

2016 CSR Report

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Content

1	About this report.....	5
2	Chairman statement	6
3	About us	7
3.1	Corporate profile.....	7
3.2	Corporate culture.....	8
4	Corporate governance.....	10
4.1	Corporate structure	10
4.2	Shareholder governance.....	10
5	Responsibility management	10
5.1	Responsibility principle.....	10
5.2	Responsible communications	11
6	Responsibility themes.....	12
6.1	Theme 1: Revival of Great Southern TCM.....	12
6.2	Theme 2: Journey of innovation	13
7	Enhance wellbeing of consumers.....	15
7.1	Focus on research, innovate for consumers	15
7.1.1	Strengthen R&D system	15
7.1.2	Facilitate results transformation	16
7.2	Emphasize quality to ensure high-quality medicine (products)	17
7.3	Abide by safety standards to secure corporate development.....	18
7.4.1	Accessible complaint channels.....	21
7.4.2	Improve recall procedures.....	21
8	Maximize returns for shareholders	22
8.1	Empower regulated operations	22
8.1.1	Improve internal control system	22
8.1.2	Construction of risk management system.....	23
8.1.3	Perform auditing on special areas.....	23
8.2	Mitigate the risk of integrity-breach.....	24

8.3	Comprehensively upgrade management	24
8.4	Create value for shareholders	25
9	Greening our home	26
9.1	Improve environmental management system	26
9.2	Create a culture of environmental consciousness	27
9.3	Combat climate change with low-carbon operations	27
9.3.1	Energy management	28
9.3.2	Multiple emission-reduction measures	28
9.4	Water resource management	31
9.5	Shaping a healthy ecosystem	32
9.5.1	Waste management	33
9.5.2	Protecting the health of the ecosystem	33
10	Nurturing employees	34
10.1	Protect the right of employees	34
10.1.1	Basic rights of employees	35
10.1.2	Health and safety at work	35
10.2	Facilitate the development of employees	36
10.2.1	Equal employment opportunities	36
10.2.2	Staff training	36
10.2.3	Promotion and development	39
10.3	Care for the livelihood of employees	40
10.3.1	Staff communications	40
10.3.2	Assistance to employees	40
10.3.3	Care for employees	41
11	Maximize the interest of society	43
11.1	Spread love and contribute to community	43
11.1.1	Targeted approach to aid the needy	43
11.1.2	Flood and disaster relief	45
11.2	Persist in undertaking volunteer services	46

11.3	Safeguard public health	48
11.3.1	Recall expired drugs	48
11.3.2	Medical charity services	48
12	Outlook	50
13	ESG achievements	51
14	Feedback form for readers	58

1 About this report

This is the 9th Corporate Social Responsibility Report released by Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited. Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited 2016 Corporate Social Responsibility Report (the “Report”) systematically discloses the principles, practices, achievements and the future outlook of the Company’s undertakings in corporate social responsibility (CSR) towards shareholders, customers, business partners, the environment, employees and the society and so on in 2016.

Time frame

1 January 2016 to 31 December 2016, some parts of the Report cover previous and future periods, when applicable.

Report coverage

The Report covers Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited and its affiliated companies and joint ventures. To be consistent with the 2016 annual report, the data disclosed herein do not take into account joint ventures.

Definitions

For the ease of presentation and reading, “the Group” and “we” in this Report refer to the Company and affiliated holding companies; “Guangyao Baiyunshan” and “Company” refer to the Company. Definitions of the abbreviations used in this Report are the same as the definitions laid out in the Company’s 2016 annual report.

Standard of preparation

Most contents disclosed in this Report are prepared in strict accordance with the requirements of the ESG Reporting Guide of the HKEx. Some parts of this Report follow the disclosure guidelines laid out in Guiding Opinions on Corporate Social Responsibility of State Enterprises published by the State-owned Assets Supervision and Administration Commission of the State Council, Guidelines for the Preparation of Corporate Social Responsibility Reports in China (CASS-CSR3.0) published by the Chinese Academy of Social Sciences, and the G4 standards in the Preparation Guide of Sustainable Development Report published by the Global Reporting Initiative.

Data description

The data and cases disclosed in the Report are based on the Company’s official documents, statistic reports or related public information. The Company warrants that this Report does not contain any misrepresentations, misleading statements or material omissions.

Report availability

The Report can be read online, and the electronic versions available, in the websites of SSE (www.sse.com.cn) and HKEx (www.hkex.com.hk).

Report versions

This Report is available in the Chinese and English languages. In the event of discrepancy in

interpretation, the Chinese version shall prevail.

2 Chairman statement

With the mission to pass on the heritage of traditional Chinese medicine, we abide by the adage of “care for life, pursue excellence”. In the process of achieving our goals of business development, we always adhere to our responsibility principle of “Guangyao Baiyunshan spreads love to everyone”, which is deeply ingrained into our corporate management and put into practice. This allows us to fulfill our corporate social responsibilities, build harmonious relationships with stakeholders, and join hands with stakeholders to strive for the sustainable development in economic, social and environmental aspects.

2016 was the first year the Company implemented the 13th five-year plan. It was also a year we focused on enhancing the quality of the Company. We have actively addressed the emergence of “new normals”, such as the increasing downward pressure in the macro-economy, the slowdown in both production and efficiency growth in the pharmaceutical industry, increasing challenges in the deepening of the nation’s healthcare system reform, the shift from business tax to value-added tax, the introduction of the “two-vote system” and the implementation of the “consistent evaluation” on generic drugs. We have vigorously developed the Four Great Sectors, namely Great Southern TCM, Great Health, Great Commerce and Great Medical Care, and nurtured Three New Business Forms – e-commerce, capital finance and medical devices. We have extensively enhanced the quality of the Company and created value for stakeholders.

We have been upholding the principle of “Pass on heritage, strive for breakthrough and innovation” with a people-oriented, humanistic mindset to actively assume social responsibilities. With the goal to benefit the world, we strictly monitor the quality of our products. We have implemented a quality management system that covers the whole product life cycle – from the very beginning of the cycle to its end, so as to provide consumers with high-quality and safe products. We have inherited the mission of our predecessors to contribute to the community, to aid the poor by using a targeted approach so that the needy can be self-dependent, to provide volunteer services, and to spread love and care in the community. We dare to navigate the blue ocean, we are determined to forge a new horizon, to engineer a refined management approach and to comprehensively enhance the efficiency of the Company. We ride on our own advantages to integrate innovative resources, to build our research and development platform and to establish a solid scientific innovation system. We put people first by encouraging the development of our staff, providing our staff with a variety of training courses and establishing a broad development platform, so as to facilitate the growth of our employees.

We take the initiative to answer the nation’s call to construct a resource-saving, environment-friendly decision-making process that benefits the society, and to take on the responsibility to protect the

environment. We strictly adhere to the relevant laws and regulations regarding environmental protection, and we have sound environmental management policies in place. In order to create an environmental-friendly corporate culture, we have also carried out a multitude of distinctive environmental activities. Outside of the Company, we have actively collaborated with stakeholders to vigorously implement our energy-saving, emission-reduction strategies, thereby create a clean production model for the pharmaceutical industry.

We will adhere to our responsibility principle of “spreading love to everyone” and conduct businesses with a strong sense of social responsibility. Together with our stakeholders, we will forge ahead to a more sustainable future.

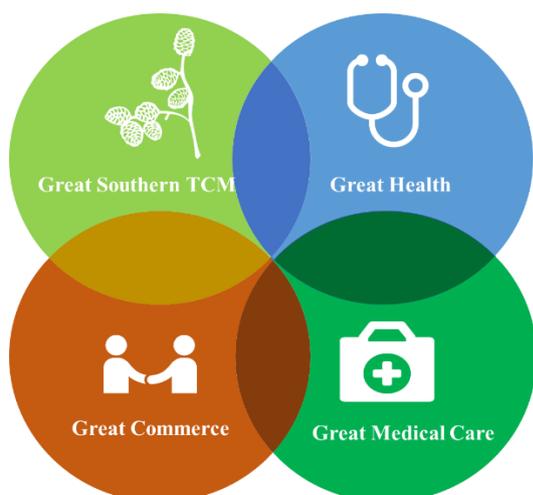
3 About us

3.1 Corporate profile

Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited is a listed company under Guangzhou Pharmaceutical Holdings Limited (A share 600332, H share 00874), the Company mainly engages in: (1) Chinese and Western medicine, chemical raw materials, natural medicine, biological medicine, research and development, manufacturing and sales of chemical raw materials intermediates; (2) wholesale, retail, import and export of Western medicine, Chinese medicine and medical equipment; (3) the research and development, production and sales of great health products; (4) investment in the health industry such as medical services, health management, health maintenance and elderly care, etc. After years of careful planning and expedited development, the Group has gradually created the Four Great Sectors, namely “Great Southern TCM”, “Great Health”, “Great Commerce” and “Great Medical Care”, and nurtured Three New Business Forms, namely “e-commerce”, “capital finance” and “medical devices”.

