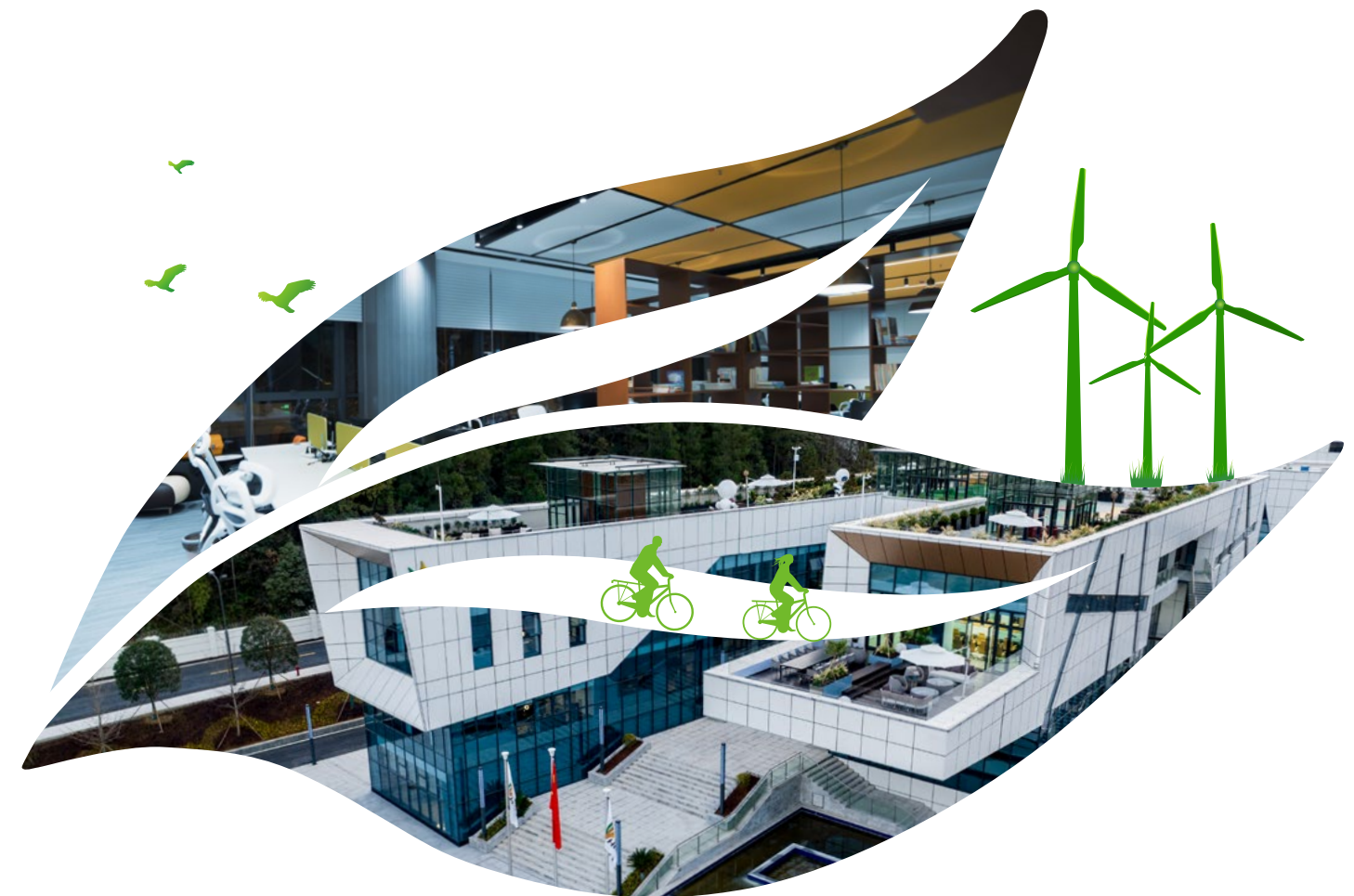


Environmental, Social and Governance (ESG) Report

2022

HARMONY with NATURE

PROMISE over TREASURE



Hubei Heno Biological Engineering Co., Ltd.



About the Report

Introduction

The report discloses the key performance of Heno Biological Engineering Co., Ltd on environmental, social and governance aspects for the year 2022, and Heno's achievements on environmental, social and corporate governance are presented to the society and stakeholders.

Report Scope

The report covers the results of the company's environmental, social and corporate governance efforts for the period from 1 January 2022 to 31 December 2022.

Basis of Compilation

The report is compiled in accordance with relevant documents such as the "GRI Standards" issued by the Global Reporting Initiative, "UN 2030 Agenda for Sustainable Development" and the "ISO 26000:2010 Guidance on Social Responsibility" issued by the ISO in the light of the company's actual situation.

Title

In this report, "Hubei Heno Biological Engineering Co., Ltd." is also referred to as "Heno", "the company" and "we".

Data Description

All data cited in this report are from official documents, statistical reports, and financial reports of Heno.

Availability

The report is published in electronic form which can be accessed by contacting the contact details on the Heno's official website.
(Website: Our Culture - Social Responsibility, <https://www.iheno.com/shzr/list.aspx>)"

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CHAIRMAN'S SPEECH

Take real action,
Dare to shoulder responsibilities,
Accelerating the construction of a
world-class enterprise.

CHAIRMAN



As heaven maintains vigor through movements, a gentleman should constantly strive for self-perfection. We have chosen one of the most challenging endeavors, along with the most meaningful path to growth. Currently, we are facing a historic opportunity to accelerate reform and development. This calls for our keen insight, unwavering commitment to innovation, and a spirit of relentless hard work, enabling us to embrace the bright future of the company.

Eleven years ago, with the simple aspiration to contribute to the green development of the western Hubei mountainous area, we focused on the recycling of tobacco waste and aimed to build a domestically first-class and internationally leading high-tech enterprise for comprehensive nicotine utilization. Over eleven years, through trials and tribulations, all members of Heno, with the spirit of "recognizing truth, letting go of ego, being resolute, and embracing setbacks", continuously explored and innovated. With their wisdom, diligence, and unyielding determination, they reaped one achievement after another. The company serves as a stage to showcase the value of life. All employees have united for a common ideal. We actively adjusted our corporate development strategy to adapt to the ever-changing social and market environment. We enhanced corporate management and employees' professional capabilities, striving to maximize value

for our customers and safeguard the interests of employees, suppliers, shareholders, and other groups to the fullest extent. The reputation and international influence of our products are continually improving, making us an enduring leader in the industry.

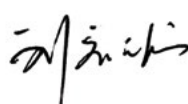
Only by enduring hardships and challenges greatness could be achieved. Being strong to showcase our capabilities! Every endeavor starts now! Start with ourselves! Building a high-rise begins with mounds of soil, and a thousand-mile journey starts with a single step. Where there's a will, there's a way. Heno's path of growth and innovation is a journey of dreams and accomplishments. We will persist in market-driven, quality-focused, and modern management approaches. With dedication, adaptability, unity, and a global perspective, we will further enhance our competitive edge to make Heno a leader in the global nicotine industry.

History's canvas unfurls as we persevere; the era's chapters are penned through ongoing efforts. In this new phase, we'll grasp our developmental context, prioritize high-quality progress, bolster core competitiveness, and channel resolve spirit. We surge forward, synchronizing with time and history, and propelling towards our aspiration of global excellence in the nicotine niche industry. The tale of Heno's pride and dreams persists.

GENERAL MANAGER'S SPEECH

Glimmering light becomes the torch,
Walking together with one heart,
Making a significant contribution to
advancing green development.

MANAGER



Time inscribes the scale of progress, while the years lay out the chapters of our dreams. In the past year, the world has not yet escaped the uncertainties of the ongoing COVID-19 pandemic and has faced increasingly severe disasters caused by extreme weather events. People are forced to confront the threat of environmental issues. Not only governments around the world have proposed various strategies, and China has committed to carbon reduction to achieve the goals of 2030 Carbon Peaking by 2030/Carbon Neutrality by 2060 ("Dual Carbon"), but also specific policies and implementation standards will soon be introduced. These changes have not only turned ESG into criteria for investment decisions but have also made it a key element in sustainable business development.

Determination is the coordination of the dream of transformation. Heno regards ESG as a crucial mission in its corporate operations and consistently adheres to high regulatory standards. We are dedicated to building a sustainable, healthy, and leading global enterprise in the comprehensive utilization of nicotine. In practice, we follow the four strategic directions of Low Carbon Mission, Circular Regeneration, Social Inclusion, and Value Co-creation". We focus on industry specifics, considering the policies of the countries and regions where we operate, to implement environmental protection and carbon reduction actions, create a safe workplace environment, establish sustainable partnerships with stakeholders, and accelerate value chain growth through collaborative innovation while promoting social development.

