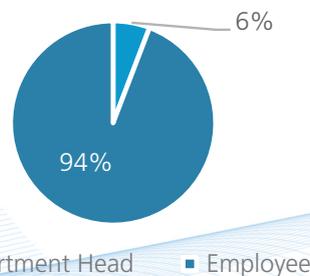
The total training hours in 2019 was up to 3895 hours (Professional trainings conducted by departments not included), with an average of 25.29 hours per employee. The training statistics as below:



**Percentage of training by gender**



**Percentage of training by type**



Employee benefits

The Group is heavily focused on the people aspect, especially providing care and benefits to its employees. Through care and benefits, the Group enlivens the working environment and motivates employees

The Group has established a labor union to provide care to employees. The union organizes celebrations, performances, and sport competitions for employees, strengthening the cohesion among employees and improving their teamwork ability. In addition, the union has set up a “Pioneer and Party Member’s House”, equipped with newspaper and magazine racks, book shelves, tea tables and sofas, in order to provide employees with a place for short breaks and communication.



Birthday parties



Birthday parties



Pioneer & Party Member's house



Sports Competition



Happy Women's Day



Happy Women's Day

## Adhering to quality with strengthened collaborations

### Product responsibility

#### Institutional and organizational structures

Hua Medicine ensures that the processes of experimental design, implementation, and operation fully comply with regulatory requirements and international standards.

Hua Medicine has established a quality management system consisting of policies → procedures → standard operating procedures (SOPs) → provisions → guidelines. The system guides the quality management of different scopes and types of business activities. It can also ensure that relevant cooperative R&D institutions meet the requirements of GXP. The "Quality Manual" is the key to the quality management system and considered as a guideline in the formulation of Hua Medicine's quality management system, workflows and operating specifications.



Regarding the organizational structure, Hua Medicine has set up a Quality Decision-making and Management Department, which consists of a Quality Committee and a cross-function management team. The head of this Department is responsible for supervising the QA Department and directly reports to the CEO. The QA Department manages quality issues and risks related to quality management system, clinical research, research and development, production, and quality projects. Meanwhile, the QA Department also is responsible for establishing, maintaining, and optimizing the Hua Medicine Quality Assurance System. For important R&D projects, Hua Medicine will set up a joint quality committee consisting of Hua Medicine’s quality team and external partners (CRO, CMO, etc.), who will be responsible in monitoring the project’s quality issues or during the overall cooperation.



**Hua Medicine Quality Management Organization Chart**

Hua Medicine is committed to the continuous improvement in all aspects of quality management system to stay current. In 2019, based on the latest revision of the PRC Drug Management Law, the “Quality Manual” was updated accordingly, and the quality management organizational structure was upgraded. The new structure requires senior management, including the CEO and Quality leader, to share quality responsibilities, and specifies the roles of the CEO, Quality Leader, and Department or Project Leaders.

In the meantime, Hua Medicine has added a definition of “Quality Measurement” to the new manual, which monitors the Group’s quality management system and the quality level of the project by formulating clear and measurable quality standards. In 2019, Hua Medicine re-evaluated the existing quality system and updated some SOPs to ensure that the Group’s internal quality management system and related management processes comply with national laws and regulations.

### Implementation and supervision

As a pilot company for the Marketing Authorization Holder program, Hua Medicine undertakes the ultimate responsibility for the quality and safety of its products throughout their life cycles. The Group sets up annual quality goals and communicates them within the Group in the form of a formal quality plan. Each department also formulates quality goals. The Quality Committee supervises the achievement of these goals.

Hua Medicine manages the entire life cycle of products, from product development to production. At the same time, we strictly control the quality system of outsourcing service providers, and rigorously audit the supplier quality system when selecting outsourcing service providers. For GXP-related suppliers, Hua Medicine maintains a controlled supplier list, conducts audits on a regular basis and provides improvement recommendations for the issues found during the audits.

Hua Medicine aligns quality agreements with all critical suppliers. The quality agreement clearly stated that the third parties must formulate and establish related business processes. The third parties are required to trace the entire process from the receipt of raw materials to the release and transportation of final products, to ensure clear responsibilities when problems occur and resolve them in time.