Within the Group, there are 25 pharmaceutical manufacturing enterprises and institutions (including 3 branches, 18 holding subsidiaries and 4 joint ventures). Among them, there are 12 time-honored Chinese pharmaceutical enterprises (including holding subsidiaries and joint ventures), 10 of them are century-old time-honored enterprises. The companies have 4 protected Chinese traditional medicines of national grade and 54 exclusively made Chinese traditional medicines (including holding subsidiaries and joint ventures).

Four Great Sectors



Three new business forms



12 Chinese time-honored branded enterprises

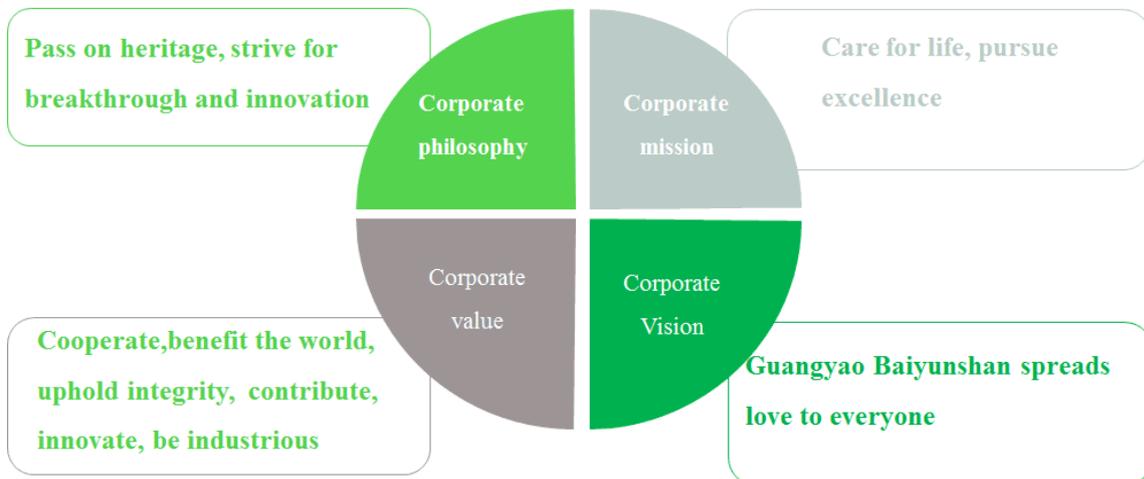
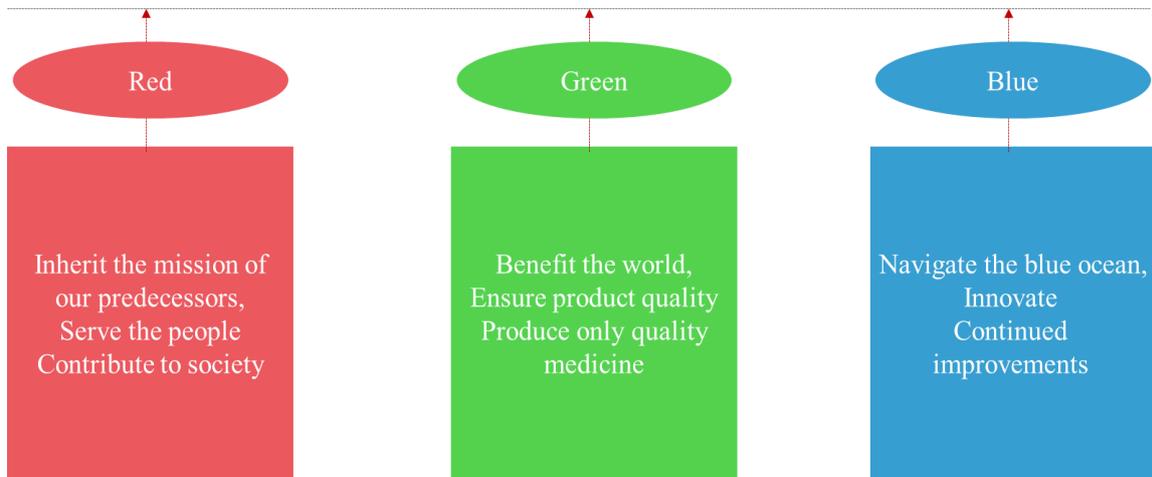
- **Chen Li Ji, founded in 1600**
- **Jing Xiu Tang, founded in 1790**
- **Wang Lao Ji, founded in 1828**
- **Qi Xing, founded in 1875**
- **Ming Xing, founded in 1900**
- **He Ji Gong, founded in 1938**
- **ZhongYi, founded in 1662**
- **Cai Zhi Lin, founded in 1806**
- **Xing Qun, founded in 1868**
- **Pan Gao Shou, founded in 1890**
- **Guang Hua, founded in 1912**
- **Jian Min, founded in 1952**

Major Chinese medicines products include Xiao Ke Pill, Qing Kai Ling series, Xia Sang Ju granules series, Hua Tuo Zai Zao Pill, An Gong Niu Huang Pill, Wang Lao Ji Herbal Tea, Wang Lao Ji Qi Xing Tea for Children, Zhui Feng Tou Gu Pill and ect.; Major chemical medicines include cefthiamidine, cefixime, amoxicillin and Sildenafil Citrate Tablets, etc.. Major Great Health products include Wang Lao Ji Herbal Tea, ganoderma spore oil capsules etc..

3.2 Corporate culture

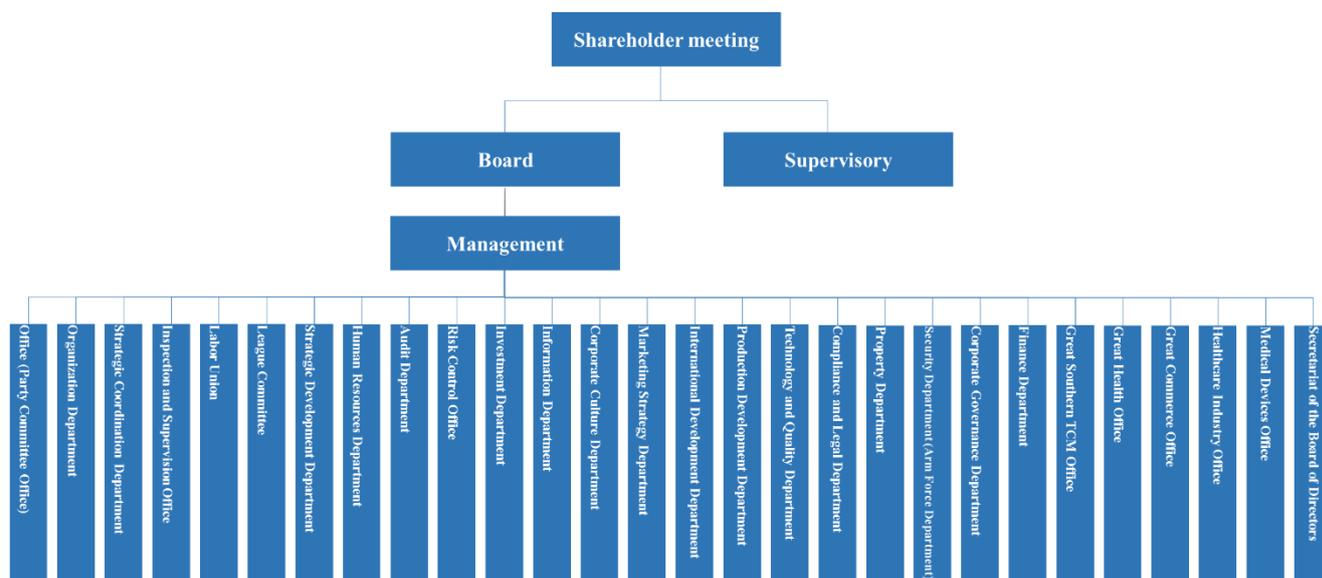
Since the establishment of Chen Li Ji in 1600, the Group has enjoyed over 400 years of history. Our cross-century heritage and innovation are founded on three genes, namely, “red gene”, “longevity gene” and “innovative gene”. The “three colors of Guangyao Baiyunshan” represent the characteristics of our company and influence our principles, missions and actions.