In this era of unprecedented change, every industry faces new transformations and challenges. To seize development opportunities, one must keep pace with the times and constantly innovate. In recent years, the concepts of sustainability and ESG have become a proactive choice and important initiative in promoting high-quality development in China. The company undertakes its first ESG disclosure to adapt to the ever-changing social and market environment. We aim to establish transparent communication channels with external stakeholders, strengthen internal mission communication, systematically improve various management policies, enhance the company's sustainable development value, and contribute to the long-term coexistence and prosperity of the earth and humanity.

The past is but a prelude; looking to the future, we are filled with enthusiasm. Embarking on a new journey, we will continue to prioritize the reduction of nicotine harm, focus on product innovation and development, aim to meet market demands and maintain our unwavering spirit of reform and innovation. We will carve out new territory in the face of challenges to establish a new model during our transformation and development, becoming a first-class enterprise that customers trust, employees take pride in, and society respects.

About Heno

Company Profile



As a national tobacco production base, Enshi Prefecture is one of the few regions in China with a complete tobacco industry chain. Since 2011, Hubei Heno Biological Engineering Co., Ltd. has been dedicated to R&D of tobacco waste recycling projects. The company obtained the Tobacco Monopoly Manufacturer License issued by the State Tobacco Monopoly Administration on 10 June 2022, which is permitted to engage in the production of natural nicotine. As of today, the company's total assets amount to total 314 million RMB.

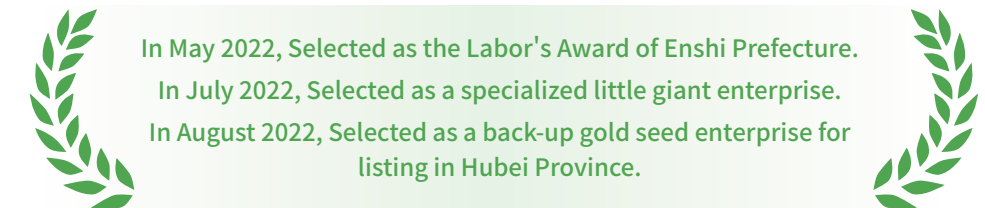
Since its foundation, the company has been focusing on the recycling of tobacco waste and has achieved certain advantages in nicotine production, technical reserves, and brand construction. Currently, the company holds a leading position in the domestic nicotine market segment. The company has been awarded as a "Little Giant" of National Specialized, Refined, Differential, Innovative (SRDI) enterprise that produces new and unique products, as well as a provincial scientific and technological Little Giant, Hidden Champion, Gazelle Company as well as a Backup Gold Seed Enterprise for Listing. The company currently possesses 13 invention patents, 56 utility model patents, and 13 registered technological achievements at the Department of Science and Technology of Hubei Province. The gap in global natural nicotine production, processing, and technical control has been filled by the provincial local standard which is applied and obtained by the company. In addition, two provincial R&D innovation platforms have also been established by the company, and the declaration of GMP APIs is underway.

Since 2018, the company has actively seized the opportunity to acquire more than 110 acres of land in the chemical zone of Baiyangping Industrial Park in Enshi, investing about 350 million RMB according to the requirements for the work of "closing, reforming, relocating, and transferring" of the chemical enterprises in Enshi Prefecture and the whole province, and built the first domestic and international leading tobacco waste engineering disposal center by smart, safe, environmental and green standards. At present, the relevant construction work has been mostly completed, the center has officially started production, supplying to the market. It is expected that the production capacity will be fully released by the company within 3 years, striving to realize an annual output value of 2 - 2.5 billion RMB in 2025, pay more than 200 million RMB in annual taxes, and generate foreign exchange of about 100 million USD or more.

In the future, the company aims to transform Enshi into a demonstration zone for "Two Mountains" practical innovation. Through active expansion into overseas markets, in-depth research into the biomedical application of nicotine, and the promotion of nicotine's use in the national defense industry, the company aspires to become a domestic first-class and globally leading high-tech enterprise specializing in comprehensive nicotine utilization, continuously advancing towards higher-quality development.

Company Honor

2022



Honorary Awards of the Company in the Past years



October 2021

Awarded "Gazelle Company" in Hubei Province



December 2021

Awarded The SRDI "Little Giant" Enterprise in Hubei Province



April 2022

Awarded the "Labor's Award of Enshi Prefecture"



July 2022

Awarded The National SRDI "Little Giant" Enterprise



October 2022

Awarded The Enterprise of "Contract Fulfillment and Credit First" in Hubei Province

Stakeholders Engagement







To improve environmental, social, and governance management practices, Heno conducted its first materiality assessment in 2022. A total of 27 material issues have been identified by analyzing macro trends, reporting standards, and peer-focused topics. At the same time, internal and external stakeholders such as employees, suppliers, and customers were invited to participate in a questionnaire survey to gain deeper insights into their varying levels of concern regarding different issues.

Based on the comprehensive analysis of the survey results on the importance of environment, social and corporate governance, a matrix of materiality issues has been drawn up, with "importance of impact on external stakeholders" and "influence on internal stakeholder assessment and decision-making". These results allow us to determine the key disclosure content of this report and provide a basis for the follow-up work on sustainable development.

| E | S | G |
|---|---|--|
| 1 Water Resources 2 Greenhouse Gas Emissions 3 Environmental R&I Trading 4 Waste Gas Management 5 Energy Management 6 Waste Management 7 Green Packaging 8 Biodiversity 9 Climate Risk Management 10 Environmental Investment and Governance | 11 Respect Human Rights 12 Employee Compensation and Benefits 13 OHS Management 14 Supply Chain Management 15 Responsible Marketing 16 Employee Training and Development 17 Privacy Protection 18 Community Development 19 Charity Activities | 20 Board Structure 21 Compensation Management 22 Risk Management 23 Anti-Corruption 24 Compliance Management 25 Fair Competition 26 Tax Management 27 R&D |

Materiality Matrix



| Stakeholders | Issue of Concern | Communication Channel |
|--|---|--|
| <div>  Governments and Regulators </div> | Response on Government Strategy Anti-Corruption Fair Competition | Government Meeting Mail Correspondence Reports and Surveys |
| <div>  Shareholders </div> | Information Disclosure Corporate Value | Regular Reports and Announcements |
| <div>  Investors </div> | Performance Return Information Disclosure Sustainable Investment | Informal Communication and Consultation |
| <div>  Employees </div> | Compensation and Benefits Health and Safety Development and Training | Leapfrog Reporting System Employee Care and Welfare Activities Training and Development System |
| <div>  Partners </div> | Integrity Cooperation Adherence to Business Ethics Win-Win Cooperation Supplier Management Governance Strategy and Process Management | Cooperation Agreement Contract Performance Daily Visit |
| <div>  The Public </div> | Charity Community Development | Social Welfare Activities Participation Non-Profit Organization |

ENVIRONMENTAL MANAGEMENT



Heno adheres to the concept of green and sustainable development, enhancing internal environmental management, and strictly following the ISO 14001 environmental management system, and strives to improve the performance of resource consumption, pollution prevention and climate change. We are committed to reducing resource consumption, promoting the recycling of water resources, while ensuring the discharge and recycling of waste gas, wastewater and solid waste, and actively taking measures to address climate change. We will continue to promote the company's low-carbon transformation, decrease greenhouse gas emissions, and integrate climate change risks into our overall risk management system to ensure sustainable development and long-term benefits for the company."

Total annual oil consumption

13.81 tons

Total annual power consumption

61.79 10,000 kWh

Annual office power consumption

12.40 10,000 kWh

Total annual weight of raw materials purchased

605 tons



Annual natural gas consumption

22.60 10,000 cubic meters

Environment System

Heno is committed to green and sustainable development and strives to enhance the implementation capabilities of internal environmental systems across various aspects. When it comes to green and sustainable operations, the company maintains strict process management and engages in waste recycling. It converts waste residue into organic fertilizer for field application, thereby achieving efficient resource recycling. For environmental safety management, the company has established an Environmental Safety Department responsible for monitoring wastewater treatment, controlling workshop wastewater emissions, and coordinating emergency emissions resulting from production abnormalities. In terms of the environmental management system, the company aims to achieve ISO 14001 system certification by January 2024, ensuring continuous improvement and efficient implementation of environmental management practices.

Green Business Commitments

The company adheres to strict process management, continuously monitors various aspects including procurement, production, storage, and sales, and implements graded control over environmental risks to ensure the rational use of resources and reduce the total emissions of pollutants. The company also strictly adheres to national laws and regulations, actively practices a low-carbon economy and green development, and focuses on prevention, combining it with treatment to create a green, environmentally friendly, and energy-saving Heno chemical industry.

