



YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司



Environmental, Social and Governance Report 2015

環境、社會及管治報告 **2015**



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Chairman's Statement

Sustainable operations of an enterprise need the organic combination of corporate operating values and social public values. We always bear our roots in mind and consciously take up our social responsibilities to repay the society. Fulfilling social responsibilities is no longer just fashionable, but is a key component and an icon of the corporate brand and core competitiveness. It is also the fundamental guarantee of a company's health and sustainable growth. We will gladly accept supervision from the society that helps us better fulfil our social responsibilities.

– Tang Xinfu, chairman,
HEC Pharm



General Manager's Statement

The pharmaceutical product is a special product, and pharmaceutical production relates to the health and safety of the public directly. HEC Pharm is committed to “focusing on the manufacture of pharmaceuticals and the establishment a trustworthy brand”, continuously enhances the quality control, and provides “safe, high quality, efficient and environmentally friendly” pharmaceutical products and services to the community, thus effectively protecting the public health and safeguarding social interests.

Actively fulfilling our social responsibilities is not only our obligation in promoting social development but also our commitment to our own sustainable development. We firmly believe that taking up social and corporate citizen responsibilities is a strong guarantee for our sustainable development. Therefore, the Group has always insisted on the motto of “creating value for shareholders, providing opportunities for staff, and shouldering responsibilities for community”. While pursuing economic efficiency, we also pay attention to safeguarding the interests of shareholders and creditors, fully protecting the legitimate rights and interests of the employees, treating our suppliers, customers and end consumers with integrity, reducing energy consumption and pollutant emissions in the production processes and engaging actively in public welfare undertakings. These can help promote the integration and harmonious development of the Group and the community at large.

In 2015, amid the slowing down of China's economic growth and the reformation of the medical system, under the leadership of our board of directors, the Group had focused on product innovation and management optimization to solidify and promote the market positions of its key products and to steadily promote our business development. We also innovated our business models and marketing tools, concentrated our resources on businesses in which we enjoyed competitive advantages, and established a diversified mechanism for hiring talents. Thanks to the united effort of all employees, the revenue and the net profit of the Group amounted to RMB692.9 million and RMB265.8 million in 2015, respectively, increased by 57.2% and 96.4%, respectively, over the corresponding period of last year.

As a publicly listed private enterprise and pharmaceutical industry leader, HEC Pharm has always fulfilled its social responsibilities and generated sound performance to ensure positive contribution to society. In 2015, we focused on strengthening our management and resources input of the following aspects, such as the product quality and safety, production and operation safety, environment, public health, energy consumption and resource conservation. We actively participated in various social welfare activities, supported local economic development, and contributed significantly to the official reserves of the contingency medicines. We also focused more on our employees' occupational health and safety, which involved the establishment of management systems for occupational health and safety and for the environment, and the further integrating them with the Group's quality management system to affirm our commitments to our employees and the community.

In 2016, while continuing with pursuing economic efficiency, we will work hard to fully integrate our social responsibilities into our production and operation, enterprise development strategy and corporate culture. Our goal is to be accountable to all stakeholders and the environment, to play an exemplary role among private enterprises in fulfilling social responsibilities, and to promote the construction of a harmonious socialist society.

General Manager's Statement

With the passage of time, the society now has a higher standard on pharmaceutical manufacturers' corporate social responsibility. We must therefore look at this from a strategic level with the purpose of sustainable development, pay more attention to the public's health and the patients' interest, and proactively include our corporate social responsibilities into the ambit of our management. We must increase the sense of corporate social responsibility among our managers and employees, and actively explore and implement socially responsible acts that suit our own circumstances.

– Jiang Juncai, general manager,
HEC Pharm



Explanatory Note

This report was prepared in accordance with the Appendix 27 “Environmental, Social and Governance Reporting Guide” of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) (the “**Listing Rules**”). It mainly reviews the corporate social responsibility development and fulfillment of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the “**Group**” or “**HEC Pharm**”) in 2015, and reports on its operations to all stakeholders including shareholders, employees, the government, customers and end consumers, as well as the public at large. The terms used in this report have the same definition as those in the Group’s 2015 Annual Report, and the two reports should be read together. This report is published in both Chinese and English, and in the case of any discrepancy, the Chinese version prevails. If you have any question or comment on this report, please call or write to us. Our contact information is as follows:

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Group Overview

Corporate Profile



HEC Pharm is a pharmaceutical manufacturing company that focuses on the development, manufacture and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases. It is the domestic pharmaceutical manufacturing platform of the HEC Group. HEC Group entered into China's pharmaceutical industry in 2001 by establishing our predecessor, Yichang Changjiang Pharmaceutical Co., Ltd. Since our establishment, we have always followed the motto of "serving the Chinese with higher standards". We were converted into a joint stock limited company on May 11, 2015 and were listed on the Main Board of the Hong Kong Stock Exchange on December 29 of the same year (stock code: 01558). As at the end of 2015, we manufactured, promoted and sold a total of 33 pharmaceutical products. Currently, we are the only manufacturer of oseltamivir phosphate granules in the China market. Our core product, Kewei (oseltamivir phosphate), is a leading product in China's anti-influenza market with the highest sales volume during 2013-2015.

Group Overview

Business Overview

The group has five key products: Kewei, Ertongshu, Oumeining, Xinhaining and Xining. Looking back to 2015, our revenue reached RMB692.9 million, representing an increase of 57.2% as compared with 2014, maintaining a relatively high growth. The growth of the Group's revenue was mainly attributable to the substantial increase in sales of our anti-influenza product Kewei.



Group Overview

Our Group has always insisted on pharmaceutical innovation and focused on the synergies between the research and development (**R&D**) of drugs and production resources, thus enabling us to provide our customers with even better products and services.

We now manufacture, promote and sell a total of 33 products covering mainly the anti-viral, endocrine and metabolic diseases and cardiovascular diseases. Our core product, oseltamivir phosphate, is the leader in China's anti-viral market. With the simplification in the drug approval process, we will gain approvals for major and competitive products in the areas of anti-viral, digestive system diseases and diabetes. In particular, we are likely to become the first Chinese manufacturer to sell a new Class 1.1 drug of yimitasvir phosphate for hepatitis C, as well as a series of drugs for insulin (including the second and third generations of insulin). As always, we will adhere of better quality to our high standard and strict requirement and continue to manufacture innovative drugs of better quality that meet international standards.

In the area of endocrine and metabolic diseases, the Group focused on developing full portfolios of insulin products in order to treat diabetes. We are currently developing three types of insulin APIs, which will be produced into six forms of insulin finished products. In 2015, we have applied for clinical trials for insulin aspart, insulin aspart injection and insulin aspart 30 injection. Recombinant human insulin is now in the phase III clinical trial in China.

Based on our experience in oseltamivir, we conducted in-depth R&D in the anti-viral area. We have launched a cooperation with TaiGen Biotechnology Co., Ltd., a Taiwan listed company, to develop a series of yimitasvir products for the treatment of hepatitis C. Yimitasvir phosphate is a NS5A inhibitor for the treatment of hepatitis C virus infection. It is likely to become a new Class 1.1 drug in China, the first anti-HCV direct antiviral (DAA) agent to be developed by a Chinese company. In February 2015, the Group's yimitasvir completed the first phase of clinical tests. Preparations for phase 2 and phase 3 trials are underway.

We paid special attention to academic promotional activities, which would allow us to explain to hospital management, doctors and other medical professionals the competitive advantages and usage of our products. To promote the reputation and recognition of our products in the industry, we hosted academic conferences, seminars and themed forums with industry practitioners.

