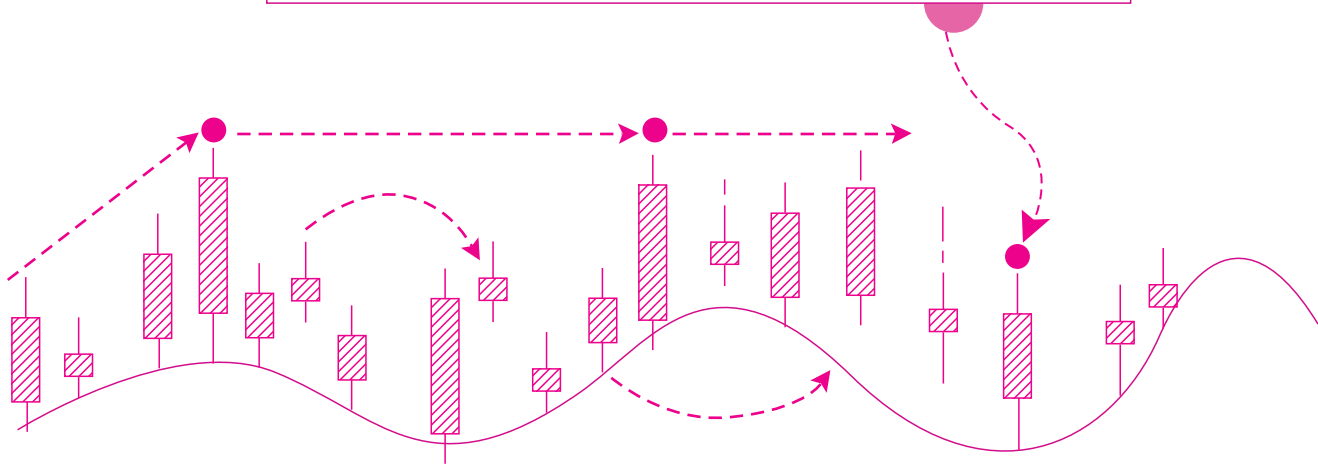


ESTABLISHMENT AND IMPROVEMENT OF OPERATION MODEL

A comprehensive management and operation model

A comprehensive management and operation model could not only enhance the enterprise's production and operation efficiency, and create higher economic benefits, but also bring the society and customers better-quality products, as well as enhance the enterprise's brand reputation. Therefore, the Group has always considered the "Production of First-class Products, Provision of First-class Service, Training of First-class Talents, and Becoming A Model Pharmaceutical Enterprise" as the objective, continues to improve every link of production and sales with the excelsior attitude, strictly implements quality control, and makes all efforts in enhancement of customer service standard, maintenance of personal information security and establishment of a clean operation environment.





SUPPLY CHAIN MANAGEMENT

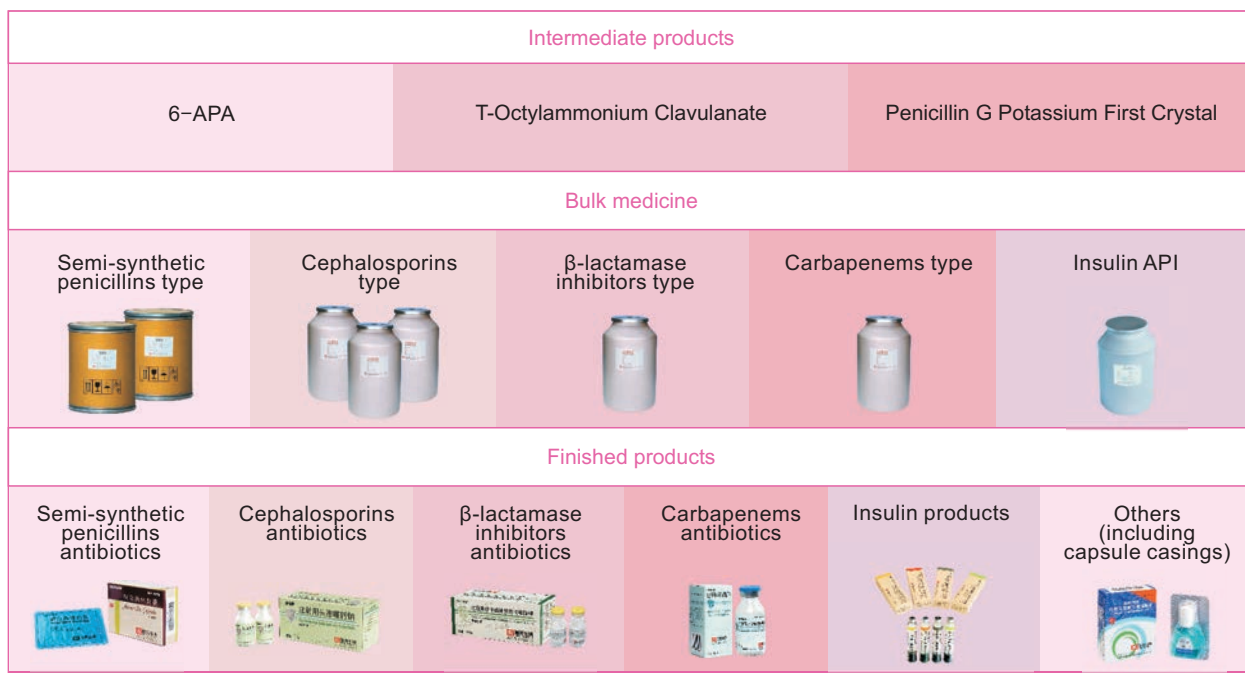
The production of intermediate products, bulk medicine and downstream finished products requires a large quantity of raw and auxiliary materials, packaging materials and production equipments, etc., so the supply of materials and equipments is especially important for the production and operation of the Group. In order to maintain a healthy and ordered supply chain system, ensure the quality of suppliers, as well as reduce the environmental and social risks brought by suppliers with poor performance, the Group has always been dedicating to the improvement of the procurement process as well as the development, supervision, evaluation and management work of suppliers.