🕒 Recycling of Tobacco Waste

Through the comprehensive utilization of tobacco waste, the company extracts natural nicotine and produces organic fertilizer from the waste residue left after extraction, which is then returned to the fields. By extending the modern tobacco industry chain and avoiding the waste of resources and ecological pollution associated with landfill or waste incineration, the company has achieved high-efficiency recycling and zero emissions throughout the entire process.

Responsibilities of Environmental Safety Management Department

The company has established an environmental safety protection leadership group and a dedicated environmental safety management department. This department is responsible for implementing the annual wastewater monitoring plan, proposing corresponding corrective actions for non-conformities, coordinating the production activities in each workshop to ensure the smooth operation of production equipment, identifying, updating, and managing the environmental factors related to wastewater discharges within the workshop, and ensuring that the discharged wastewater meets the required standards.

Certification and Training of Environmental Management System

The company implements the ISO 14001 environmental management system, integrating the concept of "green and sustainable development" into the practical work of every employee.



Training of environmental management system

Resource Consumption

Heno is committed to reducing resource consumption by minimizing the use of production resources in three main areas: water, energy and materials. To this end, the company has adopted a series of measures, including the introduction of a wastewater recycling program and other improvements, to increase the comprehensive utilization of water. Natural nicotine extracted from environmentally treated waste was selected for use as raw material and packaging material. At the same time, we treat wastewater in an environmentally friendly manner, ensuring the discharged wastewater can meet with national, industry, and local control standards and be used for fermentation of raw materials to achieve the goal of reducing resource consumption.

Water Resource Management

The company launched the *Wastewater Recycling Program* in 2022 to increase the unit output value of water resources and reduce water consumption. We actively promotes the concept of water conservation and places water-saving slogans in different areas of the office to increase employee's awareness of water conservation.



Action for water saving promotion ▶

Energy Management

The company strictly adheres to laws and regulations such as the *Law of the People's Republic of China on Energy Conservation* and has formulated internal energy management procedures to adopt multiple measures to strengthen energy management and comprehensively enhance energy utilization efficiency. During the reporting period, the annual office electricity consumption and the annual total electricity consumption were **124,000** and **617,900** kWh respectively, marking a YoY decrease of **23%** and **24%** in 2021. The company's annual total petroleum consumption was 13.81 tons, reflecting a 15% YoY increase in 2021. In the future, The EnMS (Energy Management System) will be further established to strengthen the level of energy information management.

Use of Raw Materials

The company utilizes tobacco waste and employs production techniques involving separation, concentration, and extraction processes to gradually extract natural nicotine, which is then recycled and reused. This approach not only conserves tobacco leaf consumption but also enhances the utilization efficiency of raw materials.

In terms of packaging materials, the concept of green packaging is actively promoted by the company and ensures that packaging materials strictly adhere to relevant legal requirements. By optimizing packaging layout design and reducing ink usage, the company progressively adopts ink printing solutions without mineral oils. Additionally, while maintaining packaging protective performance, the company further expands the utilization of recycled paper in product packaging materials, reducing the consumption of scarce forest resources and pollution emissions from the pulping process.

Pollution Prevention and Control

Heno is committed to reducing pollution emissions from wastewater, exhaust gas, and solid waste in order to achieve environmental protection and emission reduction goals in the production process. To achieve this, the company recycles production wastewater, and uses discharged wastewater in the basis of quality control for raw material fermentation, thus effectively reducing wastewater emissions. The company conducts supervision and testing of exhaust gas treatment, continuously maintains exhaust gas treatment facilities, and strengthens facility operation management to ensure that exhaust gas emissions comply with environmental standards. Additionally, the company emphasizes the rational control of solid waste disposal and resource reuse. It collaborates with professionally qualified renewable resource recycling companies to participate in solid waste tendering for recycling, promoting the resourceful use of solid waste and effectively reducing solid waste emissions.

Prevention and Control of Wastewater

The company strictly adheres to laws and regulations such as the *Law of the People's Republic of China on Prevention and Control of Water Pollution* and standardizes the wastewater treatment process. The company regularly conducts testing and maintenance of the wastewater treatment plant, and commissions third-party organizations to perform wastewater testing. After treatment, the production and domestic wastewater that meets the pollution discharge standard GB 18918-2002 Level A for urban wastewater treatment plants are subject to on-site sampling and quality inspection reports to ensure the compliance and high quality of wastewater treatment.

The company establishes a comprehensive initial rainwater collection system and implements measures for rainwater and sewage diversion. After initial rainwater and other wastewater entering the wastewater treatment station, part of the wastewater will be reused for production through the pre-treatment of high salt wastewater with a multi-stage process. The other part of the wastewater that meets the requirements of the *Discharge Standards of Water Pollutants for Pharmaceutical Industry Extraction Products Category* (GB 21905-2008) will be discharged to the wastewater treatment plant in the park on an intermittent basis.

★ During the reporting period

Our wastewater reuse rate is 80%,wastewater discharge compliance rate is 100%.

Waste Gas Treatment

The company strictly adheres to environmental protection laws and regulations such as the *Atmospheric Pollution Prevention and Control Law of the People's Republic of China*, conducting regular supervision and testing of exhaust gases. The company's exhaust gas emission compliance rate during the reporting period was 100%, and the main sources of emission include organic volatile gases, ammonia and nitrogen oxides emitted from natural gas combustion in production workshops. The company continuously maintains exhaust gas treatment facilities, and strengthens facility operation management to ensure efficient operation of pollution prevention facilities.

The company establishes 2 additional meteorological and environmental automatic monitoring stations to continuously monitor the ambient air quality within the factory boundaries. The monitored factors include VOCs, HCL, PM2.5, PM10, SO2, NO2, HS, and NH3. Meanwhile, it can measure 5 meteorological parameters including wind speed, wind direction, atmospheric pressure, temperature, and humidity. Furthermore, an additional fully automated centralized control system has been set up.

★ During the reporting period

Our exhaust gas emission compliance rate is 100%

Management of Solid Wastes

The company strictly regulates the separate collection and disposal process of hazardous and non-hazardous waste in accordance with the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes* and other relevant laws and regulations. Multiple measures for waste reduction, resource utilization, and harmlessness have been implemented throughout the production process. The company exercises comprehensive control over the entire lifecycle of waste, including its generation, storage, and disposal. For solid waste generated during the production process, the

company collaborates with qualified recycling companies through competitive bidding for recovery. Additionally, the company cooperates with a number of units with hazardous waste disposal qualifications to ensure that all types of hazardous waste are disposed of in compliance

☉ Reuse of Waste Materials

The company organizes and collects the tobacco residues generated in the production process, transporting them to third-party collaborating institutions. Through recycling processes, these residues are transformed into organic fertilizer, achieves a 100% recycling and reuse of waste materials.



Climate Changes

Heno is committed to mitigating global climate change, addressing the impacts of global warming in areas such as greenhouse gas emissions and climate risk management. The company further strengthens climate risk management within comprehensive management, including formulating ERP for various climate-related disasters to cope with potential catastrophic events. Additionally, the company takes a series of measures to reduce greenhouse gas emissions, such as adopting energy-saving technologies and equipments to enhance the utilization of renewable energy sources.

Greenhouse Gas Emissions

The proposal of the "3060" dual carbon target provides the company with significant direction and guidance in addressing climate change. In response to the national call for energy conservation and emission reduction, the company is accelerating its efforts towards green transformation, conducting comprehensive assessment and monitoring of its own carbon emissions. In the future, the company will take a series of measures to reduce its own greenhouse gas emissions:

- 1 Enhance environmental management, enforce environmental protection laws and equipments, establish a comprehensive environmental monitoring system to prevent pollution and the emission of greenhouse gases.
- 2 Improve energy utilization efficiency by adopting energy-saving technologies and equipment, maximizing energy utilization, and reducing energy waste and greenhouse gas emissions to the greatest extent.
- 3 Attempt to change the energy structure by increasing the utilization of renewable energy sources such as solar energy, wind energy, etc., effectively reducing the emissions of greenhouse gases.

Climate Risk Management

The company attaches great importance to climate risk identification and has established a Safety Risk Assessment Team. Led by the Chairman of the Board, the team comprehensively identifies various risks in the area of safety production. In response to natural disasters such as snow and ice, high temperatures, heavy rainfall, landslides, and lightning, the company actively takes preventive measures and formulates response measures and emergency plans. The company issues periodic seasonal disaster warnings to enhance employees' awareness of prevention, ensuring that the transportation of raw materials, equipment operation, and employee positions will not be affected by seasonal disasters during the production process.