### Risk prevention and problem handling

To continuously optimize the quality system and related processes, Hua Medicine has established a quality risk management (QRM) process. It complies with the requirements of ICH Q9, ICH GCP E6, and relevant regulations and guidelines, focusing on enterprise operations, product quality, and compliance. The prevention of risks in all aspects ensures that Hua Medicine is compliant and controlled in terms of operations, product quality, and legal agreement. At the same time, Hua Medicine has established a Corrective and Preventive Measures Process System (CAPA), which analyzes the original cause of the quality problems found during internal and external audits, formulates solutions and evaluates the effect of implementation. Through the formulation of preventive measures, CAPA provides continuous improvement opportunities for Hua Medicine and its suppliers. For quality issues from CMO or other outsourcing service providers, Hua Medicine has formulated the Event and Deviation Management Procedure System, which records, reports, evaluates, and guides response process for deviations. For complaints from clinical-stage subject-related products and services, the Group has formulated the "Violation Investigation and Management" policy. The policy provides detailed rules for reporting, investigating, following up and reporting violations.

As Hua Medicine has not initiated sales, there were no consumer complaints received in 2019. Currently, the dorzagliatin phase III monotherapy clinical study results have achieved its primary endpoint, and dorzagliatin is likely to launch in 2021. In 2019, Hua Medicine has already elaborated the "Product Quality Complaint Handling Procedures". It aims to ensure the timely process of registration, investigation, processing and feedback for product complaints during the sales process.



### Quality culture

In 2019, Hua Medicine conducted quality management trainings, utilizing both online and offline training methods for employees from different locations. In 2019, the HR Department documented job skills for each job position which complies with a job training matrix. In addition to job skills, the knowledge and skills related to the GXP for each job position are also clarified. In the training process, the QA Department is responsible for the coordination and promotion of Good Manufacturing Practice (GMP) training at all group levels. Each department cooperates to implement the training.



### Supply chain management

Supply chain management is one of the critical aspects in the quality management of pharmaceutical companies. In the pre-commercial production stage, Hua Medicine is also focused on supplier management. We established the "Supplier Quality Management Process", "Outsourcing Service Purchasing Process", "General Purchasing Process", and other systems and supplier management models based on service type and risk. Hua Medicine suppliers are divided into outsourced service providers, and raw and auxiliary materials suppliers. For outsourced service providers, the Group takes the compliance of GXP system as one of the core standards for selecting service providers and requires them to conduct a strict selection of suppliers. Hua Medicine is purchasing non-registered related raw materials directly and is planning on build its own factory, which lays a foundation for the stable production in the coming commercial stage.

### Supplier distribution

As at the end of 2019, Hua Medicine had a total of 30 scientific research-related suppliers and 101 administrative-related suppliers. Among the 30 scientific research-related suppliers, 27 are located in Eastern China, 2 are located in Northern China, and 1 is located in other regions of China.

To ensure the professionalism of suppliers and product quality, Hua Medicine prioritizes well-known companies in the industry and conducts a dual review of both qualification and on-site audits of potential suppliers.

- Qualification review: To verify if the supplier owns the "Good Manufacturing Practice (GMP)" certification or passes FDA/EU audit;
- On-site audit: To verify supplier's plant facilities and equipment, material management, production process, production management, document management, etc.

### Supplier supervision

Hua Medicine supervises the R&D and production activities of outsourced service providers. Quality and Risk Control Department monitors the project progress in regular project meetings and participates in the discussion and supervision of quality risks. For significant quality issues, the Quality and Risk Control Department reports to the Quality Committee in time to ensure that the issues are resolved in a timely and effective manner.

Hua Medicine has strict requirements on the suppliers' environmental responsibility. One of our critical criteria for suppliers' selection, is whether they comply with pollution emission standards, and take environmental protection and energy-saving processes into consideration.

### Supplier evaluation

Hua Medicine conducts a variety of audits to evaluate suppliers, and to review the services provided by suppliers during the cooperation period. Based on the evaluation results, Hua Medicine rewards or provides recommendation requirements to suppliers.

- Project team evaluation: Conducts a comprehensive evaluation of the suppliers' service and develops an evaluation report accordingly when needed.
- Quality and Risk Control Department audit (QA audit): Conducts annual audits on comprehensive capabilities of suppliers and follows up the specific issues found during the supervision process.
- CMC verification: Occasionally check the work status and verifies the accuracy of data reported by suppliers in experiments of research and development stage.