The 3 key genes



4 Corporate governance

4.1 Corporate structure



4.2 Shareholder governance

The Company has been strictly complying with the requirements of the Company Law of the PRC, the Securities Law of the PRC, the Listing Rules of the SSE and the HKEx, related laws and regulations of the CSRC and the Articles of Association of the Company in its operations. Shareholders meetings, meetings of the board and meetings of the Supervisors are convened according to the requirements of the Rules of Proceedings of the Meetings of Shareholders, the Rules of Proceedings of the Meetings of the Board, the Rules of Proceedings of the Meetings of the Supervisor.

In 2016, the Company held 5 shareholders meetings, 9 meetings of the Board, 5 meetings of the Supervisors, 7 meetings of the Strategic Development and Investment Committee, 3 meetings of the Audit Committee, 1 meeting for the Nomination and Remuneration Committee and 1 meeting for the Budget Committee.

5 Responsibility management

5.1 Responsibility principle

The responsibility principle of the Group is manifested in our brand's motto: "GuangyaoBaiyunshan spreads love to everyone". Our core mission is to care for patients' health and wellbeing, so as to create more value for stakeholders and to sincerely contribute to the health and wellbeing of the community.



5.2 Responsible communications

Stakeholders	Communication needs	Communication approach
Shareholders and creditors	Timely and accurate disclosure of business situations and major information related to corporate decision-making, to provide a reasonable return on investment	Conference exchange CSR Report, Financial Report Investor meetings Website, mail, investor hotline
Customers	To provide high-quality products and services, to ensure smooth bilateral communications, to recall problematic drugs in a timely manner	Seminars, customer visits, annual and irregular customer meetings, corporate publications and so on
Employees	To secure equal employment and career opportunities for employees, to ensure their right to be rewarded remuneration and leave, to ensure the work safety of employees and provide them with training and development opportunities	Satisfaction survey Enterprise information platform Internal mailbox Workers' representatives conference Democratic dialogue meetings Staff Symposium
Business partners	To provide development opportunities for partners, to improve responsibility-execution capability, to forge good cooperating relationships	Company website Phone, mail Work conference Mail correspondence
Government and industrial peers	To preserve value of and create value from state-owned assets, to participate in policy recommendations and consultations, and to actively	Work reports Research, proposals Government and enterprises forum Website, mail

	cooperate with the government's monitoring; to promote industrial progression, to create a healthy and sustainable market environment	
Community/public	To provide employment opportunities for local residents, to pay attention to the impact of production and business operation on the residents' livelihood, to spread the knowledge about health and to help the disadvantaged group	Conference exchange Phone communications Community activities Open day, corporate trips

6 Responsibility themes

6.1 Theme 1: Revival of Great Southern TCM

Southern TCM is embedded with a long history of development and is well-known for its unique geographical characteristics and therapeutic advantages. However, in recent years its development has been outpaced by Western medicine and other drugs. Our strategy in “revitalizing Great Southern TCM” is founded on the nation’s emphasis on “Southern TCM” resources, which we have put into a boarder perspective by introducing botanical medicine resources from across the globe. We continuously improve the applications and functions of “Southern TCM” through the rational exploration and utilization of the science of medicinal resources. From this, we can construct a development framework for “Great Southern TCM” that covers a wide range of scientific areas – from the cultivation of Chinese herbal medicine to the research, production, sales and clinical application of traditional Chinese medicine, with an ultimately goal to promote the overall development of Chinese medicine.

“Great Southern TCM” is an integral part of the Group’s “Four Great Sectors” development strategy, namely “Great Southern TCM, Great Health, Great Commerce and Great Medical Care”. “Revive Great Southern TCM” is our priority in sector developments in 2016. We aim to pass on the inheritance of traditional Chinese medicine through the research and development of medicinal species, capital consolidation, marketing innovations and other activities, and to achieve the goal of revitalizing Southern TCM. These initiatives carry special significance to the business, the industry and consumers.

Activities and effectiveness of our “Revival” campaign in 2016



6.2 Theme 2: Journey of innovation

“No matter which direction the industrial development embarks on, no matter how the world changes, one thing will stay the same: in protecting the humankind’s wellbeing, the pharmaceutical and healthcare industry should be the most fundamental, the most vital industry in the world’s industrialization 4.0.”

— Mr. Li Chu Yuan, Chairman of Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited, in the 2016 Davos Forum

In the new environment, the pharmaceutical and healthcare industry will be able to create more value and bring forth a higher degree of vitality, while innovation will be the source of this lasting momentum. We believe in the power of knowledge, therefore, we help our talents realize their full potentials and propel innovations in pharmaceutical research and development, which are done through pulling together a team of experts and by establishing institutions.

The goals of our innovation center on meeting the needs of patients and promoting the development of the healthcare industry. We seek cooperation opportunities with an open mind and strive to attract medical talents to build “the most viable industry”, thereby create more value that benefits the wellbeing of the humankind.

Innovative team



- **A strong pool of world-class talents**

2 Nobel Prize laureates – Dr. Ferid Murad, the father of Viagra and Dr. George Smoot

9 Chinese academicians and 7 foreign academicians, 2 incumbents are specially subsidized by the nation

24 chief experts (scientists) and 53 doctors and post-doctoral fellows

- **Top-tier technical staff**

6,202 professional technicians, of which over 1,411 are holding above-middle-level posts

Innovative platform

- **Constructed an innovative R&D platform to form a complete innovation hierarchy**

7 state-level R&D institutions, 6 provincial-level corporate technical centers, 2 provincial-level key laboratories, 12 provincial-level engineering technical centers

12 municipal-level corporate technical centers, 14 municipal-level engineering technical centers, 4 municipal-level key laboratories

Innovative technology



- **A great variety of core technologies that lead peers in China**

R&D of Chinese medicine and Chinese medical supplements, Chinese medicine engineering technologies including automatic controls and online testing

Chinese preparation medicine, supercritical CO₂ extraction, reversal extraction, separation of macroporous resin adsorption, quality control for finger printing of Chinese medicine

Synthesis and technology of cephalosporin antibiotic APIs, sterile powder production technology and preparation agent technology etc.



7 Enhance wellbeing of consumers

At the heart of all of our businesses is the drive to improve the health and wellbeing of consumers. The Group strives to innovate and develop products that meet the needs of consumers. Hence, we rigorously manage the quality of our products and implement quality controls to provide consumers with safe and high-quality pharmaceutical products.

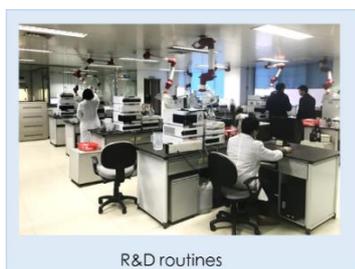


7.1 Focus on research, innovate for consumers

The premise of our business is to meet the demands of consumers. In light of this, we have established a comprehensive technological innovation system through which we meticulously develop products according to the needs of consumers. We delve deep into the expertise of the Company to strive for innovations that can promote the health of consumers and help them shoulder their problems.

7.1.1 Strengthen R&D system

Leveraging on our own advantages, we continuously refine our innovative system by integrating innovative resources and building our R&D platform.



7.1.2 Facilitate results transformation

The Group has continuously expanded its investment in R&D and established the “Great Southern TCM” funding project to support the development of major projects in subsidiaries. In 2016, the R&D investment of the Group totaled RMB 330 million, accounting for 1.65% of its income from operations.

We have stepped up the transformation of scientific and technological achievements to update and develop more effective drugs and products, so as to fulfill consumers’ pursuit for a high-quality life style. Among our achievements, Gefitinib API and tablets, the generic drugs for treating non-small cell lung cancer developed by Baiyunshan General Factory, have successfully obtained approval for clinical trial, marking an important breakthrough in the Group’s development in anti-cancer drugs.