SOCIAL RESPONSIBILITY



Heno strictly complies with *Labor Law of the People's Republic of China* and *Labor Contract Law of the People's Republic of China*, considering respect for human rights as the foundation of the company. The company is committed to establishing a diverse workforce, promoting mutual recognition and respect among employees from different backgrounds. A compensation system aligned with the strategic development has been established, adhering to the principle of equality in providing labor compensation. Paid leave and a comprehensive welfare system has also been provided. The company values employees' career development, devising annual training plans, offering various training courses, establishing promotion mechanisms, and providing incentives and growth opportunities. Based on this foundation, the company actively fulfills its social responsibilities, creating a favorable working environment and welfare guarantee for employees and society. At the same time, the company takes multiple measures and actively participates in local community development, providing comprehensive support for the steady progress of rural revitalization through activities such as charitable donations.

Number of OHS training held

19 times

Total external donations

150 or more RMB 10,000

Average training hours for employees

88 hours

Number of OHS accidents

0 times

Company's investment in OHS system

67.84 RMB 10,000

Number of villages benefiting from the company's rural revitalization

8 villages

Respect for Human Rights

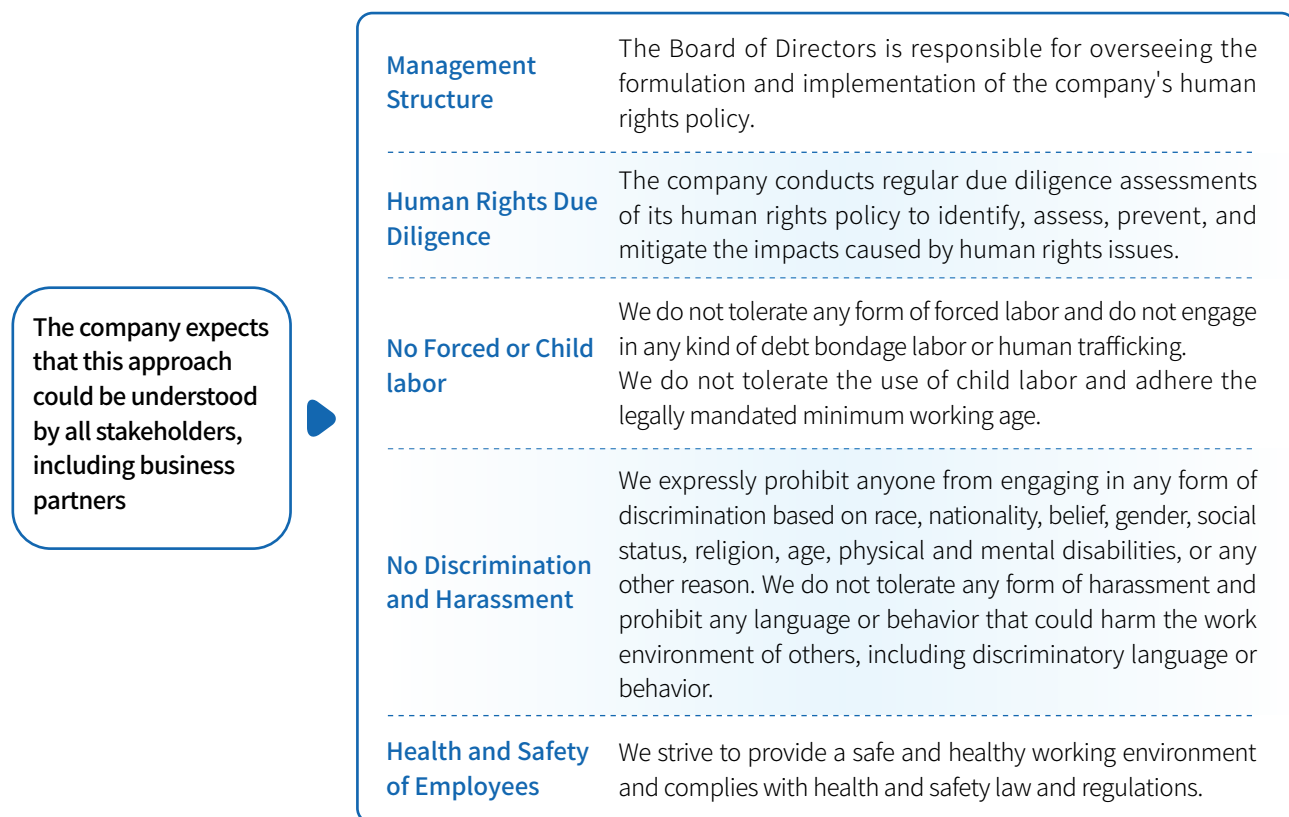
Heno operates in multiple regions, strictly abides by laws and regulations such as the Labor Law of the *People's Republic of China* and the *Labor Contract Law of the People's Republic of China*, and regards them as the foundation for the company's future sustainable development management. The company emphasizes the human rights in its code of conduct and developed a human rights strategy in 2022 to clarify the company's human rights policy, which has been reviewed by the company's board of directors.

Human Rights Approach

In line with the company's sustainable development strategy and human rights policy, the company strives to uphold human rights in its business activities across various regions. Furthermore, the company expects all stakeholders, including business partners, to understand and commit to this policy, working together to promote the respect for human rights.

Human Right Management

The following human rights approach is established in accordance with the company's sustainable development strategy..

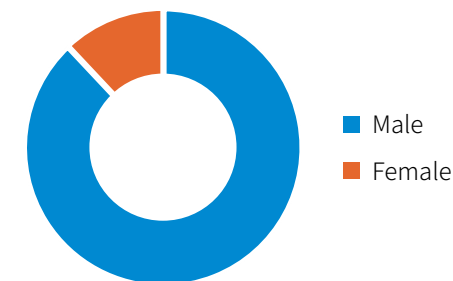


Diversification

The company is committed to ensuring that every member of its diverse employee workforce, regardless of their job function or gender, could be recognized, respected, and encouraged to motivate each other, thus fully unleashing the potential of every member and bringing innovation and value to the company's business.

Gender Distribution of Male and Female Employees in 2022

During the reporting period, the company had a total of 98 permanent employees. When divided by gender, male employees accounted for 88% of the total, while female employees accounted for 12%.

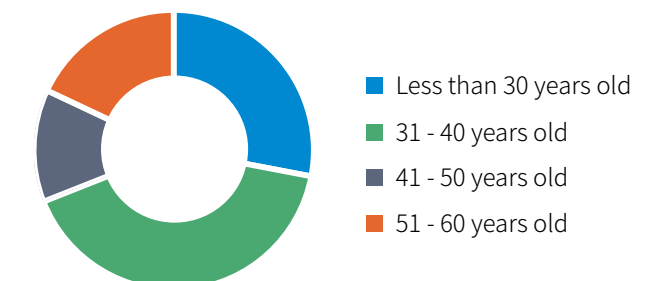


★ During the reporting period

The total number of employees is **94**, with an employee turnover rate of **3.1%**.

Age Distribution Proportion of the Company in 2022

During the reporting period, the proportion of employees under 30 years old was 28%, while the proportion of employees aged 31-40 years old was the highest, reaching 41%, with the overall age of the employees inclined to be younger.



Equality

In order to standardize employee compensation management and establish a compensation system aligned with the company's strategic development, the company formulates an employee compensation incentive system based on actual circumstances. It continually enhances the compensation management system and constructs an incentive and constraint mechanism that is guided by strategy, centered on performance and capability, and based on market orientation and professionalism. This mechanism provides employees with compensation that is higher than the local income level and possesses fairness, competitiveness, and motivation. The company strictly adheres to *Article 46 of the Labor Law of the People's Republic of China*. For employees with similar levels of technical skills and labor proficiency engaged in the same type of work, regardless of gender, age, ethnicity, or region, the company provides equal remuneration for equal work.

★ During the reporting period

We achieved a **100%** participation rate in the social insurance and housing fund programs, attained a **100%** parity in basic wages and remuneration between male and female employees.

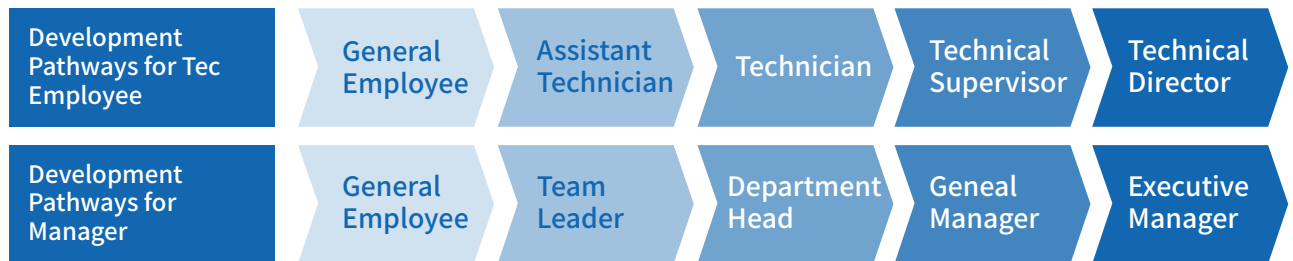
Employee Training and Development

Heno attaches great importance to the construction of its talent pool, and is committed to facilitating career development pathways, refining talent cultivation systems, and implementing vocational skill training mechanisms. These efforts are aimed at fostering the growth and development of talents, thereby providing robust human resource support for the company's sustainable development.