Honoring an excellent supplier

Hua Medicine is currently in the process of establishing a third-party production quality management procedure. It will incorporate supplier management processes in areas such as technology transfer, clinical and commercial drug production, to improve quality management for the entire product life cycle management efficiency.

### Intellectual property management

The Group adheres to the “Global Innovation” value and organically combines technological, product and business model innovation with the Group governance model. While continuing to innovate, Hua Medicine places great emphasis on intellectual property protection. During the reporting period, Hua Medicine did not have any lawsuits related to the violation of intellectual property rights.

Hua Medicine has developed intellectual property management policies and regulations to provide guidelines for the protection of intellectual property rights. We also established intellectual property management positions that are responsible for intellectual property-related work.

To increase the protection of intellectual property rights, Hua Medicine is committed ensure that intellectual property rights are protected effectively throughout each step of the product life cycle. In addition to the existing HMS5552 process, HMS5552 formulation, mGluR compounds, and AMPK compound series patents, Hua Medicine also completed 18 inventive patent applications for the FDC series (compound formulation containing glucose kinase activator HMS5552) in 2019.

Hua Medicine also devotes substantial attention to the training of employees’ intellectual property knowledge and awareness. The Group regards intellectual property training as a critical part for new employee induction training. Besides, intellectual property protection is also included into Company’s day to day meetings to strengthen employees’ awareness.

#### Distribution of Hua Medicine patents as at December 31, 2019:

Drug Target	Patent coverage	Current Status
GKA	HMS5552 Compound	Received 11 patents in 12 countries and regions
GKA	HMS5552 Process	Received 12 patents in 15 countries and regions
GKA	HMS5552 Formulation	Received 1 patents in 21 countries and regions
GKA	HMS5552 Compound Formulation	18 applications are in progress
mGluR	mGluR Compound	Received 3 patents in 21 countries and regions



## Enhancing awareness of anti-corruption, integrity and compliance

Hua Medicine attaches great importance to business integrity management. The Group is committed to improving business integrity operation mechanism and to continuously strengthening the construction of integrity conduct norms and anti-corruption process systems, with no loopholes in design, no gaps in implementation, so that the culture of integrity conduct can spread to every part of enterprise management. In 2019, no major corruption cases involving bribery or money laundering were found in the Group.

### No loopholes in design

In the "Employee Handbook", Hua Medicine has provided clear guidelines for employees to prevent bribery, money laundering and integrity non-compliance. The company issued the "Anti-corruption Policy", which details the definition of fraud behaviors and corresponding solutions.

### No gaps in implementation

Hua Medicine has issued the "Whistleblower Policy and Procedures", which requires the Audit Committee shall receive, retain, investigate and act on complaints and concerns of employees regarding questionable accounting, internal controls and auditing matters, including those regarding the circumvention or attempted circumvention of internal accounting controls or that would otherwise constitute a violation of the Company's accounting policies. The Group has established a whistleblower mailbox (whistleblow@huamedicine.com) for employees to report directly, confidentially or anonymously. The policy also clearly regulates the public disclosure of information (whether confidential or not), including news media and online forums.

The Group has established mechanisms to keep the information of the whistleblower confidential until the investigation is clear. We have established an Audit Committee to accept reports of violations, conduct the investigation, analysis and handling throughout the whole process, and implement disciplinary measures for those responsible for violating the integrity code of the Group.

### Integrity culture

The Group has set up an independent internal audit department, which supervises the implementation of company policy in every department, strengthens internal controls, and carries out in-depth anti-corruption work within the Group. In addition, the internal audit department strictly follows up on the implementation of accountability and improves current policies and procedures, to ensure that accountability is in place and corrective measures are implemented. In daily operations, we encourage employees to actively discover and report corruption to promote the integrity of the Group.

### Remaining true to original aspiration and giving back to community

As a leader in the pharmaceutical industry, while focusing on drug innovation, Hua Medicine also undertakes corporate social responsibility, actively participates in social activities, and contributes to society. In 2019, the management of Hua Medicine participated in industry summit forums, industry forums, industry seminars, etc. They have discussed industry development trends, shared experiences with industry experts, and contributed to the development of the industry.

In 2020, Hua Medicine will continue to conduct in-depth social public welfare activities through various platforms such as participating in industry gatherings, holding public welfare activities, and making donations in order to contribute to society.