We decide on our development goals and set our corporate strategies based on market environments and our own development conditions, driving our high-efficiency growth with our three core focus areas. We work hard to achieve outstanding operations, contribute to the harmonious development of society, and achieve better value for our shareholders, employees and customers. In the short run, we see the explosive potential of our key product Kewei. In the long run, we rely on our excellent R&D. We work hard every minute!

Group Overview

1. Operational Status

The domestic economy experienced an overall decline in 2015 and the manufacturing sector, affected by the macro environment, continued to slump. While the pharmaceutical industry was impacted by the economic downturn, the effect was more at policy level. Last year saw the pharmaceutical system reform of China striving hard to overcome major difficulties. At the regulatory level, a number of key policies having far-reaching impact on the pharmaceutical industry were introduced. Examples include the introduction of top-level design of centralized procurement of drugs, the abolition of government pricing on drugs, advice on comprehensive public hospital reform, self-verification of clinical trial data, drug evaluation system reform, further restrictions on the use of antibiotics by medical institutions, and consistency assessment of generic drugs, among others. In the long run, from the national level, the implementation of these policies will further regulate the drug research and development, production, and distribution behavior, to better guarantee quality and protect the interests of patients. However, in the short term, this will bring such difficulties as decline in bidding prices and product sales, and increase in production and research and development costs, and others.

Under the current business environment, the management team has overcome many difficulties while actively responding to policy changes. Led by the right decisions of the Board and scientific implementation of the management team, the Group adhered to core competitive products with other products as complement. We ensured product quality, aimed at exploring product profit, and further standardized management, controlled costs, developed new markets and increased revenues. Everyone in the Company worked together to strengthen the implementation of strategic management, marketing management and technological innovation, and accelerated the transformation of development. In the fiercely competitive environment, despite the difficulties, we moved forward to face challenges and fully achieved various business objectives and realized high-speed growth.

In 2015, the Group's revenue was RMB692.9 million, representing a year-on-year increase of RMB252.0 million, up by 57.2%. Our net profit attributable to ordinary shareholders of the parent was RMB265.8 million, representing a year-on-year increase of RMB130.4 million and a growth of 96.4%.

Group Overview

In 2015, the Group performed the following based on key development strategies:

1. Achieving growth of both revenue and profit from core products

The Group focused on Kewei, an antiviral drug (oseltamivir phosphate), and intensified the promotion and sales channel construction of core products in order to further increase market share. In 2015, the Group became the forefront pharmaceutical company in China's anti-influenza virus drugs market. As for essential medicines, despite the slowdown in domestic bidding schedule and negative impact of falling prices, we managed to grasp the latest industry trend and worked aggressively on drug biddings and succeeded in many provinces and cities in offering various products, thus ensuring the Group's steady business growth.

2. Strengthening Quality Control

All our factories and workshops comply with Chinese Good Manufacturing Practices (**GMP**). We further improved the quality management system, and continuously strengthened the supervision of the whole manufacturing process, from procurement of raw materials to production, storage and delivery. We reviewed problems that arose during the process and promptly resolved them, and introduced quality-related equipment and management tools to improve product quality, thus ensuring safety and reliability.

3. Raising Capital for Strategic Mapping

On December 29, 2015, HEC Pharm was successfully listed on the Main Board in Hong Kong, raising a total of HK\$1.352 billion for the construction of a new oral solid dosage preparation plant and a new insulin plant, and for the building of marketing networks.

4. Strengthening Innovative Research and Development

In 2015, the Group continued to develop new products and to work on the conformance quality and efficacy assessment of our generic drugs, achieving remarkable results. We filed a total of 12 applications for invention patents and obtained approvals for five clinical products. In 2015, the production and quality standards of our oseltamivir phosphate capsules were included in the "Chinese Pharmacopoeia" 2015 edition. We made significant progress in the assessment of conformance quality of our generic drugs. Currently, our oseltamivir phosphate capsules and granules, clarithromycin tablets, and amlodipine besylate tablets, among others, have proceeded into the BE preparation stage, while other products have also achieved varying degrees of breakthrough in processing.

5. Intensifying Talent Development and Raising Income Level of Employees

To meet the Group's diversified business development needs and provide sufficient intrinsic motivation, we have increased efforts to train employees, enhance training system, and establish and improve learning environment. This has helped upgrade the technical and operational capabilities of our employees, thus ensuring that they grew with the Group. At the same time, efforts have been made to improve the salaries and benefits of employees. In 2015, the average income of employees grew more than 10%.

Group Overview

2. Future Outlook

The Group has always focused on talent development and building technology platforms. We have created an atmosphere of innovation to promote scientific and technological progress. We integrated our resources reasonably and launched our projects in a scientific manner. We also increased our investments to foster our development potential. By building around our core products of anti-viral, hepatitis C and insulin series drugs, and by consolidating our Group's resources through our first right of refusal to buy newly developed drugs under our strategic cooperation agreement with the research institute of our controlling shareholder, we aimed to become a first-class domestic pharmaceutical company.

In 2016, the Group will conduct its operations in the following key aspects:

1. Continue to use Kewei (oseltamivir phosphate) as the key product to lead the market and realize sustained, rapid and healthy development of the Group so as to constantly enhance our value and maximize investors' interest.
2. Further strengthen the build-up of our own sales and marketing team so that we can explore our own management experience and develop our own talent, thus preparing for the construction of a nationwide team. We aim to enhance experts' endorsement of core products such as Kewei and Ertongshu (benzbromarone) with extensive academic promotions so that we can enhance the impact of our products and develop new sources of revenue growth.
3. Further improve the implementation of production and quality management standard system. Complete the construction and GMP certification of the third zone workshop for solid oral dosage preparation to further increase productivity and ensure a steady supply of Granville.
4. Strengthen investment in research and development. In 2016, the Group will concentrate on the conformance quality and efficacy assessment of our key generic drugs, closely track and monitor regulatory changes, and strive to complete the corresponding in vitro dissolution and bioequivalence clinical experiments as soon as possible. We aim to complete clinical trials of insulin injection and develop follow-up product development plans.
5. Strengthen human resources management and establish a sound, efficient, and flexible employee training and management mechanism. Through internal training, introduction and external recruitment, we will expand the technical development staff and marketing staff that our business growth requires. Strengthen the management skills of our middle-level managers and trainees, thereby elevating the overall staff quality. We will focus on our corporate culture, foster the noble characteristics of unity, cooperation and dedication amongst our employees, thus improving their overall quality.
6. We operate in accordance with the requirements of CSRC, the Hong Kong Stock Exchange and other regulatory authorities, and with all relevant laws and regulations. We will further improve our governance structure, accelerate the construction of our internal audit and internal control systems, and ensure that information disclosure is done in a fair, equitable, truthful, precise and timely manner.

Stakeholders' Participation

The Group focuses on building a modern pharmaceutical company that is harmonious, cooperative, progressive, healthy, safe, environmentally friendly, compliant and responsible, thus making us an outstanding enterprise that keeps shareholders satisfied, is loved by employees and recognized by society. By promoting the harmonious mutual prosperity of such social organizations and individuals as the Group's shareholders and investors, employees, customers, suppliers, communities and the public, as well as the government and market regulators (collectively the "stakeholders"), we are committed to creating a harmonious community with various interests coexisting, thus maximizing overall social benefits. We have, therefore, established a number of channels to allow stakeholders to participate in the Group's operations, to understand and oversee the Group's operating performance.