During the Reporting Period, the Group

Acquired
13 approvals for clinical trial
9 approval for medicine manufacturing

Acquired
48 domestic patents for invention
1 overseas patents for invention

Acquired
2 utility model patents
18 industrial design patents



Science & Technology Awards	National awards	“Chinese Herbal Medicine DNA Barcode Species Identification System”by Wang Lao Ji won the Second-class Award in the 2016 National Science & Technology Progress Award
	Provincial and municipal awards	“Research and industrialization of Sanwei heat clearing and anti-itching lotion” by Guangxi Ying Kang won the Third-class Award in the 2016 Science and Technology Award of Guangxi "R&D of Key Sterile Fine Powder Making Technology and Its Application in Cephalosporin Powder for Injection" by Tian Xin won the Third-class Science & Technology Award of Guangdong Province “Xiao Chai Hu Granules and Their Preparation Method" by Guang Hua won the Third-class Award in the Science and Technology Award of Guangzhou
	Association and district awards	“A Chinese Medicine for the Treatment of Uterine Tumors and Its Preparation and Quality Control Methods” by Pan Gao Shou won the Third-class Award in China Association of Chinese Medicine’s Science and Technology Award “Research and Application of Online Blending and Other Key Technologies of Wang Lao Ji Herbal Drinks” by Wang Lao Ji won the Third-class Award of Technological Progress granted by China National Light Industry Council
The 17th China Patent Award	“A Chinese Medicine for Treating Peptic Ulcer and Its Preparation Method” by Zhong Yi “Application of Sarcandra Glabra Extract in Reducing Susceptibility to Influenza Viruses” by Jing Xiu Tang “A Chinese Medicine for the Treatment of Uterine Tumors and Its Preparation and Quality Control Methods” by Pan Gao Shou “The Preparation Method of Xia Sang Ju Granules” by Xing Qun	

7.2 Emphasize quality to ensure high-quality medicine (products)

The Group strictly complies with the quality standards of medicinal products and carries out quality management throughout the life cycle of medicinal products. Our medicinal product quality control centers around GMP and GSP, etc., covering procurement of raw materials, production, inspection, transport and sale as well as creation of new models to promote consumers’ health.



Raw materials at the factories – Guarantee medicinal product quality at the source

We maintain two major procurement platforms which strictly control quality of materials, auxiliary materials and packing materials to enhance procurement quality and efficiency

- For platform, we endeavor in the development of electronic platform for promotion of standardization and informationization of procurement management
- For management, we fully implement the process, enhance platform service quality and guarantee supply of quality medicinal products by optimizing the procurement process and strengthening supplier management, quality and risk control
- For inspection, materials are detected in strict accordance with the requirements of standards and SOP. Each batch of raw materials is given a full test in accordance with the Company's requirements, materials are not released until after they are confirmed to have passed the test at the inspection center.

Production – Standardization of safe production process



Quality management systems are devised with GMP and GSP, etc for routine production and management of medicinal products.

- Safe operation norms are formulated according to workshop characteristics so as to arouse/raise the level of workers' of awareness of safe production
- Specialists are employed in the Quality Management Department being responsible for QA of the products manufactured. Specialist inspectors in different job positions supervise quality of all products of all production lines



Release after passing inspection – Multiple internal controls

Medicinal products produced → Random inspections by quality officers → Sent to inspection center → Eligible products' batch records (record of production process) are reviewed → Record reports which pass the inspection → Release to quality approving officer (generally the factory director) → Passed by quality approving officer → Released

- Entrust an external medicine laboratory for tests conducted according to tender requirements of specific medicinal products.
- Routinization of random drug tests. Head officers of quality departments of all companies shall serve as inspectors. They are split into 5 groups for cross inspections within the Group. The slightest hidden problem shall not be missed
- Routine meetings and special quality management work meetings are held for quality authorizing officers on regular basis for regular "examination" of quality management status

Transport and sale – Strict terminal control



Transport environment shall satisfy the temperature requirements according to characteristics of medicinal products. Cold chain transport is used, quality is ensured by real time checking of temperature during delivery. The selling-end endeavours to provide more convenient services to patients

- Challenge tests are conducted for medicinal products which have higher requirements for temperature before they are transported. To test transport efficiency, products are placed for hours in unexpected circumstances which may happen during the journey specially set for the test to see if any changes occur in their quality
- Extensive sale networks are built. We have the largest medicine retail network and medicine logistic and distribution center in Southern China to guarantee long-term and stable cooperation with customers
- Explore new modes of electronic healthcare with development of drug e-commerce as the focus so as to provide convenient sales service to more customers

7.3 Abide by safety standards to secure corporate development

Safety is the baseline of all operating activities of the Company. We hold fast to our baseline and raise safety standard year after year in steadfast manner to ensure zero safety issues.

Establishment of sound safety system



Performance of responsibilities

The Safety Management Committee optimizes amendments to the safe production management system from top-to-bottom, fine tune safety responsibilities for all roles in the Company and oversee the companies in the tightening up of safety management



Rewards and penalties

The Safety Management Committee rewards entities and individuals who have excellent performance in safety tasks and fully discharged their safe production duties. On the other hand, it imposes heavy penalties on those who fail to discharge their duties diligently and holds the doers responsible



Formation of teams

The Safety Management Committee coordinates management forces of all companies to create a loyal and responsible team which is strict with management, ready to undertake duties and fully implement professional safe management



Innovation of models

With the 11X model as guidance, with reference of the EHS Management Systems of world-renowned companies and based on our own experiences and safety culture, we have designed a modern management system of corporate safety, health and environment appropriate for centralized application in the Group

Fostering safety culture

We seized the opportunity of “Safe Production Month” and organized a number of safe production activities in various forms designed to rectify hidden problems, so as to foster safety culture and the concept of “safety of employees and safe development as the priorities” in all employees.



We actively created the ambience for Safe Production Month by publicizing the event on the Company’s publicity columns, publications and employees’ world. Safety themed-banners were displayed in the factory area and entrances to workshops to support the organization of the safety work.

In order to enhance safe production management, we exchanged idea with advanced safety management companies and organizations in the form of “going out, welcome in” for the purpose of giving and learning advanced experience.



Each enterprise commenced safety training with different themes by focusing on its production and operation, which internal and external experts gave lessons to enhance the awareness of main responsibility of employees.

We combined with the characteristics of pharmaceutical industry to initiate unique safety information consultation campaign inside and outside each enterprise. We teach the knowledge of safe production and occupational safety to employees and citizens to increase safety awareness by establishment of information desk, organization of interactive games and exhibition of protection tools.



Special action was taken to investigate, rectify and eliminate hidden problems by focusing on safe production, fire safety, traffic safety, construction works, special equipment and dangerous chemicals. Investigations were made in aspects of personnel, positions, time and space for prompt detection and elimination of hidden problems.

Drills were held to train response to various kinds of emergencies and self-help evacuation combining the characteristics of safe production, emergency response and safe production for the purposes of raising the standard of handling emergency cases, self-help capacity and response to unexpected events.



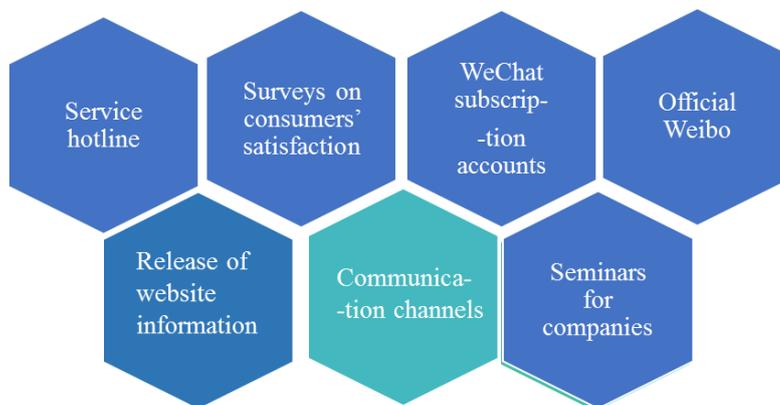
7.4 Upgrade services to ensure safe medicine consumption

After-sale service is the direct channel through which a pharmaceutical company contacts with consumers and develops relationship. We endeavor to provide consumers with experience of safe and worry-free drug use and pay great attention to customers’ complaints and providing consultancy to them. A recall policy is in place to ensure that consumers’ interests are effectively protected in case of emergencies.

7.4.1 Accessible complaint channels

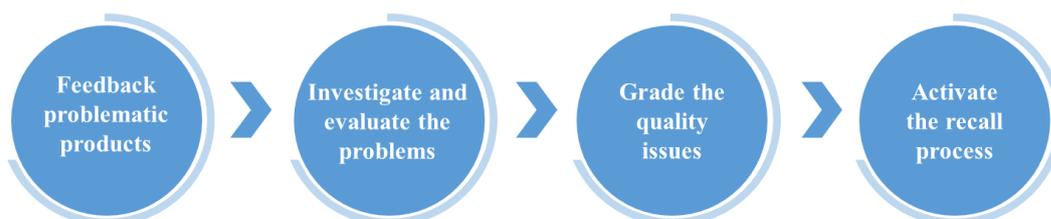
A formation-follow-up-feedback closed-loop system is in place to promptly follow up voices from various customer groups. The purpose is to ensure that queries from consumers and customers are replied promptly and issues reflected by them are effectively rectified.