In order to continuously refine the company's talent strategy mechanisms, ensure sustainable talent development, and overcome barriers to talent progression, the company establishes an annual training plan. This plan encompasses multiple training courses, including safety education, three-level safety induction training for new employees, occupational health knowledge, operational skills, Customs AEO advanced certification, information security, job-specific skills and procedures, party-building training, and comprehensive emergency drills. The implementation and supervision of these courses are the responsibilities of the company's Human Resources Department, in accordance with the company's training management system.

| Training Sessions (number) | Training Hours (hours) | Number of Participants (total participation) |
|----------------------------|------------------------|--|
| 22 | 88 | 1826 |

In addition, the company establishes a systematic promotion mechanism to provide employees with effective incentives and growth opportunities, ensuring the foundational quality for the company's development. In the future, the company will continue to dedicate itself to talent cultivation and development, continuously refining training plans and promotion mechanisms to meet employees' needs, enhance their skill levels, and make a positive contribution to the company's sustainable and high-quality development.



Schematic Diagram of Employee Promotion

Employee Benefits and Security

Heno strictly adheres to *the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Paid Annual Leave Regulations on Employees, the Hubei Province Population and Family Planning Regulations, and the Special Provisions for the Labor Protection of Female Employees*. Eligible employees are allowed to fully exercise their paid leave entitlements, such as marriage leave, maternity leave, and caregiving leave. Currently, the average number of paid leave days per employee in the company is significantly higher than the market average.

Welfare and Security

The company emphasizes humanistic care, and establishes a perfect system of welfare protection to provide employees with rich and diverse welfare protection. In addition to providing free accommodation and food for employees in need, the company regularly carries out welfare activities through the trade union organization, continuously promotes corporate culture and employee culture construction and vigorously carries forward the spirit of enterprise. At the same time, mass cultural and sports activities are widely carried out by the company, and activities such as Party building, team building, and domestic & overseas travel are organized and carried out at the right time, and the spare time of the employee is enriched in the spare time of work, to promote the combination of work and leisure.

The company highly values employees' health. It achieves this by actively conducting regular medical examinations, enhancing the development of employee well-being centers, conducting employee mental health training, and establishing an all-encompassing employee counseling platform, all of which contribute to the comprehensive care of employees' physical and mental well-being.



Employee basketball tournament



Employee travel activity

Special Care for Female Employees

The company has always been committed to paying attention to female employees' equal rights and interests, promoting humane management and respecting the equal status of male and female employees. For pregnant female employees, the company provides prenatal examination and breastfeeding leave, and actively assists in applying for maternity allowance. The company organizes annual health check-ups, paying special attention to gynecological examinations for female employees, and invites medical experts to provide health advice and interpret physical examination reports. The company will continue to work hard to create a better workplace environment for female employees and constantly improve management and welfare measures.

Employee Satisfaction Survey

The company conducts employee satisfaction survey annually, with a questionnaire response rate of 96%, covering all departments within the company. The survey primarily evaluates opinions on company management, individual job satisfaction, expectations for the company's future, as well as feedback and suggestions for the company. Guided by employee feedback, the company will further enhance training and development plans to meet the needs and expectations of employees.

★ During the reporting period

The satisfactory result of our employee survey was **97%**.

Protection of Health and Safety

Heno believes that ensuring employee health is fundamental to the company's development. The company continually enhances its occupational health management system, strengthens safety production responsibilities, and creates a safe and healthy working environment for employees and society.

OHS Management



The company places great importance on occupational health management and is committed to continually improving related systems. The company has established the Occupational Health Leadership Group and Occupational Disease Prevention and Control Management Office. Based on the company's actual situation, thirteen occupational health management systems have been formulated. The company completes the *Occupational Disease Hazard Pre-evaluation Report, Occupational Disease Protection Facility Design Report and Pre-evaluation of Occupational Disease Hazard Factors* based on the principle of "Occupational Hygiene Three Simultaneous", and continuously improves the working environment of the employees to protect the employees' health and safety.

★ During the reporting period

We achieved the goal of '**0 accidents**' and '**0 fatalities**'.

OHS Measures

The company focuses on preventing occupational diseases and work-related injury risks by establishing a sound system for occupational disease prevention and injury protection. The company conducts regular safety inspections and assessments to ensure workplace safety and hygiene conditions, while also providing necessary personal protective equipment and facilities.

- 
We conduct pre-employment medical examinations for all employees, includes occupational health training courses in employee orientation and training, and provides employees with the *Notice on Occupational Hazard Factors*.
- 
We strictly organize employees to undergo annual on-the-job occupational health examinations as stipulated, and communicate the examination results to employees for their information and review.

- Employees receive a minimum of four annual training sessions on occupational health knowledge, with subsequent assessments.
- We set up occupational health information boards and notice boards at the entrance of the production area, and placed informative cards in each workstation or workshop, specifying occupational hazard factors and protective measures.
- We regularly provide employees with personal protective equipment in accordance with labor protection requirements, and oversee that employees wear them correctly as stipulated.

🕒 Safety Education and Training



In 2022, we organized a total of 19 safety education and training sessions, covering topics such as safety education of work resumption, occupational health and well-being, epidemic prevention and control, security management, hazardous chemical operation management, job-specific operational skills, fire safety training, and comprehensive emergency drills.

Contributing to a Harmonious Society

Since its establishment, Heno has been committed to stable operation and promoting development, while adhering to the guidance of Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era. The company diligently implements the arrangements and deployments made by the Central Party Committee for the comprehensive promotion of rural revitalization, taking multiple measures to contribute to the steady progress of rural revitalization efforts. The company considers social responsibility as a commitment to achieving comprehensive and sustainable economic development. It consistently focuses on and participates in public welfare undertakings, actively contributing to the betterment of society.

Charity Donation

In order to promote the spirit of charity and comprehensively enhance the development level of charitable undertakings in our city, as the Executive Director of the Fifth Session of the Enshi Charity Federation, the company earnestly implements the requirements of the Party Committee, government, and Charity Federation regarding charitable undertakings. The company actively participates in public welfare and charitable endeavors, fulfilling its social responsibilities.

★ During the reporting period

We donated more than **1.5 million** yuan in funds and goods to external parties with **14** employee volunteers.

🕒 Donation Ceremony for Assisting Rural Revitalization of Chashanhe Village

In June 2022, a donation of 20,000 yuan was made to Chashanhe Village, contributing to accelerating the achievement of the goal of common prosperity.



Rural Revitalization

Throughout its developmental journey, the company fulfills its social responsibility by engaging in one-on-one paired assistance and effectively advancing local assistance initiatives. During the reporting period, the company provided planting guidance to the assisted parties and encouraged the expansion of cultivation through measures such as gifting selfdeveloped microbial selenium organic fertilizers. Furthermore, the company collaborated with the Enshi Prefecture Agricultural Research Institute to offer technical support to the rice industry in villages such as Shengjiaba and Hongtu.

🕒 Donation of Organic Fertilizer in the Townships



In 2022, we conducted organic fertilizer donation activities in townships such as Shengjiaba, Hongtu, Tunbao, and Bajiao, donating a total of 800 tons of bio-organic fertilizer, with a fertilizer value of over 1 million yuan.

Epidemic Prevention and Control



All party members and employees of the company carried out emergency actions, aiding in the construction of makeshift hospitals. And organization of construction personnel and machinery swiftly in response to the call from the municipal epidemic prevention command, actively engaging in the anti-epidemic efforts. We participated in the construction of makeshift hospitals, and donated anti-epidemic supplies worth of 360,000 yuan including masks and protective suits, fully supporting frontline prevention and control.

RESPONSIBLE SUPPLY CHAIN



Heno adheres to the business philosophy of "mutual benefits and win-win," consistently prioritizing "market, customers, and projects." We continuously enhance our value in self-marketing, brand marketing, precision marketing, and data-driven marketing. Through customer management strategies and a focus on innovative marketing models, the company consistently improves its market share and gains customer recognition.