The Group's Stakeholders Participation 2015

Stakeholders	Key interests	Channels and means of participation	Activities
Shareholders	The Group's sustainable operating capacity, protection of shareholders' interest and return on investments, truthfulness, precision and timeliness of information disclosure	Shareholders' meetings, investors conferences, site visits, roadshows, information disclosures	We published the notifications and resolutions of the shareholders' meetings and the disclosure of Group information. We published notices, circulars and one regular report according to the requirements. We staged a roadshow to enhance investors' recognition. We published our contact methods on our website and reports and ensured that all our communications channels were open.
Employees	Protection of their basic rights, compensation and benefits, work environment, professional development, occupational health and safety, and realization of self value.	Workers union, communications channels between employees and management, opinion boxes, staff activities, training and education.	We provided a healthy and safe work environment, established a fair promotional mechanism, maintained a communications platform for communicating with employees, cared about our employees and extended help to those in need, and organized employee activities.
Customers and consumers	Guarantee of the product quality and quantity, protection of information	Communications through regular visits	Signing of confidentiality agreements. Strengthening quality control. Ensuring a steady production and logistic process. Signing of long term sales agreement with customers

Stakeholders' Participation

The Group's Stakeholders Participation 2015

Stakeholders	Key interests	Channels and means of participation	Activities
Suppliers	Public bidding, long-term stable cooperation, timely payment	Public bidding meetings, business meetings, regular communications	We chose the best suppliers through open tenders and performed our contractual obligations. We also strengthened our regular communications and maintaining long-term cooperation with quality suppliers. We did not default on any payment.
The public	Job opportunities, community development, ecology and the environment, compensation and assistance	Co-hosting of community activities	Local residents enjoyed a priority in our hiring process. We also protected the ecological environments of the neighborhood.
Banks	Timely payments, operating conditions and risks, credit risks	Post-lending follow-ups, regular communications	Timely payment of interest and principal, cooperation in loan audits and monitoring
Government	Lawful operations, paying tax in accordance with the law, production safety, fulfillment of social responsibility	Site visits, inspections, work reports, submissions and approvals	Operating according to the law, compliance management, tax payments in accordance with the law, strengthening the Group's safety management, observance of the government's monitoring, inspection and examination, active fulfillment of social responsibilities.
Industry peers	Fair competition, joint development, sharing of technology and experience, industry development	Seminars, site visits, industry conferences	Observance of fair competition, mutual benefits through cooperation, sharing of experience, and promotion of sustainable development of the industry
Market regulators	Observing rules and regulations, compliance in operations, information disclosure and submission	Consultation, information disclosure	Strictly abide by regulatory rules, truthful, precise and timely disclosure and submission of information

Stakeholders' Participation

Summary of Stakeholders' Participation Activities 2015

1. Shareholders and Investors

The Group's investor relations department is dedicated to receiving and replying to investor opinions and aspirations. Institutional and small investors may provide their views and aspirations by mail, telephone, or through our Internet website and other platforms. The investor relations department held frequent one-on-one meetings with investors and conducted domestic and overseas roadshows. In 2015, the Group held four meetings of the Board of Directors, two meetings of the Board of Supervisors and three shareholders' meetings. During the year, the investor relations department arranged more than 10 large-scale visits to our Group for investors.

2. Employees

We provided learning and promotion opportunities for our employees. Based on their performance appraisal and individual ability, we promoted our employees to managerial positions on a timely basis, with priorities being given to internal promotions. We have established an effective training management system capable of designing annual tailor-made training programs according to the nature of work and requirements of each employee (with additional training depending on need) and have ensured the implementation of training. This helped give full play to the positive role of training for the Company, promote the personal development of the employees, and enable them to progress and grow. Our training programs consisted of factory training, pre-job training, continuing education and training (comprising planned training and ad hoc training), and outsourced training. Our training methods included intensive classes, discussions, audio-visual, practical training, and self-study. Evaluation of the effectiveness of our training comprises: written examinations (open-book and closed book), practical tests and instant tests. For the whole year we completed 158 training programs and 218 ad hoc trainings. The proportion of trained personnel to our total headcount reached 100%.

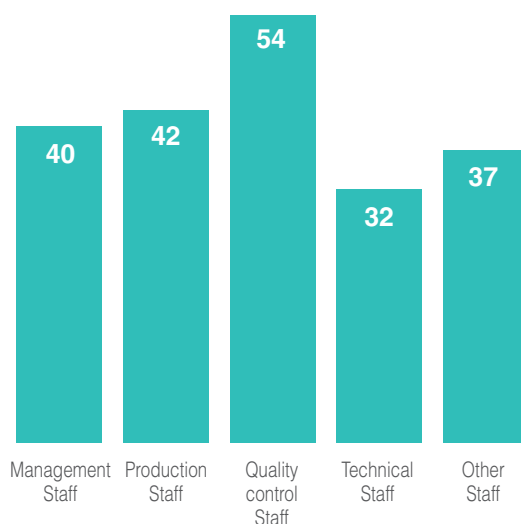
Stakeholders' Participation

Percentage of employees by category who received training:



Stakeholders' Participation

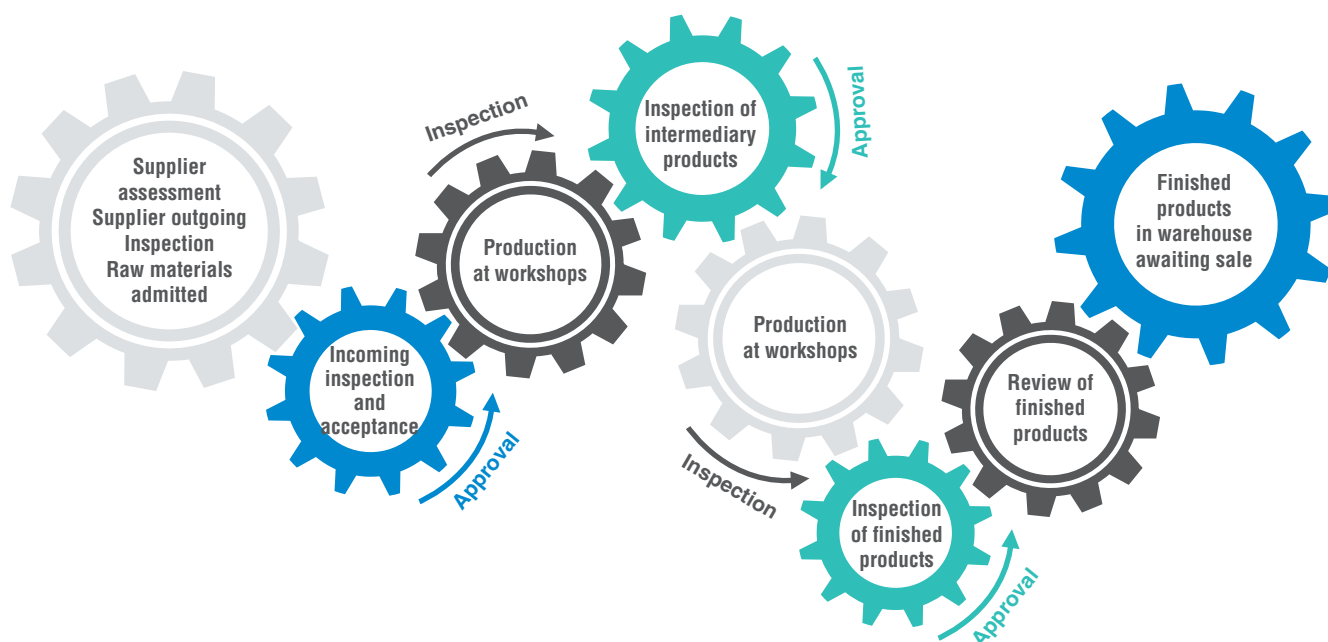
Average time (in hours) of training received by our employees