The Group has formulated the relevant management procedures of material suppliers to manage the various raw materials and resources. When selecting new suppliers, we conduct comprehensive evaluation on the industrial level, reputation degree, goods price, quality and after-sale service, etc. of the suppliers based on the internal "5S" principles, namely proper price, proper place, proper quality, proper quantity and proper time, so as to ensure the overall quality and material quality of the supply chain. Only the suppliers who meet the related requirements can enter the list of qualified suppliers. Besides, we will implement written or on-site audit on the cooperating suppliers to further determine their performance and service level in order to avoid any suppliers without related qualifications or with unstable product quality from entering the supply chain of the Group and affecting the product quality of the Group.

In order to enable the production process to reach the upmost quality level and effectively control production bulk medicine cost, the Group has established the vertically integrated production and operation model of "intermediate products - bulk medicine – finished products". The Inner Mongolia Company purchases main raw materials to produce intermediate products and bulk medicine, and then transports them to the other manufacturing bases of the Group to produce bulk medicine and finished products. The Group generally observes the principle of proximity during procurement. The suppliers are concentrated in the nearby provinces, which could effectively reduce transportation cost and carbon emission in transportation process. No matter managing the supply chain of the Group or serving as a supplier of other enterprises, we always maintain the best performance and become a reliable partner. In the Year, the Group has received the title of the "Top 100 Enterprises in Pharmaceutical Internationalization in 2017" and the "High-quality Supplier and Partner of International Market in 2017" issued by the Chinese Medicines and Health Care Products Import & Export Chamber of Commerce.

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Vertically Integrated Production and Operation Model³



3. Areas in the same color represent products of the same series, which go through the production process of intermediate products–bulk medicine–finished products from upstream to downstream.





SALES AND PROMOTION

Besides manufacturing and research and development, pharmaceutical sale is also an important sector of the Group's business. The Group implements the distribution and promotion of pharmaceuticals strictly according to the laws and regulations regarding pharmaceuticals, such as the *Advertising Law of the People's Republic of China and the Reviewing and Standards for the Examination and Publication of Drug Advertisements*. According to the related regulations, the Group has formed the standards to regulate the promotional behaviors, and required all the employees on various levels to, while having product sales activities, comply with the related laws and regulations as well as professional ethics. In the aspect of promotion, all the pharmaceutical promotion information released by the Group is based on scientific argumentation and complies with the principles of accuracy, objectivity and completeness. Corresponding package insets are also attached to explain the correct medication methods to make sure everything comply with the requirements of law.

Besides, the Group has also formed and implemented the relevant management rules, according to the *Provisions on the Administration of Pharmaceutical Direction and Labels*, on label-type packaging materials. The contents, patterns, words, etc. of label-type packaging materials are checked by the Quality Management Department before submitting to the typographer for printing. The typographer shall also pass our screening and review so as to avoid the circulation of wrong information or misleading customers due to printing problems.

Although the sales teams of the Group spread across China, the management of sales personnel, including recruitment, performance assessment, training and occupational safety are collectively handled and supervised by the Group's Head Office. This ensures that the related management personnel and frontier promotion personnel can receive necessary trainings, and all the sales personnel can reach the consistent professional level so as to provide customers with the best-quality services. Besides, all the sales personnel shall sign the Letter of Commitment for working according to laws and be committed to complying with national regulations as well as the regulations and rules of the Group in order to prohibit any violation of regulations regarding sales and promotion.