Total number of suppliers

12 amount

Number of potential suppliers rejected due to non-compliance

2 piece

Percentage of suppliers deciding to terminate the relationship after assessment

10 %

Number of participating suppliers of ESG training

7 amount

Number of supplier trainings

2 times

Coverage of supplier training related to ESG or Sustainability topics

58 %

Responsible Supply Chain

Heno adheres to the management principles of "legal compliance, standardized unity, information guidance, and efficient collaboration", upholding the fundamental principles of "fair opportunity, righteous process, and transparent outcomes" in the pursuit of establishing a responsible supply chain. The company establishes an eco-friendly supply chain system suited for sustainable development. As a participant in the national supply chain, the company recognizes the need to address human rights and environmental issues not only internally but also throughout the entire supply chain. To achieve this, the company formulates and shared the "Sustainable Supply Chain Policy" and "Supplier Cooperation Policy" with its suppliers. Meanwhile, the company places legal compliance as its foremost guideline, rigorously adhering to relevant laws and regulations in supply chain management, upholding business ethics and compliance, continuously enhancing communication with stakeholders, as well as promoting and ensuring the sustainable development of the supply chain.

Responsible Procurement

Heno will work with suppliers and other business partners to realize a sustainable supply chain in accordance with the company's sustainability policy.

Heno expects business partners to understand and adhere to the following principles:

- A** Ensure compliance with relevant laws and regulations, maintain transparency and fairness, prevent corruption, and conduct transactions in a compliant manner.
- B** Zero tolerance for forced labor or any form of modern slavery, including bonded labor or human trafficking.
- C** Zero tolerance for child labor and compliance with the minimum working age as stipulated by law.
- D** Any form of discrimination in employment is prohibited.
- E** Zero tolerance for any form of harassment, whether it's physical or mental.
- F** Manage employees' working hours, leave, and wages properly in accordance with applicable laws and regulations.
- G** Ensure the health and safety of employees in the workplace.
- H** Conserve water resources and enhance water resource utilization efficiency.
- I** Committed to reducing hazardous waste and pollutants, properly disposing of them, and minimizing air, water, and soil pollution.
- J** Advocate for the use of sustainable resources, enhance resource and energy efficiency, and reduce waste.

Supplier Management

The company consistently enhances its supplier management mechanisms, formulating documents such as the *Supplier Management Regulations*. Adhering to the principles of "fairness, impartiality, and transparency," the company conducts timely assessments and evaluations of suppliers, and engages in regular mutual visits and maintenance to uphold positive supplier relationships. Moreover, the company mandates that suppliers comply with relevant green policies during procurement, possess green management systems, and commit to fulfilling environmental protection responsibilities.

1 Supplier Admission

Different evaluation methods are employed for suppliers of different categories. After passing the evaluation, they will be included in the list of qualified suppliers. Qualified suppliers will undergo evaluations at least once a year.

2 Supplier Evaluation

An internal qualified supplier file is made for the supplier department to uniformly archive, maintain and continue to track and register. We regularly evaluate supplier quality, performance rate, cooperation, etc., classify A, B, C, and D grades based on the evaluation results, and formulate incentive plans to increase the supply allocation ratio for outstanding suppliers.

3 Supplier assessment level

| Level | Score | Comparable level | Table of rewards and punishments |
|-------|----------|------------------|---|
| A | 90 | Impeccable | Increase procurement as appropriate and give priority to signing procurement contracts. |
| B | 70-89 | No major issues | Procurement strategy remains unchanged. |
| C | 60-69 | Minor issues | Require rectification for deficiencies and explore alternative suppliers, and consider reducing the purchase quantity accordingly. |
| D | Below 60 | Serious issues | Initiate a corrective improvement plan and reevaluate after 30 days. If the standards still cannot be met, the cooperation between both parties will be terminated. |

4 Supplier Exit

Unqualified suppliers will be included in the Restricted Supplier List. For suppliers suspected of fraud, intentionally concealing defects to provide substandard products, engaging in other irregular operations, or for those who violate customs laws and regulations, the cooperative relationship will be terminated, and relevant legal responsibilities will be pursued.

★ During the reporting period

2 of our suppliers have their cooperation terminated due to potential issues.

Supplier Training

To enhance the awareness of our procurement officers and suppliers regarding the company's sustainable supply chain policies and management measures, we organized 2 online training courses on supply chain ESG requirements during the reporting period. These courses systematically covered topics such as the company's sustainable supply chain policy, measures for reducing environmental impacts, ethical business conduct, and safeguarding employee rights. The company plans to continue providing regular training for participating suppliers and employees in the next reporting period and aims to achieve a 100% supplier participation rate to further enhance the sustainability of the company's supply chain.

CORPORAT GOVERNANCE



Heno adheres to a governance philosophy of sustainable development, continuously reinforcing sustainable governance in aspects such as board structure, risk control, corporate compliance, Party branch construction, and research & innovation. In terms of board governance, the company establishes a diversified board organizational structure, with ethnic minority representation reaching 40% on the board. For risk control, a "triple line of defense" risk control architecture has been established, and the utilization of 5G digital factories enhances the company's risk prevention capabilities. Regarding corporate compliance, the company has implemented comprehensive anti-corruption and anti-commercial bribery systems to ensure lawful operations. Meanwhile, the company is committed to a research and innovation-driven development strategy, upholding innovative ideas and actively advancing the development of intellectual property management.

Number of non-executive directors

1 persons

R&D investment

684 RMB 10,000

Number of executive directors

4 persons

Board of Directors attendance rate

100 %

Number of studies and trainings on party building, party committees and central groups

12 times

Number of independent directors

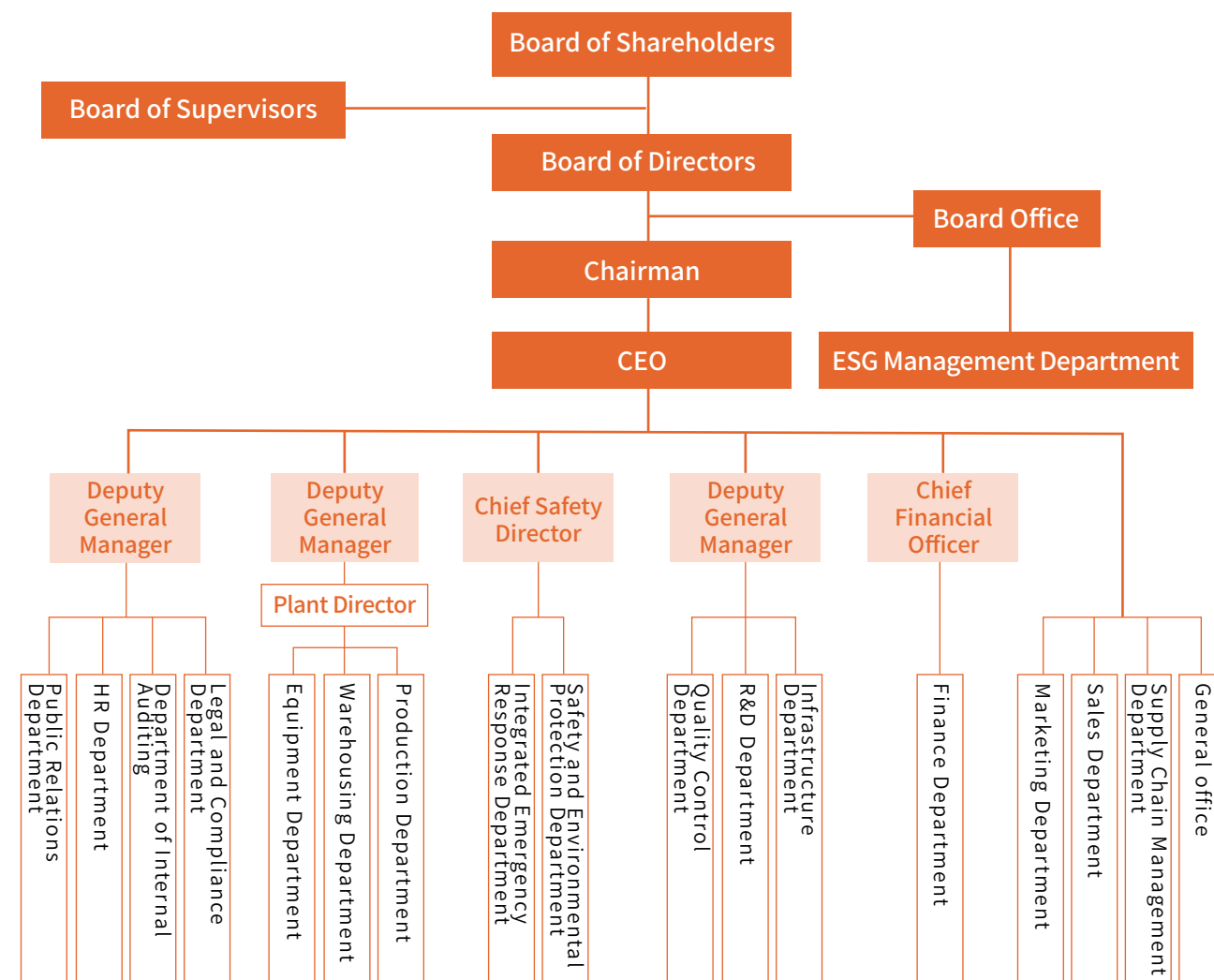
0 persons

Corporate Governance

Heno is committed to achieving sustainable corporate governance goals. The company continuously optimizes its organizational structure and operational effectiveness, upholds diverse development within the board of directors, and maximizes its functions. Through board meetings, the company drives various decisions and initiatives, ensuring effective governance.