3. Customers and Consumers

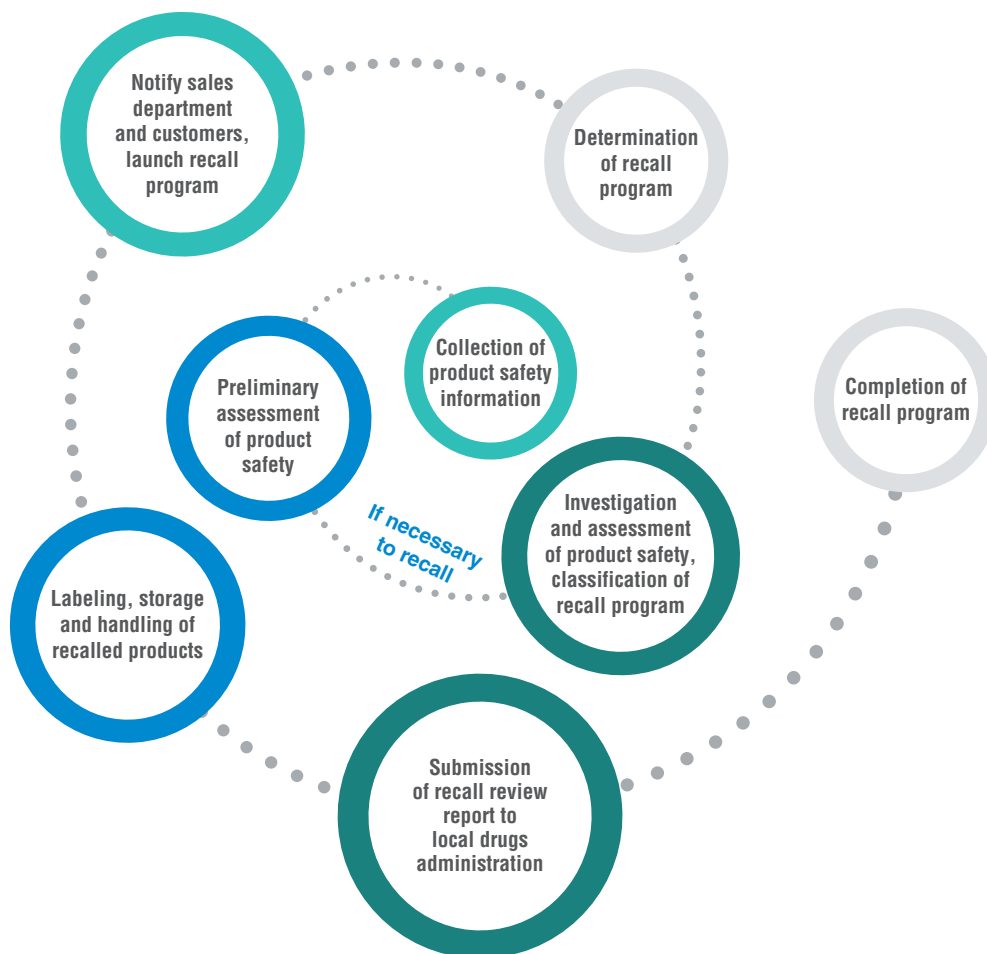
The Group attached great importance to academic promotional activities as we regarded it as a two-way communication channel that allowed us to explain the competitive advantages and usage of our products to hospital management, physicians and other medical professionals and to obtain feedbacks on competing products. We intended to raise our reputation in the industry and customer acceptance of our products by organizing academic conferences, seminars and symposia, and other forms of promotional activities.

Besides, the Group has established a strict quality control process that permeated the entire production process, from the admission of raw materials into the plant to the quality control measures of intermediate and end product. The basic procedure is as below:



Stakeholders' Participation

When a product sold by the Group was deemed unsafe, we'd recall our product according to an established procedure to ensure the patients' safety. The recall procedure includes: collection of relevant product safety information, investigation and assessment of potential product safety problems, classification of recall program, determination of recall program, notification of the sales department and customers and implementation of product recalls. The specific procedure is shown as follows:



During the reporting period, there has been no recall of products as a result of product quality.

The Group has established a confidentiality management system applicable to all employees, with strict requirements regarding the principles of confidentiality, the scope of confidentiality, secrecy level, security measures as well as responsibilities and penalties. The Group has also signed confidentiality agreements with all employees with detailed provisions on the scope of confidentiality, obligations, liabilities, as well as cease-of-employment arrangements. When signing contracts with customers, the Group would also consult with the customers on information protection measures to avoid disclosing customer information and to protect their privacy.

During the reporting period, the Group did not receive any complaints due to leakage of customer information. The Group will further improve customer privacy and data protection to avoid leakage of customer information.

Stakeholders' Participation

4. Suppliers

The Group has established a sound suppliers management system to select our suppliers through a fair auction or tender as well as onsite inspections. We have achieved full process management over the major aspects including the selection of suppliers, scope of tendering, procurement procedures, announcement of notices, and the evaluation and determination of tenders. Our open and transparent tender process and our unified procurement channels have effectively reduced procurement cost and protected the quality and safety of our medicines and other medical-related products.

5. The Public

The Group strictly abided by the rules and regulations for listed companies and earnestly fulfilled its responsibilities in information disclosure. We complied with information disclosure rules by regularly updating the information on our official website www.hec-changjiang.com and improving our communications with the public. We have also set up and opened our official WeChat account "HEC Pharm" to help the public learn about the honor and information of the Group's achievements in "innovation, internationalization and social responsibility", thus enabling them to understand the Group's latest developments and strategies.

6. The Banks

In 2015, five banks came to our Group for a total of eight inspections. We cooperated fully with the banks and financial institutions in their post-lending follow-ups, responded promptly to their concerns and provided them with the data and information as required.

7. The Government

In 2015, the local and other regional governments visited us three times to keep abreast of our development and the construction progress of the strategic national drug stockpile (Oseltamivir phosphate). Such inspections helped improve the Group's reputation and influence. Through visits and exchanges, the Group and the governments have established good communication and cooperative relations.

8. Industry Peers

In 2015, the Group actively strengthened exchanges with industry peers to share experiences and analyze industry dynamics and trends. This helped promote the sustainable development of the industry and encouraged industry peers to visit the Group.

9. Market Regulators

In 2015, the Group did not receive any comment or letter about the Group from Hong Kong Stock Exchange.

Environmental Protection

As an enterprise in the manufacturing industry, the Group was guided by the principle of building a conservation-oriented society and enhancing its sustainable development capacity. We have established a comprehensive environmental management and implementation system, accelerated the use of energy-efficient and environmentally friendly technologies, and actively targeted energy conservation and emission reduction when we upgraded our equipment and technology. We also adopted new equipment, new production processes and new technologies that helped conserve energy so as to minimize resource consumption and environmental impact while maximizing economic and social benefits.

The Group has designated individuals to be responsible for establishing, implementing, maintaining and improving our environmental protection system. We also provided the necessary human and material resources as well as technical and financial support to protect the environment. The Group's environmental policy included the followings:

01

Compliance with all relevant laws, regulations, rules and requirements of environmental protection;

02

Reduction in the consumption of various resources including raw materials and fuel;

03

Reduction in the generation of waste, recycling and reusing as much as possible of the waste;

04

Avoiding generating waste that polluted the environment;

05

Using environmentally friendly materials as well as design, technology and raw materials capable of conserving energy and reducing waste;

06

Vigorous promotion and implementation of the recyclable economy, minimizing and avoiding negative effects due to the Group's development on the environment;

07

Provision of training for employees on the protection of the environment; and

08

Creation of an environment for sustainable development.