- A 24-hour complaints hotline is in place. Staff are on duty to answer queries and complaints from consumers of medicine and keep record of them;
- The complaints are investigated and verified, and product-related issues are analyzed to ensure that replies are given to users and issues are properly solved;
- Corresponding measures are formulated to deal with non-product-related issues and rectify communication so as to ensure that consumers' reasonable requests are satisfied;
- Quality feedback system covers full control of the entire customer-end, consumers, salespersons, medical institutions and dealers can directly reflect quality-related issues.



7.4.2 Improve recall procedures

A sound recall process is in place for collecting information about adverse effects and handling problems of products reflected by customers. If customers' complaints against products are found to fall under the category of product defects with hidden safety issues, the recall measure will be adopted in accordance with the recall process. In order to strengthen the Company's capacity to resist various kinds of risks and pragmatically ensure consumers' safe use of medicine, the Group holds a recall drill every 1 to 2 years. In 2016, Ming Xing, subsidiary of the Company, has recalls, the recall ratio is 0.057%.





8 Maximize returns for shareholders

Centering around “strengthening risk control, optimizing internal control system, special auditing and increasing management efficiency”, the Group fully promotes and improves development of risk control and internal control systems so as to optimize business flow, increase management efficiency and honour our commitments to shareholders by seeking return for them through moral, open, transparent and efficient operation.

Number of shareholders meeting	Risks
5	290

8.1 Empower regulated operations

In the course of building goodwill, we strictly comply with the laws, regulations and industrial norms, continuously formulate and improve internal policies and systems, and actively take effective actions to ensure moral operations. In 2016, we continued to improve the internal control system, develop comprehensive risk management system and carry out special auditing tasks.

8.1.1 Improve internal control system

In order to satisfy business requirements of the Company’s new organizational structure and various functional departments, and ensure sound and effective internal control system, the Audit Department of the Company promoted efforts to develop and improve internal control system jointly with various functional departments mainly focusing on the following aspects:

- Actions for improvement of internal control and management



Note: the training of dedicated internal control officers

system and effectiveness

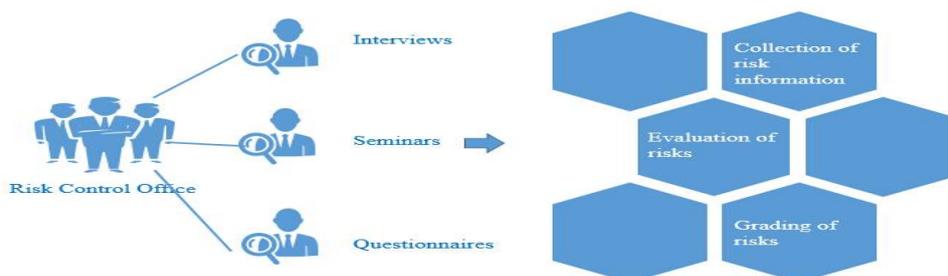
In 2016, the Company comprehensively amended the internal control manual by integrating internal control norms with actual business for compliance with regulators' requirements and easy operation. Key control processes such as the "three majors and one critical, intangible assets and property management" are introduced to create a more complete and effective internal control system. The permission manual amended at the same time clarifies the permissions made for various businesses. It ensures separation of incompatible duties by setting clear-cut duties for different departments.

- Guidance to subsidiary companies for development of internal control and management system and effectiveness

In order to standardize internal management of subsidiary companies and strengthen awareness of risk prevention, the Audit Department instructed three subsidiary companies to carry out the tasks of internal control system development.

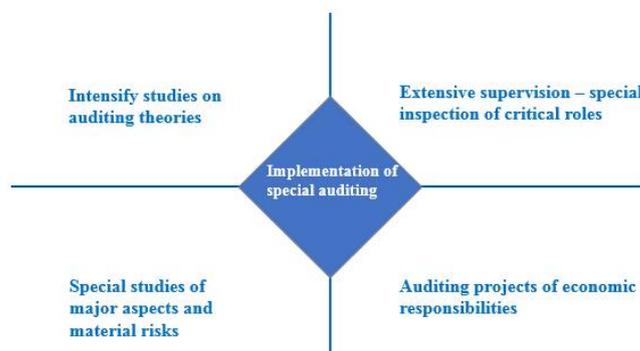
8.1.2 Construction of risk management system

As at the end of 2016, the Company has formed the risk information system comprising 17 departments and some members of the leadership. 290 risks were determined through risk identification process, and risk resolution measures were formulated for high-risk events.



8.1.3 Perform auditing on special areas

In order to fully promote and improve development of the risk management and internal control systems and further strengthen the companies' risk management capacity, a series of special auditing actions were carried out in 2016.



8.2 Mitigate the risk of integrity-breach

We pay high attention to fight corruption and promote integrity. In order to actively promote scrupulous party ethos and prevent risks of integrity-breach, a number of measures are adopted to maintain openness and transparency of operation. We actively develop “scrupulous cultural system” and follow up “efficiency supervision” projects of all companies to ensure full achievement of integrity.



Tightening up disciplinary control and supervision

To intensively implement the Eight-point Regulation of the Central, actively rectify the “Four Decadent Customs”, promote routinization of scrupulous ethos development, and endeavor to develop the sustainably effective mechanism which discourages employees to have the intention and gut to corrupt and making it impossible for them to do so



Stepping up education on probity

To form the integrity culture of “prevent the uncorrupted from corruption rather than healing the corrupted” by actively organizing the Disciplinary Education Month integrating the Chinese medicinal culture with education on integrity

8.3 Comprehensively upgrade management

In promoting the integration of informationization and industrialization, we actively support national policies and pursue progress closely adhering to the strategic system of “integration of informationization and industrialization” (“III”). In 2016, we have passed the III management system of China.

List of Certified enterprises

Province	Name of company	Certification of III Management System				
		Certification no.	Status	Appraiser	Date of certification	Date of expiry
1 Guangdong province/Guangzhou city	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	CASIII-00316IIIMS0005101	Effective	Fifth Electronic Research Institute of the Ministry of Industry and Information Technology – Guangzhou	2016-06-06	2019-06-06
2 Guangdong province/Guangzhou city	Guangdong Baiyunshan Zhongyi Pharmaceutical Company Limited	CASIII-00115IIIMS0000801	Effective	Electronic Science and Technology Information Research Institute of the Ministry of Industry and Information Technology	2016-04-25	2018-04-25

8.4 Create value for shareholders

In value protection and creation of added value, we actively adopt pragmatic and effective measures to increase operation efficiency and continuously speed up the pace of industrial restructuring and upgrading of the Company aiming at eventual realization of continuous and stable development of principal business and reward shareholders and related stakeholders with good operating results.

- The Company's scheme or plan for bonus distribution (the reporting period inclusive) and profit distribution, and scheme or plan for 'share increase by converting capital reserve into new shares' or budget for the last 3 years.

Annual bonus distribution	Amount to be paid for each 10 shares (tax inclusive) (RMB)	Amount of cash bonus (tax inclusive) (RMB)	Net profits attributable to listed company shareholders in the consolidated statement of the bonus distribution year (Post-adjustment) (RMB)	Ratio of net profits attributable to listed company shareholders in the consolidated statement (%)
2016	2.80	455,221,465.72	1,500,363,190.03	30.34
2015	3.00	487,737,284.70	1,300,351,292.59	37.51
2014	2.80	361,575,382.00	1,194,141,273.24	30.28

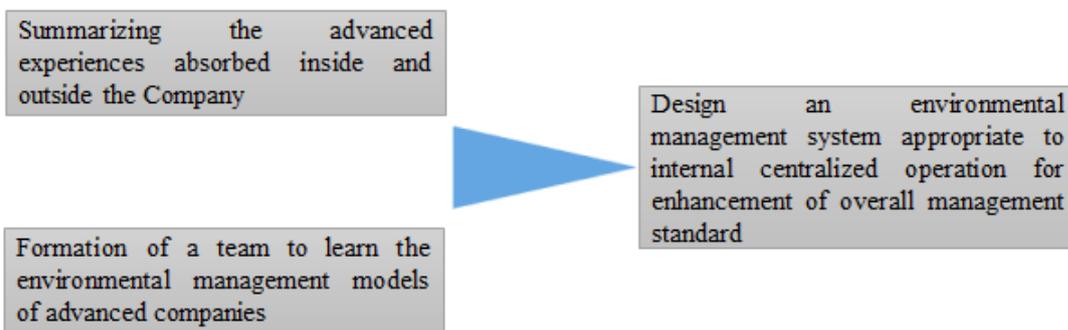


9 Greening our home

The Group actively carries out the national environmental protection policies by progressively improving the internal environmental management system, putting into practice the environmental-friendly culture, pursuing extensive alteration of equipment, optimizing energy, saving energy, reducing emission and waste production for creation of green operation to promote harmonious ecology.