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PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

The Group has made frequent breakthroughs in innovative research and development of pharmaceuticals and production technique, so the protection of product patents and intellectual property rights has become a part that we can't ignore. In order to promote the Group's management of intellectual property rights, fully develop the benefits of patented commodities and assets, we have formed the patent-related management methods to standardize the patent application and maintenance work. The Group has established the department specialized in handling the matters regarding intellectual property rights, and responsible for handling the application and maintenance of patents and intellectual property rights, pressing the related units to stop, report and obtain evidence for the various infringement behaviors found, as well as coordinating with the government in cracking down infringement behaviors. The establishment of the related departments not only effectively protect the intellectual property rights of the products of the Group, the patent rewarding system of the Group also further stimulates the initiatives of research and development personnel and strengthens the Group's technological innovation and production.

While protecting the Group's own intellectual property rights, we never infringe the copyrights of the commodities of other individuals and enterprises. The Group owns the Chemical Research Institute, the Biological Research Institute and the Clinical Medical Department. The invented pharmaceuticals and production techniques are all independently developed and have obtained the patents for invention.



INFORMATION SECURITY CONSTRUCTION

Information security construction is an important method for the Group to protect its internal information and customer privacy. Leakage of enterprise confidential information or customer information would cause adverse effects and loss to the enterprise itself, customers and other stakeholders. Therefore, the Group has established a sound information management and privacy protection system to enable different parties to maintain confidence in the operation and service of the Group.



Information Management

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According to the related regulations of information management of the Group, all the information of the Group is classified into five categories by importance degree, including Top Secret, Confidential, Secret, Internal and Open. Different approval procedures are needed when accessing different categories of information. The use of different information, such as internal information, advertising and promotion information, medication instruction and after-sale service information, etc., is subject to the relevant regulations regarding the use of product information. The purpose and target of the use of information is subject to strict requirements and limitations under related systems, so as to prevent disclosure of wrong information.

Regarding employees, the Employee Confidentiality System implemented by the Group requires all the employees to bear confidentiality obligations on our business secrets such as technology information, operation information, etc., and shall not enable any third parties to know about our business secrets in form of disclosure, release or publishing. In order to further guarantee the interests of the stakeholders and us, all employees bear his/her confidentiality obligation for three years after resignation. On the other hand, while cooperating with suppliers, customers and other partners, the Group shall sign confidentiality agreement with them to ensure the information of both parties not to be disclosed, and the privacy rights not to be infringed.

Privacy Protection

In the process of business operation, the personnel of various departments under the Group are in contact with different personal information such as the information of customers, shareholders, employees and employment candidates. In order to regulate the management process of personal information of the Group, legally obtain and use personal information, protect the lawful rights and interests of information providers, as well as prevent the risks incurred from improper management of personal information, we have formed and strictly implemented relevant systems for personal information protection. The system has standardized the methods on collection, use, transmission and storage of personal information so as to ensure that relevant laws are not violated when handling personal information and avoid negative impacts brought to the stakeholders involved.





OPERATION WITH INTEGRITY

Honesty, law abiding and integrity are always the foundation of enterprises to develop. The Group has always been establishing the good style of operation with integrity and working with diligence and respect, holding the “Zero Tolerance” attitude towards illegal behaviors such as bribery, extortion, fraud and money laundering. Therefore, we strictly comply with the Criminal Law of the People's Republic of China, the Anti-unfair Competition Law of the People's Republic of China and other related laws and regulations, and at the same time formulate a relevant system on anti-malpractice and complaint reporting, for the purpose of preventing corrupt behaviors and reducing the operating risks of the Group.

Main Anti-malpractice Works of the Group

- Advocate honest and upright enterprise culture, create anti-malpractice enterprise culture and environment
- Evaluate malpractice risks and establish specific control procedures and mechanism
- Specify anti-malpractice work duties, organize the receiving, investigation, reporting and handling of anti-malpractice work



Targeting immoral and dishonest behaviors, employees or any partners of the Group may report through the reporting channels in form of real name or anonymity. The Group has arranged related departments to be responsible for organizing and implementing anti-malpractice work, including complaint-handling and malpractice-related matters. In order to enhance the deterrent effect, for any employee with malpractice behavior, the management shall impose corresponding internal economic and administrative disciplinary penalty no matter if it has reached the degree of criminal offense. In the Year, the Group was not involved in any cases of corruption litigation.

During cooperation with different business partners of the Group, both parties shall sign the anti-commercial bribery agreement to ensure the personnel at different levels of both parties observe professional ethics, work with integrity and comply with law, so as to jointly stop commercial bribery behaviors. For any cooperating partners that violate the agreement, the Group preserves the right to terminate the cooperation between the two parties, and include it into the blacklist of integrity, so as to protect the Group's reputation regarding integrity.