Environmental Protection

Emissions



Environmental Protection

The Group's Emissions and relevant data:



The Group tried its best to adopt equipment and production processes that used resources efficiently and emitted low amounts of pollutants. We used reasonably economical technologies to make use of wastes and handle pollutants. For hazardous wastes on the "National Hazardous Waste List", we commissioned entities with the relevant qualifications to handle them, and completed all the relevant reporting procedures such as filling in the pollutant transfer forms. For non-hazardous wastes, we stored them separately and made good use of them. In 2015, we processed 20.68 tonnes of waste paper, waste plastic and waste metal.

The Group encouraged all employees to participate directly in the management of the enterprise and rewarded them for any measures that reduced emissions. In 2015, the "Monitoring and improvement of extending the time of use of clopidogrel bisulfate test reference solution" as proposed by our employees achieved the desired results. This not only reduced a considerable amount of consumable cost for the Group but also reduced the discharge of test reference solution.

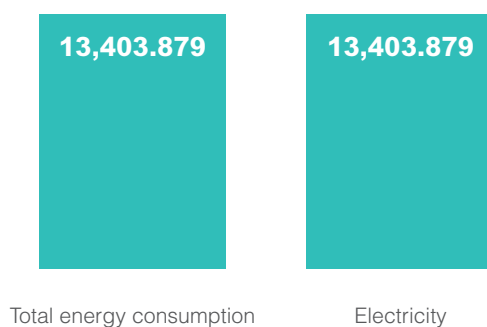
In 2015, the total amount of greenhouse gas emitted by the Group's use of electricity, water and steam was 11,201.7 tonnes. In 2015, the Group's production process did not generate any hazardous waste. In 2015, the Group's production process generated 22.68 tonnes of hazardous wastes, of which 20.68 tonnes were solid wastes such as waste paper, waste plastic and waste metal which were all recycled.

Environmental Protection

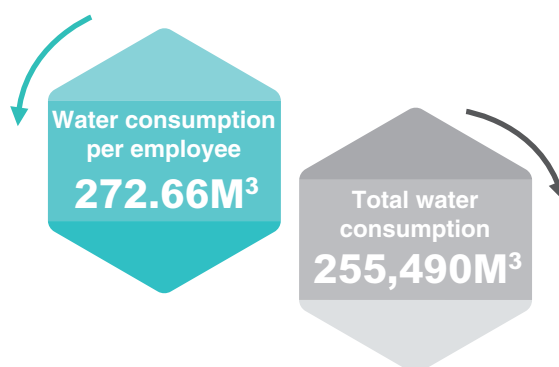
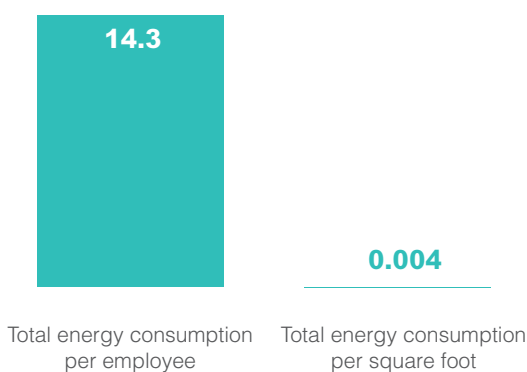
Use of Resources

As an enterprise in the manufacturing industry, the Group was guided by the principle of building a conservation-oriented society and enhancing its sustainable development capability. We have built a comprehensive system for managing and implementing management protection, accelerated the adoption of energy efficient and environmentally friendly technologies, and proactively promoted the equipment upgrade and technological improvement that focused on energy conservation and emission reduction. By adopting new equipment, new production process and new technologies that helped conserve energy and protect the environment, we minimized our resource consumption environmental usage, thus maximizing our economic and social benefits.

Energy consumption: (Unit: '000 kWh)



Average energy consumption: (Unit: '000 kWh)



Environmental Protection

Description of energy use efficiency initiatives and results achieved:

Materials balances

We have strengthened the management of our materials balance by focusing on the usage of raw materials at each of the key audited departments throughout the production process and analyzing the monthly balances of materials. This allowed us to keep abreast the stability of the production process.

Electricity conservation

We turned off lighting according to the prevailing light condition. Air conditioning would be turned on only if outside temperature reached 32°C and above, with a temperature setting of not lower than 26°C. In winter, air conditioning would be turned on only if the room temperature fell below 17°C. After the work is done, all electric equipment must be turned off.

Water conservation

We strengthened our management of water usage and the inspection of water conservation. Daily inspections were conducted by department heads, while comprehensive inspections would take place ahead of long holidays. Rectifications would be implemented whenever a water leakage was found.

Management of wastes

We strived to reduce the generation of wastes, collect them separately, recycle and reuse them, and manage and handle them according to applicable rules and laws. In early 2015, we upgraded the cooling station, which not only eliminated a serious safety hazard but also enabled highly effective energy conservation. The remodeled system would reduce electricity usage by 106,240kWh per year.

Water efficiency initiatives and results achieved:

Consumption of water (including paid water and recycled water) in the production process (in cubic meters)	Water sourced from the urban water supply or other water supply systems (in cubic meters)	Amount of recycled or reusable water (in cubic meters)	Percentage of recycled and reusable water in total water consumption (%)
5,117,511	255,490	4,862,021	95%

Total packaging material used for finished products:

A total of 1,358 tonnes of packaging material were used for finished products, with each product unit using 343kg of packaging material, representing 0.025% of the total.

Environmental Protection

The Environment and Natural Resources

In response to possible sudden environmental pollution incidents, the Group has developed a contingency plan to standardize the management of emergencies, improve the ability to cope with risks and prevent accidents, maintain social stability, ensure workers' safety and health, and protect public safety, thus minimizing the property loss, environmental damage and social impacts.

We have also strengthened the monitoring of hazard sources and established an environmental accident risk prevention system, thus actively preventing and timely controlling and eliminating hazards. This has allowed us to better prevent and handle any sudden environmental pollution accidents, thus avoiding their occurrence and protecting the public health, their lives and property safety to the largest extent. We were always prepared to deal with sudden environmental pollution accidents, not only mentally but also in terms of materials, technical capability, and workflow. We have strengthened our training exercise, and our emergency systems were always on the alert so that we can respond quickly and effectively in case of an emergency.

Policies on minimizing significant impact on the environment and natural resources:

1. Treatment of the exhaust gas

- a. The emission of gas or particles that contained chemicals, sulfur dioxide, nitrogen oxides, as well as malodorous gases smoke and gas emitted by boilers that polluted the environment, gas emitted by pharmaceutical equipment and other production facilities, the storage, use, recycle and gas emission of volatile chemicals such as acids, alkalis or solvents, the industrial gas emission from wastewater treatment, must all be treated by specific exhaust gas treatment facilities; and
- b. Exhaust gases were discharged into the air at high altitude after treatment by a combination of methods such as oxidation, absorption, neutralization, washing and incineration. The emission of exhaust gas that had been treated to standard but that would still affect the environment and neighboring residents should be subject to further reduction;

2. Treatment of the wastewater

- a. We implemented a rational use of water resources to achieve separate transmission of clean and dirty water, of rain and dirty water, and to achieve repetition using of the water;
- b. We have built a specific collection system for industrial wastewater according to the degree of pollution and characteristics of the pollutants. The wastewater would be treated by physical chemistry method or activated sludge method. Residential wastewater would be directly treated by a biochemical system after collection; and
- c. To reduce the cost of treatment, we adopted new energy-efficient and low-cost treatment procedures to handle wastewater that was difficult to treat;