9.1 Improve environmental management system

To ensure systematic implementation of environmental protection, energy saving and emission-reduction in the course of operation, we pay great attention to the establishment of environmental management system. We also endeavor to design an environmental management system appropriate to our centralized operation by summarizing the excellent experiences absorbed inside and outside the Company.



Note: Flow chart of the formulation of internal centralized environmental management system

9.2 Create a culture of environmental consciousness

We actively support various environmental protection activities. We arrange production of environmental protection and energy saving publicity slogans and banners for display in the factory area. Environmental protection and energy saving columns are included in our internal publications, environmental protection courses provided to raise awareness of environmental protection. We also emphasize green office environment, promote resource saving and foster awareness of environmental-friendliness.

- We held the GYBYS – Creating a Blue China, the “world’s first ever environmental protection activity to recall expired medicinal products”;
- We participated in the 2016 Guangzhou Environmental Protection Photography Contest, and published the Company’s environmental protection concepts on the Zhuhai Environmental News;
- We participated in the 2016 Guangdong Energy Saving Month kick off ceremony and work exchange sessions on green production in which we exchanged corporate environmental protection experiences with other participants.



Note: Environmental protection propaganda poster of Zhong Yi

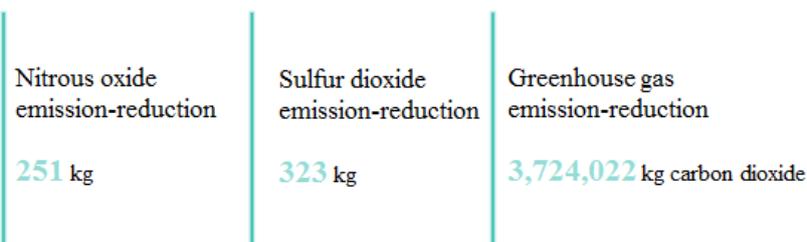


Note: Environmental publicity and training activities held by Chen Li Ji

9.3 Combat climate change with low-carbon operations

Understanding that “a company has the obligation to deal with climate change”, we insist on the development strategy of keeping harmony with the environment, actively pursuing clean production, promoting energy saving and emission reduction, protecting ecological diversity and developing into an environmental-friendly company.

Key data



9.3.1 Energy management

The energy consumed by the Group mainly includes raw coal, gasoline and electricity. Comprehensive energy management and control are achieved through stricter energy consumption management in the course of operation, shift system and relevant energy management plans. Other plans are also implemented in response to specific issues to effectively enhance overall efficiency of energy use.

The Group's energy use in 2016

Raw coal	Natural gas	Gasoline	Electricity	Procured steam	Million Yuan of industrial output value of comprehensive energy consumption
Tons	Cubic meters	Liters	kWh	Cubic meters	Tons of standard coal /10,000 Yuan
1,611	1,111,888	43,125	114,866,517	3,218	1

In 2016, Tian Xin was named one of the third batch of environmental-friendly companies in Guangzhou city, clean production entity in Guangdong province (a total of 3 certification reviews and re-certifications had been completed), and excellent clean production company in Guangzhou city (a total of 3 rounds of certification reviews and re-certifications had been completed). At the same time, Ming Xing was approved to renew its license as “clean production company in Guangdong province” and received the clean production certificate.

9.3.2 Multiple emission-reduction measures

In 2016, in order to contribute to the creation of green environment, we continued to promote energy saving and emission reduction, pursued full clean production, proposed and implemented energy saving plans which included upgrading existing apparatus and replacement them with energy-efficient ones, recall of condensate water, photovoltaics and green office for energy efficiency and reduction of pollutants.

Energy saved in 2016

Total energy saved in electricity	Electricity saved through green office	Paper saved through green office	Thermal energy recalled
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kWh	kWh	Sheets	Tons of standard coal
2,658,835	1,947,104	6,898	267

Gas emissions and reduction in 2016

Nitrous oxide emission	Sulfur dioxide emission	Greenhouse gas emission	Nitrous oxide emission-reduction	Sulfur dioxide emission-reduction	Greenhouse gas emission-reduction
Kg	Kg	Kg CO ₂	Kg	Kg	Kg CO ₂
68,351	7,444	117,551,542	251	323	3,724,022

Typical case of the Group's energy saving and emission reduction measures

① Zhong Yi- Vacuum tube solar water heating system

Zhong Yi installed 7 sets of vacuum tube solar water heating systems to provide clean water for production of all manufacture departments and drinking water for employees. Approximately 57,000 cubic meters (standard atmospheric pressure) of natural gas can be saved annually.



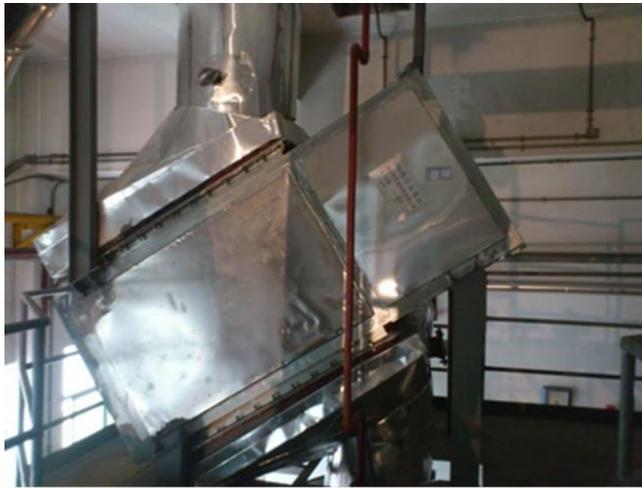
② Wang Lao Ji- Boiler fuel shift from petroleum to natural gas

The use of clean energy has significantly reduced emission of carbon dioxide. Basically, no carbon dioxide is found in the exhausted gas on monthly basis.



③ Tian Xin and Zhong Yi – Recall remnant heat from boiler exhaust fume project

The project of recalling remnant heat from boiler exhaust fume for energy saving and emission reduction saves 80,727 cubic meters (standard atmospheric pressure) of natural gas annually with approximately 135 tons/year of carbon dioxide reduced.



④ Zhong Yi - Photo voltaic

Tian Xin actively promotes the use of green energy. A total of 2,332 poly crystalline silicon photo voltaic panels are installed in Plant 1, Plant 2, Plant 3 and rooftop of sales office block with installed capacity up to 61,798KW and estimated annual power generation of 214,966kWh.



9.4 Water resource management

We pay great attention to the impact of water consumption and sewage discharge on the environment. We actively oversee the alteration and application of water saving apparatus, and significantly update sewage treatment facilities to minimize discriminate use and wastage of water.

Water consumption and volume reduced in 2016

Total water consumption	Consumption of recycled water	Consumption of reclaimed water	Total amount of water saved	Sewage discharge volume
Tons	Tons	Tons	Tons	Tons
3,064,795	19,471,044	610,023	77,631,269	1,848,224

Zhong Yi – Recycled use of water

Used water confirmed to meet the standard after treatment is used for watering plants, road cleansing and spray deducting of rooftops. Utilization rate of recycled water is more than 30%.



In order to reduce water consumption and sewage discharge in the course of operation, we actively promote alteration of the sewage treatment system and optimize the technologies for more efficient consumption of water.

Alteration and updating sewage treatment system			
Cai Zhi Lin upgrades and updates its sewage treatment system for better sewage treatment, recycled use and compliance with the emission standard.	Chen Li Ji fully altered and repaired its sewage treatment system so as to use less water for greenery purpose by reducing watering frequency.	In order to enhance sewage treatment efficiency, Guangzhou Han Fang cleaned its Grade I and Grade II biological contact oxidation tanks and facilities for alteration and updating, biochemical bacterial sludge were added and the system test has been completed.	Jing Xiu Tang has improved its sewage treatment technology (intermittent activated sludge method) and re-uses water of fish tanks.