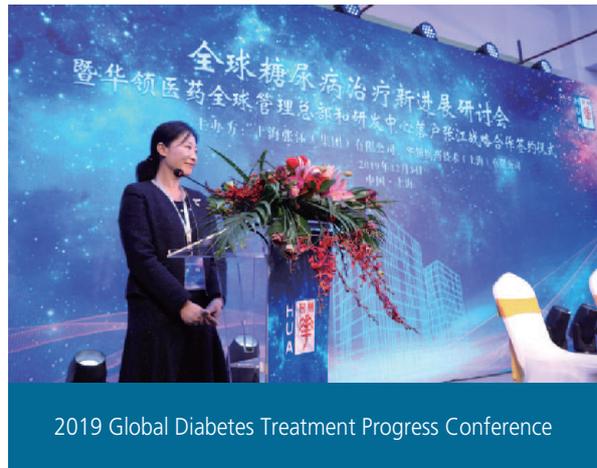
Employees participate in brainstorming show recording



2019 Bio-Forum MAH pre-conference



"Promote innovation-driven development strategy" special class for leading cadres



2019 Global Diabetes Treatment Progress Conference

Appendix: ESG Guideline Content Index

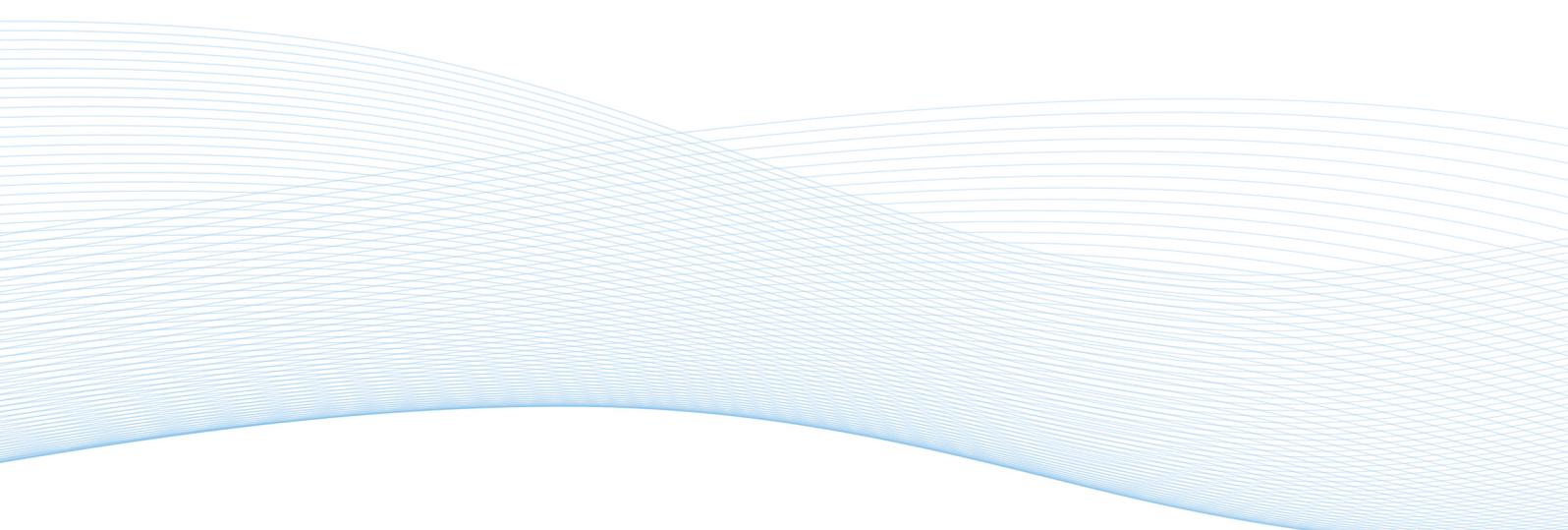
Item	Descriptions		Hua Medicine Related sections/Claims
A. Environmental			
A1. Emission	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to emissions of waste gas and greenhouse gas, discharge into water and land, generation of hazardous and non-hazardous waste	Promoting green operations to protect environment – pollution prevention
	A1.1	The types of emissions and respective emissions data	Promoting green operations to protect environment – pollution prevention
	A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	Promoting green operations to protect environment – utilization of energy and resource
	A1.3	Total hazardous waste produced and, where appropriate, intensity	Not applicable
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity	To be disclosed in the future
	A1.5	Description of measures to mitigate emissions and results achieved	Promoting green operations to protect environment – pollution prevention Promoting green operations to protect environment – low-carbon workstyles
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Promoting green operations to protect environment – pollution prevention