Environmental Protection

3. Treatment of the noise pollution

- a. We have adopted low-noise equipment. In designing our buildings, we have taken into account vibration reduction, noise absorption and noise reduction treatment; and
- b. We have installed noise absorption facilities in loud noise areas and supplied employees with noise-reduction equipment to reduce the noise and improve the work environment of our employees;

4. Treatment of the solid wastes:

- a. We recycled reusable things such as paper, plastics, metals and glass from solid wastes;
- b. We have built permeation-proof and rainproof storage areas for domestic garbage and commissioned the sanitation department to collect and dispose of the garbage in landfills;
- c. Solid garbage that met the standards for incineration would be handled by the Group's incinerators;
- d. Sludge that could be taken by the sanitation department to landfills should not leak or cause odoriferous pollution. Anything that could be used as organic fertilizer materials would be transferred to a qualified fertilizer manufacturer, subject to the issue of usage or trial reports by the agriculture, environmental protection and other departments. Even after the sale, we'd continue to monitor the sludge's long-term impact on the soil to prevent any "potential" environmental pollution; and
- e. Solid wastes such as sediment from boilers could be sold as building materials;

5. Treatment of hazardous waste

- a. Hazardous wastes on the "National Hazardous Waste List", such as distillation residues, activated carbon slag, waste or chromatographic resin filler, wasted lubricating oil, solvents or chemicals containing heavy metals, expired or obsolete chemicals or medicines, as well as waste packaging materials associated with hazardous waste and chemicals would all be treated by qualified entities, subject to the completion of appropriate reporting and approval procedures when transferring the waste;
- b. For hazardous wastes we have built special collection areas that were waterproof, permeation-proof and wind-proof;
- c. For hazardous wastes we have established a collection, storage, transfer and accounting procedure with proper archiving; and
- d. We have prohibited any unauthorized incineration, filling and transfer of hazardous waste.

Employment and Labor Practices

Health and Safety

The Group attached particular importance to the health and safety at work. We have set up a special department with dedicated personnel to establish and manage systems and operation rules for strengthening security awareness, protecting health and safety in production. In 2015, the Group did not experience any work-related death or injuries whether minor or serious, and the number of working days lost due to work-related injuries was zero. We were committed to strengthening the management and control of safety and health risks, and have protected the legal rights of our employees by participating in social security for occupational injuries. We have proactively adopted effective preventive technologies, processes and materials against occupational diseases. We have also limited or eliminated the use of technologies, processes, materials that pose serious occupational hazards. We have improved our working conditions by adopting effective safety skills and providing professional as well as personal protective equipment that meet the requirements of occupational hazards.

The Group has adopted the following enforcement and inspection methods to provide a safe working environment for employees and to protect them from occupational hazards:

1. Dust prevention: We tried our best to use advanced production technology to control the amount of dust produced, and have installed dust-cleaning devices at each of our production workshops. We allotted our employees with dust masks and periodically replaced them. We have installed air-conditioning system with high efficiency dust filters in our clean rooms;
2. Poison prevention: We principally relied on such methods as anti-virus, disinfection, attenuation, poison control and detoxification. We tried our best to use non-toxic or low-toxic materials and processes instead of toxic materials and technology. We also tried our best to enclose, mechanize and put the toxic materials in pipes from any production equipment and products. We provided our employees with personal protective equipment, increased ventilation facilities at locations that generated toxin, gases, and strictly followed the proper work procedures in order to prevent any leakage. We have also established an emergency rescue system;
3. Noise and vibration reduction: Noise was mainly generated by production equipment. We have eliminated, reduced and control noise and vibration through the use of low-noise equipment, sound absorption technology, and acoustic silencers. Following a long running environmental monitoring, we have demonstrated that our noise level complied with class four standard, namely 70dB during daytime at 55dB at night on both sides of a trunk route;
4. Radiation prevention: The Group did not use radioactive hazardous chemicals and therefore had no need for any radiation protection measures. If we were to use any radioactive hazardous chemicals, we would adopt protection measures according to the relevant regulations;

Employment and Labor Practices

5. Heat prevention: We have designed and located our heat sources rationally according to the "Hygiene Standards for the Design of Industrial Enterprises". We have adopted advanced production technology to reduce the heat source, insulated any heated surface, and installed ventilation and cooling facilities. We also conducted regular health checks on our employees, provided them with cold drinks and appropriate protective gears, distributed anti-heatstroke drugs and offered them special allowances; and
6. Cold and damp prevention: We have installed heaters in our workshops, strengthened their winter insulation, and installed air conditioners in the laboratory, operating room and offices.

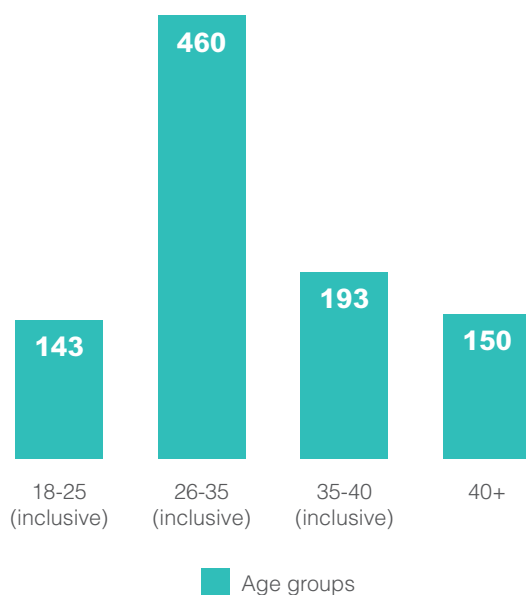
Development and Training

The Group adhered to the people-oriented principle and encouraged employees to develop their creativity and potential. We integrated personal development into enterprise development, and promoted the joint development of employees and enterprises.

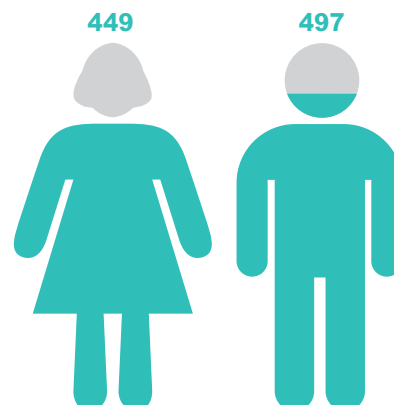
Equal Opportunities

The Group provided equal opportunities to all employees in all areas, creating a fair and non-discriminatory atmosphere. Female employees had equal opportunities as male employees, and would not lose jobs or suffer a pay cut because of pregnancy. There was no religious or racial discrimination in recruitment and career development.

Total employees by age



Total employees by gender



As at December 31, 2015, we had 946 employees, of whom 449 were female and 497 were male.

Employment and Labor Practices

Recruitment

The Group recruited talent on the principle of openness, equality, competition and merits.

The Group's recruitment was conducted via the internal and external channels:

1. Internal recruitment: through promotions, job switches, job rotations and the re-hire of former employees, we selected the appropriate employees from our own human resources pool to fill any vacancies or new positions; and
2. External recruitment: through recruitment advertisements, employment agencies, Internet recruitment and campus recruitment, we hired the best from the broader community through a comprehensive evaluation system in an open, fair and equal manner.

Every employee must sign an employment contract and, if appropriate, other supplementary contracts such as a confidentiality and non-competition agreement or a training service agreement. We adopted a 40-hour workweek system. In addition to the statutory holidays, our employees also enjoyed paid annual leaves, wedding leaves and maternity leaves.