Note: Sewage treatment works for improving and cleaning of Cai Zhi Lin



Note: Sewage treatment works for improving of Guangzhou Han Fang



Note to picture: Pound water filter box for improving and cleaning of Jing Xiu Tang

9.5 Shaping a healthy ecosystem

Insisting on the principles of green and recycled development, we protect ecological harmony and build a green homeland by categorized recovering and reusing the waste generated in the course of production, reducing the disposal and load of waste emission and discharge as well as secondary pollution they may cause to the environment. In June 2016, Chen Li Ji received the civilization award

for ecological publicity in Guangdong.

9.5.1 Waste management

Critical data

Volume of harmful waste produced	Volume of harmless waste produced	Disposal ratio of harmful waste
1,262 tons	16,344 tons	100 %

The Group strictly follows the national and local requirements regarding categorization and storage of dangerous wastes (chemical agent base liquid, used ink boxes and tube lamps), and send them to qualified professional third parties for disposal. In 2016, 1,262 tons of dangerous wastes were produced, with disposal rate at 100%.

Harmless wastes produced by the Group mainly include food wastes and packing materials which amount to 16,344 tons per year. They are sent to qualified third parties for disposal.

Disposal of solid wastes	
<p>Disposal of harmless waste</p> <p>They mainly include greenery wastes and food wastes. They are recovered by categories and sent to qualified third parties for reuse</p>	<p>Disposal of harmful waste</p> <p>Professional third parties are entrusted with disposal of dangerous wastes from laboratories such as used solvents, dregs and expired drugs</p>

9.5.2 Protecting the health of the ecosystem

In the course of operation, we have no acts which cause material damages to the environment, and endeavor to minimize impact on the environment and natural resources. Sufficient precautionary measures and response plans have been formulated for risks and hidden problems regarding environmental protection, energy consumption and integrated use of resources. Besides, environmental measures are also formulated and implemented by the relevant departments.

Green office is implemented internally progressively, such as energy-efficient lighting, general use of electronic record, recovery of office waste by categories, re-use of ink boxes and less use of resources so as to minimize damages to the environment.

10 Nurturing employees

“Talents are the key to wealth”. Employees are the greatest assets and wealth of the Group. We insist on people-oriented approach and provide employees with a healthy and safe working environment as well as comprehensive and diversified opportunities of development so that our employees grow with the Company.

Social security coverage

100%

Number of employees who have received physical examination for occupational diseases

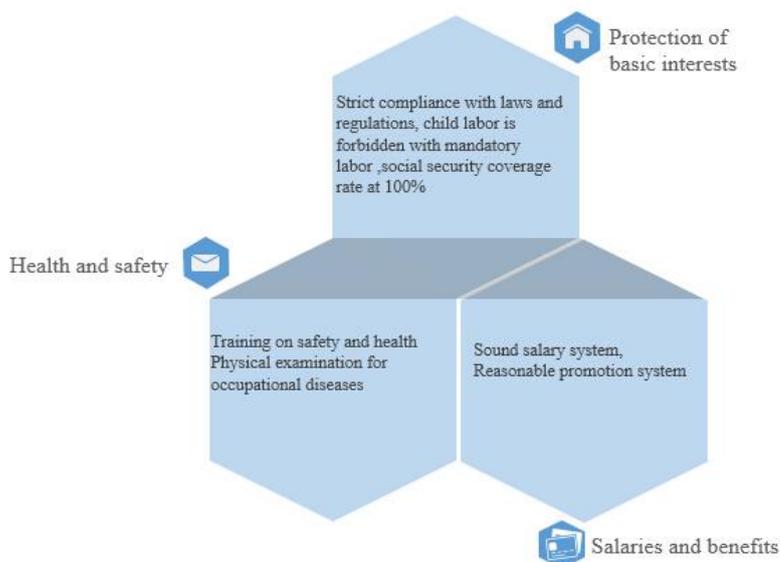
3,899

Hours of health and safety training

64,499 Hours

10.1 Protect the right of employees

We consider talents to be the primary production force. We respect and protect employees’ lawful interests. A sound democratic management system has been set up, equal and harmonious labor relationship is developed with employees, who are provided with a healthy and safe working environment and offered comprehensive salary and welfare protection.

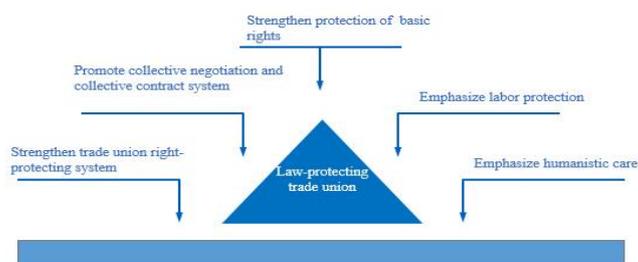


10.1.1 Basic rights of employees

We strictly comply with labor laws and regulations and pragmatically protect employees' lawful interests. Our principles of fair pay and incentives are manifested in the competitive salary package and comprehensive welfare protection offered to employees.

Case: Establishment of right-protecting trade union

A trade union is the powerful protection which helps employees strengthen the ability to protect their rights besides discharging its duties to protect employees' interests. We endeavor to establish a right-protecting trade union which effectively protects basic rights of employees and devote to serve the employees. In 2016, we adopted a series of measures for establishment of the right-protecting trade union. They include expanding channels for participation at source, step up the establishment of right-protecting system, promote collective negotiations and collective contract system jointly with all relevant parties, strengthen basic right-protecting tasks, eliminate labor conflicts, pay high attention to labor protection, and teach female employees the knowledge about the "four period" protection so as to increase employees' awareness of rights protection, strengthen trade union's efforts in law protection and pragmatically protect employees' interests.



10.1.2 Health and safety at work

- Safety and health policies

We attach great attention to occupational safety and health of our employees. We strictly adhere to relevant laws and regulations such as Prevention and Control of Occupational Diseases Law and Work Safety Law by developing and improving the occupational health management system. We hold various health training and work safety drills on a regular basis to reduce occupational health and safety risks across the board and build a health and safe environment for our employees.

- Safety training

- Close coordination between technical and manual protection involves all of our employees. By improving the technical security and protection facilities and urging our employees to participate in mass protection can build up a sense of security up among our employees.



Note: Jing Xiu Tang conducting a fire drill in the community

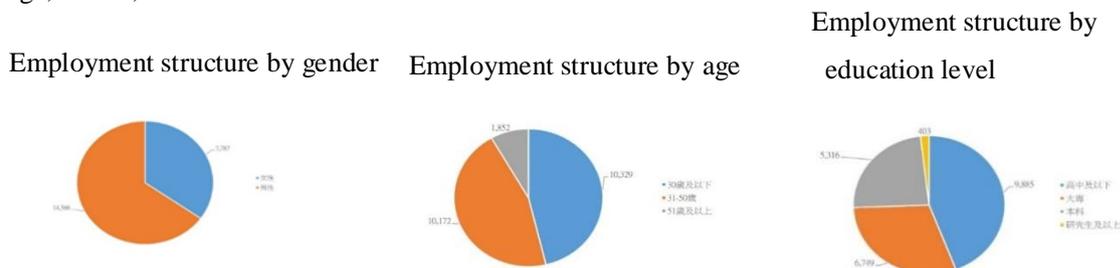
- Fire safety is promoted across the board by various means including sports events, wall newspapers and journals and general knowledge quizzes to let all employees actively get involved. Specialized drills of firefighting and evacuation drills are also conducted regularly to enhance the self-rescue and evacuation capabilities of all employees in case of a fire.
- Various campaigns such as Safe Driving, 100 Days Accident Free and 12.2 National Transportation Safety Day are launched to strengthen the law-abiding and safety awareness of driver personnel.

10.2 Facilitate the development of employees

We stick to the principle of equal employment opportunities and provide our employees with a comprehensive promotion system and development platform in order to support and facilitate both occupational and personal development of our employees.

10.2.1 Equal employment opportunities

In terms of employment, we adhere to the principle of being equal and open by employing only according to the requirements of the position and precluding discriminatory on grounds of gender, age, illness, etc.



10.2.2 Staff training

We adhere to the strategy of “strengthening enterprise by talents” by developing a comprehensive training system for employees of all levels including middle and senior management as well as frontline staff. Through a personalized training and incentive system, we provide our employees with a favorable development platform which in turn supports the development of our company.

● Personalized training system

In order to cope with the training needs of different employees, we provide personalized training for employees of different types to fully unearth their potential and facilitate their personal development.



- Diversified training programs

In 2016, we organized a series of special training programs including Huawei High-Level Seminar and induction training for new staff.