Item	Descriptions		Hua Medicine Related sections/Claims
<b>A. Environmental</b>			
A2. Use of Resources	General Disclosure	Policies on effective use of resources	Promoting green operations to protect environment – utilization of energy and resource
	A2.1	Direct and/or indirect energy consumption by type in total and intensity	Promoting green operations to protect environment – utilization of energy and resource
	A2.2	Water consumption in total and intensity	Promoting green operations to protect environment – utilization of energy and resource
	A2.3	Description of energy use efficiency initiatives and results achieved	Promoting green operations to protect environment – low-carbon workstyles
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Promoting green operations to protect environment – low-carbon workstyles
	A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	Not applicable
A3. The Environment and Natural Resources	General Disclosure	Policies on minimizing the significant impact of the issuer on the environment and natural resources	Promoting green operations to protect environment – pollution prevention
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Promoting green operations to protect environment – pollution prevention Promoting green operations to protect environment – low-carbon workstyles

Item	Descriptions		Hua Medicine Related sections/Claims
B. Social  B1. Employment	General Disclosure	Information on: (a) the policies; (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to remuneration and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination and other treatments and benefits	Caring for employees to achieve common development – employment management Caring for employees to achieve common development – employee benefits
	B1.1	Total workforce by gender, employment type, age group and geographical region	Caring for employees to achieve common development – employment management Caring for employees to achieve common development – employee benefits
	B1.2	Employee turnover rate by gender, age group and geographical region	Caring for employees to achieve common development – employment management
B2. Health and Safety	General Disclosure	Information on: (a) the policies; (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to provision of a safe working environment and protection of employees from occupational hazards	Caring for employees to achieve common development – employee safety and health
	B2.1	Number and rate of work-related fatalities	Caring for employees to achieve common development – employee safety and health
	B2.2	Lost days due to work injury	Caring for employees to achieve common development – employee safety and health
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Caring for employees to achieve common development – employee safety and health

Item	Descriptions		Hua Medicine Related sections/Claims
B3. Development and Training	General Disclosure	Policies on enhancing the knowledge and skills of employees to perform duties. Describe training activities	Caring for employees to achieve common development – employee development and training
	B3.1	The percentage of employees trained by gender and employment type (e.g. senior management, middle management)	Caring for employees to achieve common development – employee development and training
	B3.2	The average training hours completed per employee by gender and employment type	Caring for employees to achieve common development – employee development and training
B4. Labor Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of child labor or forced labor	Caring for employees to achieve common development – employment management
	B4.1	Description of measures to review employment practices to avoid child and forced labor	Caring for employees to achieve common development – employment management
	B4.2	Description of steps taken to eliminate such practices when discovered	Not applicable
B5. Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain	Adhering to quality first, with strengthened collaborations – supply chain management
	B5.1	Number of suppliers by geographical region	Adhering to quality first, with strengthened collaborations – supply chain management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Adhering to quality first, with strengthened collaborations – supply chain management

Item	Descriptions		Hua Medicine Related sections/Claims
B. Social			
B6. Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress	Adhering to quality with strengthened collaborations – product responsibility
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not applicable
	B6.2	Number of products and service-related complaints received and how they are dealt with	Adhering to quality with strengthened collaborations – product responsibility
	B6.3	Description of practices relating to observing and protecting intellectual property rights	Adhering to quality with strengthened collaborations – product responsibility
	B6.4	Description of quality assurance process and recall procedures	Adhering to quality with strengthened collaborations – product responsibility
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Not applicable



Item	Descriptions		Hua Medicine Related sections/Claims	
<b>B. Social</b>				
B7. Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Enhancing awareness of anti-corruption, integrity and compliance	
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Enhancing awareness of anti-corruption, integrity and compliance	
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Enhancing awareness of anti-corruption, integrity and compliance	
	B8. Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Remaining true to original aspiration and giving back to community
		B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Remaining true to original aspiration and giving back to community
		B8.2	Resources (e.g. money or time) contributed to the focus area	Remaining true to original aspiration and giving back to community