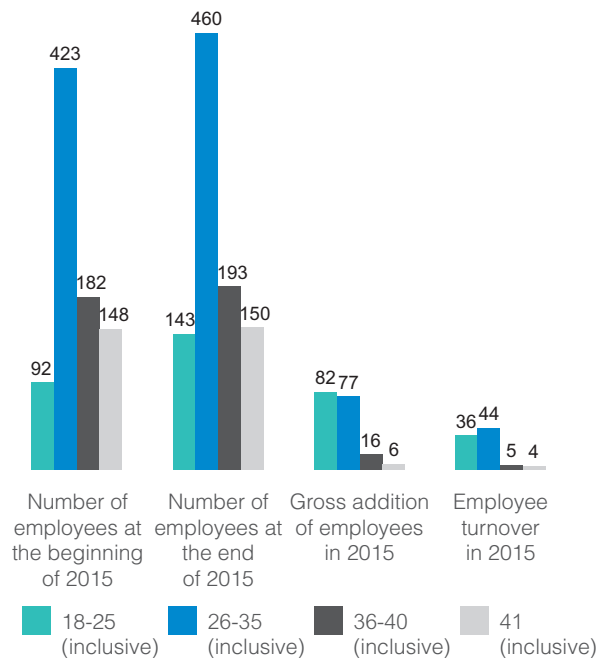
For the year of 2015, our employee turnover was as follows:

1. By gender:



Employment and Labor Practices

2. By age group:

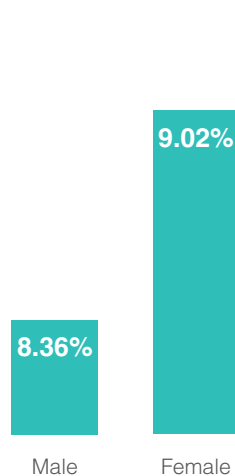


3. Employee turnover rate:

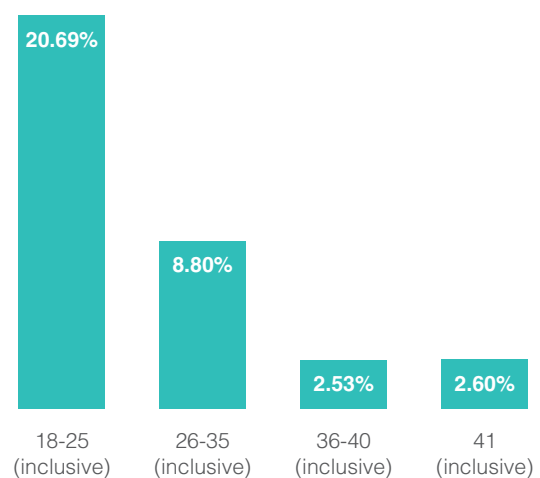
In 2015, we began the year with 845 employees, added 190 people and lost 89 during the year. As at December 31, 2015, we had a total of 946 employees.

The employee turnover rate for 2015 was 8.60%. *Note*

1. By gender



2. By age group



Note:

The formula for calculating employee turnover rate is:

number of employee turnover in period / (number of employees at the beginning of period + gross addition of employees in period) * 100%.

Employment and Labor Practices

Compensation and Benefits

We have strictly abided by relevant laws, regulations and policies, and have continued to improve our staff salaries and benefits, pay up all statutory social insurance and grant our staff all social benefits such as statutory holidays. We set our wage standards slightly higher than those offered by enterprises in our industry or in the neighboring areas. We also proactively improved our employee benefits with a 10% annual wage rise in 2015, thus increasing their satisfaction with their salaries. While we increased our labor productivity and raised the degree of our production automation, we have also steadily increased the real income of our employees. At the end of the year, in accordance with the Group's profitability, we offered our employees year-end bonuses and rewarded them for achieving scientific and technological progress. The Group offered excellent accommodation and canteen services as well as staff care (charity fund) and other benefits. We also paid attention to employee incentives with the implementation of monthly performance appraisal, the selection of Star Employee of the Month, and the award of rationalization proposals, which carried rewards in kind or in cash. Our employees also enjoyed paid medical leaves, housing and childcare benefits.

Labor Standards

The Group already has a sound human resources system encompassing recruitment, training, resignation and benefits. According to our recruitment and hiring principles, persons who did not meet legal requirements could not be hired. Depending on the requirements of the job or the department making the hire, the human resources department would conduct background checks based on the information provided by the applicant. Persons who provided false information would not be hired.

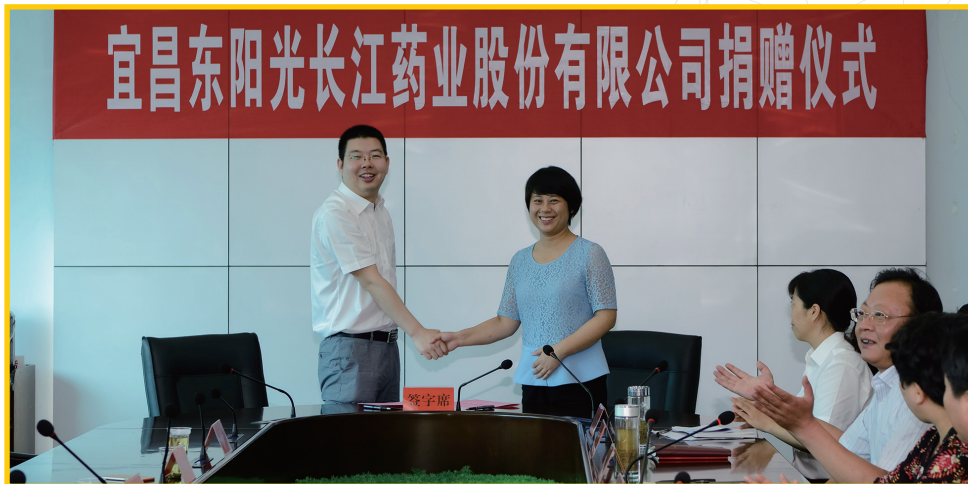
The Group adhered strictly to national and local regulations for recruiting and hiring. There was no child labor or forced labor within our Group.

Social Responsibilities

Support for Philanthropy, Donations for Social Welfare

Passionate for Public Welfare, Concerned about Charity

An enterprise should bring benefits to the communities where it operates. Whenever we go to develop in a geographical area, we also take our social responsibilities into consideration. In recent years, we have consistently worked for the harmonious development of the enterprise and society, and contributed to social welfare through such social welfare activities as the donation of money and materials. We actively participated in poverty alleviation, career development for the disabled, and fights against natural disasters. Our data show that in recent years the Group has provided RMB3.5 million in donations to such causes as the Sichuan earthquake, high school student assistance and the Loving Heart Foundation. In 2015, our Group's donations totalled RMB0.8 million.



Social Responsibilities

Protection of the Under-privileged

Our Group actively undertake poverty alleviation, promote mutual assistance among our employees, and offer condolence money and materials to our needy employees. Our leaders often visit our retired or aged employees as well as those in need, enabling them to feel the enterprise's concern for them. Further, we respect the rights of women and offer equal pay to all employees in the same position, regardless of their gender. We also ensure that male and female employees all enjoy the same rights in different areas. For female employees during their pregnancy or lactating period, we offer them special preferences and protection in such areas as work hours and labor protection.

Care for Employees

Employees are the treasure and prerequisite of enterprise development. The quality and vitality of employees are the fundamental drivers of corporate development. We respect and ensure the rights of our employees, offering them a nice work environment, providing them with adequate training and an all-round development path and caring about their lives. We arrange various entertainment and sports activities for our employees to help them achieve a balance in work and life. Employee care plays an irreplaceable role in our corporate management, being a crucial medium in connecting the owners of the Company and the staff members. We continue to focus on employee care, mobilizing the enthusiasm and initiatives of our employees. This can help the Group to develop and grow in the competitive world.