Board Structure

The organizational structure of corporate governance is continuously optimized in accordance with the relevant laws and regulations of the *Company Law of the People's Republic of China* and the *Articles of Association of Hubei Heno Biological Engineering Co., Ltd.*, in conjunction with the company's development strategy.



Board Effectiveness

The company's board of directors adheres to diversified development, considering various factors such as members' age, educational background, ethnicity, and expertise. This ensures that the board could provide professional decisions from multi-dimensional perspectives, enhancing the company's capacity for sustainable development. The board consists of a total of 5 members, including 1 non-executive director and 4 executive directors. They possess diverse professional capabilities in fields such as finance, management, technology, R&D, and psychology, providing support for the efficient operation of the board.

In 2022, the company held a total of 3 board meetings, 1 supervisory board meeting and 2 shareholders' meetings, in accordance with the *Rules of Procedure of the Board of Directors of Hubei Heno Biological Engineering Co., Ltd.*, the *Rules of Procedure of the Board of Supervisors of Hubei Heno Biological Engineering Co., Ltd.*, and the *Rules of Procedure of the Shareholders' Meeting of Hubei Heno Biological Engineering Co., Ltd.*. All members of the board of directors attended the convening of the meetings, attaching great importance to the construction and sustainable development of the enterprise's information, digitization and automation, and resolved to adopt 13 relevant proposals during the reporting period, such as the Proposal on the Construction of Information Platform for the New Plant.

Risk Management

Heno implements the internal control concept of "systematization of management, systemization of system, and informatization of process", establishing a strict, standardized, comprehensive, and effective internal control system oriented to risk management, and focusing on compliance management to form a more complete risk prevention and control mechanism, and to realize the management and the control objective of "strengthening internal control, promoting compliance, and preventing risks".

System Construction

The company effectively prevents compliance risks, and fully utilizes the role of strong internal control. Through the establishment of the *Internal Control and Compliance Risk Management Implementation Measures (Trial)*, *Internal Reporting Management System for Major Matters*, *Connected Transaction System*, *Internal Risk Control System*, *Management System for Preventing Funds Occupation by Controlling Shareholders and Connected Parties*, *External Guarantee System* and other systems and documents, the level of compliance operation is upgraded, the ability of risk prevention and control is strengthened, and the company's sustainable and healthy development is safeguarded.

The Triple Line of Defense

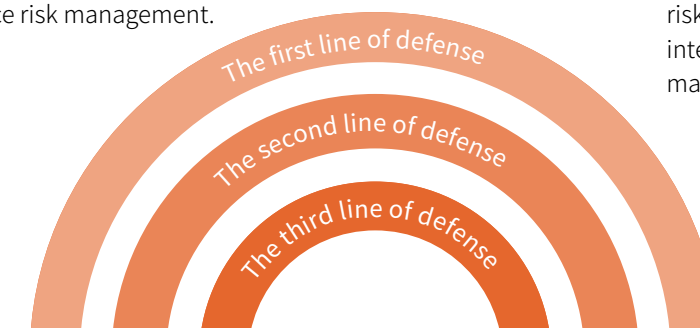
The company adheres to the combination of classification management and the "triple lines of defense." Internal control is implemented through hierarchical classification control, with the company's two-level control responsibilities being carried out. Classification management is conducted based on the characteristics of internal control and compliance risks of different categories. The company establishes a strong "three lines of defense" internal control structure composed of leading management department, business functional department, and internal audit department, each playing its respective role and collaborating in a coordinated manner.

The first line of defense

The Company's Legal and Compliance Department serves as the leading department for internal control and compliance risk management.

The second line of defense

The Company's Business Functional Departments adhere to the principle of 'equivalence between business and risk' and assume responsibility for internal control compliance and risk management.



The third line of defense The Company's Internal Audit Department is responsible for audit supervision and accountability.

Corporate Compliance

Heno adheres to the principles of integrity and compliance in its operations, enhancing management in areas such as anti-fraud and fair competition, anti-corruption and clean governance, information security and privacy protection, to establish a reporting system. In terms of anti-fraud and fair competition, the company upholds the principle of fair competition and engages in market transactions with integrity. The company has established the *Anti-Corruption and Anti-Bribery System* and a reporting mechanism to accept supervision from various parties and maintain a zero-tolerance approach towards actions that violate compliance. Strict measures are taken to manage anti-corruption and anti-bribery efforts. To ensure information security and privacy protection, the company employs Huawei Layer-3 Switch Technology for information security.

Anti-Fraud and Fair Competition

In 2022, under the leadership and guidance of industry regulatory authorities at all levels, the company strictly adhered to the *Regulations on Electronic Cigarette Management* and the requirements and regulations of the National Tobacco Monopoly Administration regarding the production and operation of electronic cigarettes. The company rigorously complied with national management requirements for hazardous chemical production enterprises, maintained honest and compliant operations, and actively practiced social responsibility, making due contributions to the healthy development of the electronic cigarette industry chain.

The company upholds the development philosophy of "harmonious coexistence with nature, commitment to promises", dedicated to providing high-quality products & services, engaging in market competition with fairness. In terms of transaction methods, the company's primary products are traded through the *National Unified Electronic Cigarette Trading Management Platform* established by the National Tobacco Monopoly Administration, subject to rigorous supervision by industry regulatory authorities.

Anti-Corruption and Clean Governance

The company firmly adopts a zero-tolerance approach towards corruption issues and is committed to creating an environment of integrity in business. To achieve this, the company enhances supervision and management of key departments and critical positions, ensuring compliance across its global operations.

The company's internal audit department is responsible for the comprehensive work against corruption and commercial bribery. For employees in critical positions and processes, the company implements a system of anti-corruption and anti-commercial bribery commitments, requiring them to sign an Anti-Corruption and *Anti-Commercial Bribery Commitment Letter*. Additionally, in business interactions with clients, suppliers, service providers, and contractors, the company emphasizes that individuals signing contracts and submitting bids must adhere to the company's anti-corruption policies and sign an *Anti-Commercial Bribery Agreement*.

☉ Anti-corruption and anti-commercial bribery training

In 2022, we hired professional lawyers to provide anti-corruption and anti-commercial bribery training to employees in key positions and critical roles, including department heads and production team leaders.



Information Security and Privacy Protection

The company attaches great importance to data security and privacy protection, and has taken multiple measures to ensure information security. On the production end, all data integration adopts Huawei Layer-3 Switch Technology, and the equipment layer does not have internet access capabilities, effectively ensuring the network security of DCS/ SIS and GDS system computers. Additionally, the company provides information security solutions for employees' office computers to safeguard both corporate resources and employee data security.

Information on Party Building

Heno is committed to building learning-oriented and responsible Party branches with the goal of enhancing cohesion and combat effectiveness. It adheres to the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, encouraging all Party members to maintain self-discipline, uphold a high level of professional ethics, and dedicate themselves to their work with excellence. Since its establishment, the Party branch has strictly followed the "Eight Matters Linked" requirements to organize thematic Party activities, using these Party-building activities to guide the actions of all members.

★ During the reporting period

We conducted **12** sessions of Party building and Party branch training, including **3** sessions of special meetings.

☉ Series of Party Building Activities on July 1st

The Party branch carried out a series of Party building activities to celebrate the 101st anniversary of the founding of the Communist Party of China and to welcome the convening of the 20th National Congress of the Party. The secretary delivered a Party lecture to promote the normalization of learning and education about Party history, further enhancing the fighting strength, cohesion, and creativity of the Party organization.



☉ Thematic Lectures on the Spirit of the Twentieth National Congress

The Party branch invited a senior lecturer from the Economic Management Teaching and Research Office of Enshi Party School to give a special lecture on the spirit of the 20th National Congress of the Party. The Party branch organized Party members and all employees to study the essence of the 20th National Congress, integrating it with their own work, and encouraging Party members to take on a pioneering role.



Digitalization and Innovation

Heno is committed to an innovation-driven development strategy, adhering to innovative principles to facilitate organizational improvements and enhance management efficiency. This enables the company to continuously enhance its effectiveness and adapt to the requirements of economic development. The company actively constructs a digital smart park to comprehensively enhance operational efficiency and elevate risk prevention measures. Additionally, the company places a high emphasis on research and development innovation. During the reporting period, we allocated a total of 6.84 million yuan in research funding and established 6 R&D positions, with researchers accounting for 6.38% of the total workforce.