(Group spring festival variety show)



(Young singers competition)



(Employees basketball tournament)

Operating Practices

Supply Chain Management

In accordance with the relevant laws and regulations and GMP, the Group has established a high standard, comprehensive and ever improving quality management system to ensure that the quality of our medicine would remain safe, effective and controllable. Supply chain management is an important part of the quality management system. The Group has developed a series of relevant quality control documents, including the “Material Supplier Management”, “Incoming Material Procurement Management” as well as material procurement quality standards and a qualified supplier list, to ensure that the raw materials complied with procurement quality standards and that risks were under control.

All our raw materials were sourced from the Group's list of qualified suppliers. Admission to the list of qualified suppliers must follow strict standards. After a preliminary screening, potential suppliers would be subject to an on-site audit entailing a comprehensive assessment of the supplier's quality management level, capability of ensuring a stable supply, safety and environmental management, employee health and social responsibility, corporate culture and business reputation and so on. The list of qualified suppliers was managed dynamically with regular assessment that eliminated the unfit suppliers.

As at December 31, 2015, there were 287 suppliers on our qualified supplier list in total, all of whom were located within Mainland China. Our imported raw materials were purchased from domestic agents.

In accordance with the requirements of the requiring departments, the purchasing department would make an initial screening based on the following criteria when selecting and engaging our suppliers: the potential supplier's qualifications met the requirements, it was fully licensed, its sample passed our inspections, it could provide a stable supply, and it was in principle the top three in its industry or within our purchasing radius. If necessary, the purchasing department would send delegates to the potential supplier to conduct site visits to verify the authenticity of the information provided, the potential supplier's strength and size, supply capacity etc. Having passed the preliminary screening, the potential supplier would provide a small amount of products for trial. After the trial report or stability test report was approved, the Group's quality management department would arrange an audit team to conduct an on-site quality audit on the potential supplier, which would be a comprehensive assessment of the supplier's quality management level, capability of ensuring a stable supply, safety and environmental management, employee health and social responsibility, corporate culture and business reputation and so on. Only suppliers who have passed on-site quality audits would be admitted to the list of qualified suppliers.

Operating Practices

Product Responsibility

As a pharmaceutical manufacturer, the Group has always regarded the assurance of its product quality and safety, and the safeguard of the patients' health as the core value of its operation and development. The Group adhered to ISO9001:2008 idt GB/T 19001-2008 "Quality Management System – Requirements", "Good Manufacturing Practice of Drugs (revised 2010)", ICHQ10 "Pharmaceutical Quality System" and other relevant laws, regulations and decrees to establish a quality management system that suited the full processes of its pharmaceutical production, sales and service, thus ensuring that the Group could provide in a stable manner products that met the needs of patients and the requirements of applicable laws and regulations. The Group's product advertising strictly complied with the Drug Administration Law of the PRC and the PRC Advertising Law on drug advertising. We also ensured that the contents of our advertisements were true and legitimate, and that our prescription drug ads only appeared in professional medical or pharmaceutical journals jointly designated by the Ministry of Health of the PRC and the State Food and Drug Administration. The Group strictly followed the relevant provisions in the Drug Administration Law of the PRC and the Package Insert and Labeling Regulations (Administration Order No. 24) in managing its product labels to ensure that they were scientific, standardized and accurate, thus guiding the correct and rational use of drugs and helping protect public health.

During the period, the Group did not have any product recalls for quality issues.

During the period, the Group received one case of the complaint from the customers and launched a full investigation according to our procedures. The investigation showed that the complaint had no relation to the quality of the drug.

Intellectual Property Rights

The Group has always attached importance to the safeguard and protection of our intellectual property rights. We have established a strict internal control system to manage our intellectual properties, encompassing the administration of trademarks and patents, the management of proprietary technology and confidentiality, and intelligence and information gathering. We have also set up an independent department to ensure unified management. Specifically, this management system included but was not limited to the followings: The Group required that the trademark be registered at the same time when it applied to produce a new drug or generic drug. We have designed a detailed strategy to protect our core patents. We'd prefer to conduct our own R&D with full control and ownership of the relevant intellectual property rights. If we were to collaborate with or commission other individuals or entities on R&D, we'd sign technology cooperation and commission agreements with precise specification on the application and ownership of the patents resulting from the R&D. We'd conduct an asset valuation of our patents and include them in our financial management system whenever we needed to transfer, license or pledge the patents, to use patents as equity contribution in kind, or to use patents in joint ventures or co-operations. We'd take appropriate legal measures on a timely basis in the case of any patents or patent applications by third parties that might harm the Group's interest. We would sign a confidentiality agreement with our employees at the time of the signing of employment contract, with detailed specifications on the employee's scope, obligations and responsibilities with regards to confidentiality, as well as the relevant

Operating Practices

cease-of-employment arrangements. The Group has established a confidentiality system and an archive management system with clear specification of employee's confidentiality obligations in relating to patentable technology or products. Employees would also be required to analyze domestic and overseas patent information before conducting the R&D of new technologies and products so as to avoid repeated work or avoid third-party patent barriers in accordance with the patent regulations.

The Group would further enhance the protection of our intellectual property rights to avoid the infringement by third parties as well as the infringement of third party intellectual property rights.

Anti-corruption

In accordance with the law, the Group has established such rules and regulations as an anti-fraud management system, the anti-commercial bribery provisions, business ethics control program and the anti-money laundering management practices, and have strictly implemented these rules and regulations. The Group has prohibited all employees from offering or accepting bribes or engaging in corrupted practices under any circumstances, and would transferred all unlawful cases to the judicial organs for further handling.

The Group and its employees strictly adhered to relevant laws and regulations as well as moral standards. In 2015, there was no legal case regarding corruption, bribery, extortion, fraud or money laundering against the Group or its employees.

The Group has set up an audit department in charge of the implementation of regular anti-fraud measures in the Group. The audit department's fraud investigations could be conducted at the same time when it undertook financial audits, internal control audit, special audit, management audit and cadres audit (upon leaving or taking up a position), or they could be conducted as a special case investigation. We have established and publicized our anti-fraud reporting channels that included telephones and emails.

Our employees and other parties with direct or indirect economic relations to the Group could report any actual or suspected fraud cases (including any unprofessional conducts) by telephone, e-mail or other means either in their own names or anonymously. The Group would keep strictly confidential of the reporters and protect them against any form of illegal discrimination or retaliation.

Feedback

Dear Reader:

Thank you for reading the Report! This is the first year we publish the Corporate Social Responsibility Report, therefore we would like you to evaluate the Report, at the same time give us your precious comments and help us to continuously improve the Report.

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YiChang HEC ChangJiang Pharmaceutical Co., Ltd. 2015 Corporate Social Responsibility Report

Name: _____
Company: _____
Position: _____
Telephone No: _____
Email address: _____

Feedback survey:

- 1 Have you obtained the information you need from the Report?
- 2 Do you think the Report has fully reflected what YiChang HEC ChangJiang Pharmaceutical Co., Ltd needs to bear with regards to its economic responsibilities?
- 3 Do you think the Report has fully reflected what YiChang HEC ChangJiang Pharmaceutical Co., Ltd needs to bear with regards to its environmental, health and safety responsibilities?
- 4 Do you think the Report has fully reflected what YiChang HEC ChangJiang Pharmaceutical Co., Ltd needs to bear with regards its social responsibilities?
- 5 Do you think the Report has fully reflected what YiChang HEC ChangJiang Pharmaceutical Co., Ltd needs to bear with regards to its products and service responsibilities?



YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
宜昌東陽光長江藥業股份有限公司