★ During the reporting period

We invested **6.84** million yuan in R&D.

Smart Park

The company's digital smart park is constructed following top-tier domestic park planning, integrating technologies such as 5G, AI, big data, and cloud platforms, resulting in the establishment of an intelligent manufacturing demonstration base. In collaboration with Enshi Mobile, the company has created its first 5G intelligent manufacturing benchmark in Enshi, enhancing park management capabilities and emergency response capacity. This initiative also aims to improve efficiency in park supervision, operation and services, while identifying, preventing, and managing various dimensions of risks associated with enterprises.

Smart park Initiates the Digital Transformation Journey for Chemical Enterprises

The park takes intelligent manufacturing as its main focus, making full use of technologies like 5G industrial internet, big data, and 3D visualization. It's dedicated to building the "Heno Industrial Internet Platform", promoting the intelligent transformation of enterprises. Through the three-dimensional digital twin platform and GIS geographic information system, the park achieves visual monitoring, early warning, statistical analysis, and intelligent control of park enterprises. This provides an efficient way of information management and presentation.



Scene Diagram of 5G+ Factory Management

R&D Investment

In response to competitive demands and existing issues in composting technology, the company has developed a technology for heavy metals control in agricultural biomass solid waste. It utilizes an advanced DCS automated control system to achieve efficient, automated, and clean processes. In 2022, the company invested nearly 7 million yuan in research and development, with R&D expenditure accounting for 4% of its operating income.

Development of Technology for Heavy Metals Control in Agricultural Biomass Solid Waste

The company intensifies its efforts in process technology development to achieve heavy metal control in composted mature materials. This project actively promotes technological innovation and employs ultra-high-temperature fermentation technology. The fermentation cycle is reduced from 3 weeks to around 5 days, increasing the conversion efficiency by over 20% compared to existing technologies, leading to an efficient and rapid conversion of high lignin agricultural organic solid waste.

Intellectual Property Rights

The company unswervingly implements "The New Development Concept", effectively strengthens the judicial protection of intellectual property rights, carries out the FTO analysis, and aggressively adjusts the patent application strategies.

Patents and Intellectual Property Rights

In 2022, the company generated a total of 9 utility model patents and 4 invention patents.

Natural Nicotine Extraction Process Line

We have carried out R&D of natural nicotine routes, conducted proprietary FTO analysis, adjusted our patent application strategy, and applied for patents with our core nicotine and nicotine salts as the main protection objects, to circumvent competitor's patents and to reduce the related risks.



Invention Patent Certificate for Nicotine Extraction System and Extraction Method

Invention Patent Certificate for Mechanism of Effectively Controlling Impurities in Nicotine Extracted Steam

Heno Complies with Laws and Regulations Relating to Intellectual Property Rights.

The company effectively organizes and manages intellectual property work, improves the organizational structure of the intellectual property leading group, holds intellectual property work meetings as planned, and carries out training activities on the establishment of an intellectual property system. The company organizes training and learning for all employees to improve their awareness and emphasis on intellectual property rights. In the future, the company will continue to formulate intellectual property work plans, clarify goals and key tasks, and actively carry out various intellectual property work, including the deployment and implementation of patent applications, trademark registration, copyright protection, etc. Through planned work arrangements, the company will ensure the smooth advancement and implementation of intellectual property work.

R&D platform

The company is actively collaborating with external research organizations to jointly establish an innovation research center. Through this cooperation, the company aims to enhance its research and development strength, facilitate the co-creation of a technology talent development hub with experts and their innovation teams, and further promote technological innovation related to natural nicotine.

The company establishes the expert workstation. We recruited Dr. Yu Ainong and their innovation team with the goal of meeting the company's future technological innovation needs. It is actively conducting relevant scientific research and planning for technological innovation development. The expert workstation is closely focused on addressing critical, significant, and cutting-edge technical issues required for the extension of the company's nicotine-related product series. It conducts collaborative research to advance technological progress. At the same time, the expert workstation actively promotes deep integration between industry, academia, and research, facilitating the transformation and application of research outcomes. During the reporting period, we have undertaken a key R&D program in Hubei Province in 2022.

The company jointly establishes the Hubei Province Enterprise-University Joint Innovation Center in collaboration with Hubei University of Technology. Currently, this center comprises various functional areas such as extraction laboratories, biological laboratories, instrument rooms, analysis facilities, and pilot workshops. It has significantly enhanced the company's research and development hardware infrastructure, providing a solid foundation for the development of innovative products.

★ During the reporting period

We have undertaken of the 2022 'List System' Science and Technology Program of Enshi Prefecture



ESG Assurance Statement

China Quality Certification Centre (CQC), commissioned by Hubei Henuo Biological Engineering Co., Ltd. (hereinafter referred to as Henuo), conducted independent verification on the 2022 ESG report of Hubei Henuo Biological Engineering Co., Ltd. (hereinafter referred to as the "Report") on September 15 and 18, 2023.

Henuo was responsible for collecting, summarizing, analyzing, and disclosing the information and data mentioned in the "Report". CQC implemented report verification within the scope specified in the agreement with Henuo. Henuo is the designated user of this statement.

This statement was based on the assurance activities conducted on the "Report" prepared by Henuo, and Henuo was responsible for the completeness and authenticity of the information and data in the "Report".

Scope of Assurance

The data and information in the "Report".

Basis for Assurance

AA1000 V3, Type 2, Moderate Assurance

Assurance Methods

The methods used in this assurance include but are not limited to:

- a) Report review;
- b) Interviews;
- c) Verification of documents, records, certificates, bills, and other materials;
- d) Field verification;
- e) Trusted information source verification;
- f) Verification against disclosure basis;
- g) Recalculation/estimation;
- h) Confirmation of statistical, calculation/estimation processes.

Assurance Conclusions

The "Report" reflects the ESG performance achieved by Henuo in 2022, which basically meets the requirements of AA1000 V3 as follows:

Inclusivity: Henuo has identified internal and external stakeholders of the company, including government and regulatory agencies, shareholders, investors, employees, suppliers and partners, communities, and public welfare organizations. In the report preparation process, the expectations and needs of stakeholders have been considered.

Materiality: Based on the principle of double materiality, Henuo has identified and prioritized their ESG issues, integrating the management of various issues into the company's daily operations. The overall content of the "Report" meets the requirements of the materiality principle.

Responsiveness: Henuo has established a governance structure, management system and processes, as well as a communication mechanism with stakeholders, capable of taking action to respond to the demands of various stakeholders.

Impact: Through quantitative, qualitative, or a combination of both, Henuo has disclosed the main impacts on stakeholders in terms of environment, society, and governance.

Recommendations on Continuous Improvement

Based on the report verification conclusions, it is recommended that:

- a) In terms of materiality, the company further optimize the process of identifying and ranking material issues to fully consider ESG issues that are highly related to the industry, sector, geographical location in which they operate, and business model;
- b) In terms of responsiveness, the company further clarify the responsibilities of each issue-related management department or position, improving the timeliness and effectiveness of responding to stakeholder demands;
- c) In terms of impact, the company further strengthen the assessment of the impact of material issues, fully consider direct and indirect impacts, provide effective response measures, and regularly measure the effectiveness of such measures.

Limitations

- ☑ This assurance was conducted using sampling methods based on quantitative and qualitative risk analysis and the sampling scope was limited to the data and information selected in the "Report", and there was no comprehensive traceability of the original data of Henuo.
- ☑ Only internal stakeholders (including outsourced personnel) of Henuo were covered in interviews and document review, not involving external stakeholders
- ☑ The data and information audited/verified by a third party in the "Report" were not subject to repeated verification during this assurance process.
- ☑ Some data and information in the "Report" lacked sources that can be compared and verified.
- ☑ Activities outside the scope of information disclosure were not included in this assurance;
- ☑ The statement regarding the position, viewpoints, beliefs, goals, future development directions, and commitments of Henuo were not included in this assurance.

Statement on Independence and Verification Capability

Affiliated with China Certification & Inspection Group (CCIC), CQC is a third-party professional certification body approved by the Chinese government and recognized by multiple foreign governments and international authoritative organizations. CQC can provide various management systems certification, product safety and performance certification, energy conservation and environmental certification, green and low-carbon technical services, management improvement, personnel training, and other related technical services, as well as independent verification services for social responsibility reports, sustainable development reports, and ESG reports.

As an independent certification body, CQC ensured that there were no conflicts of interest with Henuo and its stakeholders during the assurance process of the "Report". All information in the "Report" was provided by Henuo. CQC and the personnel conducting this assurance of the "Report" were not involved in the preparation process of the "Report".



谢肇煦

President of CQC
November 15, 2023

Note: In case of any inconsistency or discrepancy, the Chinese version of this assurance statement shall prevail, while the English translation is used for reference only.

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