Case: Benchmarking at Huawei

In order to carry out the strategy of quality enhancement in 2016, our leaders visited Huawei in Shenzhen for on-the-spot study, aiming to learn from an outstanding enterprise for its advanced management system. Lasted for nearly four months, the training program was divided into four sessions, each of which provided three days of full-time learning. For each session, 50 leaders were selected to participate respectively. Through this program, the participating leaders have gained new understanding of organizational reform, corporate culture and employee incentives. They also raised their suggestions on enhancement and development of management.



Note: Visiting Huawei



Note: Training at Huawei

- Internal trainer team with three “greats”

We insist on developing our internal trainer team into a team with three “greats” – great ideas, great teaching quality and great training outcomes. As at the end of 2016, the internal trainer team consisted of 142 trainers, of whom 89.4% were holders of bachelor’s degree or above and 33.8% were senior personnel.

Training hours and coverage by employment level



Employment level	Training coverage	Training hours per head
Senior	100.00%	43.6
Middle	94.38%	56.5
Junior	89.39%	56.1
General staff	95.23%	31.8

Note: Enterprise internal training seminar

Case: New start with new staff

To help our new employees understand and get familiarized with the Company quickly, we organized the 2016 Induction Training. Through a keynote speech, we guided the new employees to understand our culture and make themselves familiarized with the Company. We also invited our internal trainers to give lessons on professional quality and outstanding fresh graduates to share their learning experience to help our new employees complete their transition period of their career. The induction training did not only serve as a guidance for the new employees, but it also stimulated their sense of belonging, commitment and responsibility.



Note: Induction training for new employees



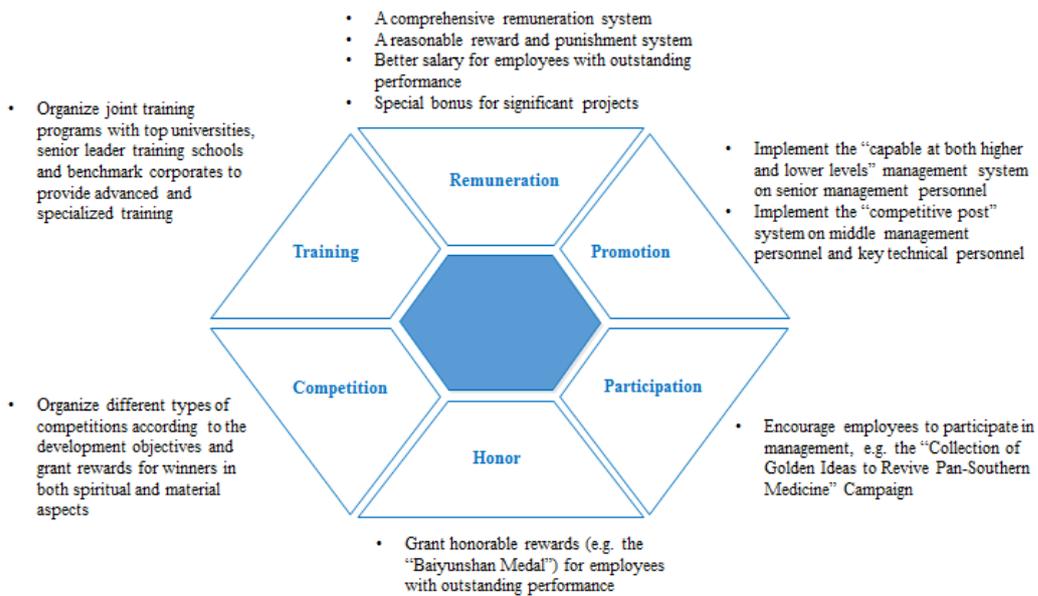
Note: New employees visiting Zhong Yi



Note: Art performance of new employees

10.2.3 Promotion and development

Through a range of incentive measures, we urge our employees to improve in all aspects by providing them with a sophisticated promotion system and channels for development.



10.3 Care for the livelihood of employees

We advocate work-life balance. Through an efficient communication system, we focus on helping our employees resolve their problems and provide them with greater entertainment, which can in turn make them happy with their life and family.

10.3.1 Staff communications

We take the labor union as a medium to develop a comprehensive and efficient communication system for our employees. Communication events which mainly feature the workers congress are launched to timely disclose the state of our operation to our employees in order to understand and respond to their needs.

- Communication system

We highly value democratic management. We convene the workers congress every year to disclose to our staff the state of production and operation of the company as well as news of the labor union. Systems or policies that immediately affect the interests of our staff are discussed and supervised. We also ask for advice or suggestions related to various aspects including corporate management, remuneration and benefits as well as production safety from our staff, and we will timely handle and respond to such advice or suggestions.

Case: Baiyunshan General Factory convened the workers congress

The workers congress is the primary channel for communication between frontline staff and management. In the fifth secondary workers congress of Baiyunshan Pharmaceutical General Factory, certain concerns including financial matters and salaries were reported and responded

to. Proposed subsidies including the “Relief Program of the Baiyunshan General Factory” were approved upon discussion and the “2016 Collective Consultation Agreement of the Baiyunshan General Factory” was adopted by vote. With full of details, the congress perfectly reflected how employees are entitled to participate in democratic management of the Company.



- Channels for appeal

We provide a wide range of channels for appeal, such as the employee comment box and reception of leaders of the factory. Through such channels, which are kept unblocked, frontline employees can directly communicate with the management and their needs can be timely addressed.

10.3.2 Assistance to employees

We keep running a comprehensive subsidy system and provide greater assistance to employees with difficulties in order to make them happy with both their job and life.

- Developing a service-oriented labor union

We are dedicated to genuinely resolve the problems of our employees. We insist on being employee-oriented and implement policies and systems to provide assistance to our employees. Meanwhile, we expand the network of assistance in order to provide accurate assistance to employees with difficulties.

- Comprehensive assistance mechanism

We keep running a comprehensive assistance mechanism to provide basic guarantee for employees with difficulties.

10.3.3 Care for employees

We show loving care for our employees and emphasize their work-life balance. In 2016, we organized a series of vigorous activities such as table tennis match, badminton match and park visit to provide vitality for our employees in both their work and life.

- Loving care for employees

We give blessings to retired leaders, members with difficulties and all employees during festivals and holidays. We also hold birthday parties for our staff in order to create a warm and peaceful atmosphere.



Note: Visiting retired staff during New Year



Note: Leaders showing care for e-commerce frontline staff of GP Corp.



Note: Guangyao Haima's employee birthday party for the 4th quarter of 2016

- Work-life balance

To promote healthy life, we built various facilities including a badminton court, a basketball court and a table tennis room for our employees. Activities such as table tennis match and factory sports day were also held and attracted 2,000 employees to participate in such activities. In order to enrich the personal life of our employees, we built a “staff book house” and “staff peaceful home” for them and help them enhance the general quality of their life.



Note: The Third Badminton Match in Northern District of the Company



Note: 2016 Fresh Graduate Training Camp



Note: Staff playing table tennis



11 Maximize the interest of society

The Group continues to fulfill its commitment to the public and serve the society with genuineness. We contribute to the society with love by implementing “blood creating” accurate poverty alleviation, while at the same time, continue to provide voluntary services to show genuine love and care for the society. We have also proactively launched various charitable medical and consultation events which brought us the honorable title of “loving corporate” in 2016.

Key data

No. of charitable activities held	Hours of voluntary Services	Total amount of charitable donation
800	1,000 hours	11.02 million(RMB)

11.1 Spread love and contribute to community

We took the initiative to contribute to the society by improving the infrastructure and education in the poverty areas and constantly plan to implement “blood creating” accurate poverty alleviation. Meanwhile, we provided greater support to disaster relief to contribute with love and care and fulfill our social responsibility.

11.1.1 Targeted approach to aid the needy

In accordance with the demands of competent authorities at higher level, the Group has and will continue to carry out the targeted poverty alleviation program in Jingkou Village, Wanxi Village and Yuanling Village of Songyuan Town, Meizhou City from 2016 to 2018. We proactively explore and apply any poverty alleviation model characterized by features of Guangzhou Pharmaceutical

Holdings Limited to provide assistance, establish our responsibility and assistance mechanism for poverty alleviation, and initiate various targeted poverty alleviation measures in accordance with the policy of “Elevating to a high level politically, dealing with the general matters economically and developing the brand with responsibility”.

Plan of targeted approach to aid the needy

Three subsidiaries of the Company, namely Xing Qun, Guang Hua and Cai Zhi Lin, are responsible for the implementation of the specified poverty alleviation initiatives. The aforementioned subsidiaries planned to achieve the objective of “no worries for two things, guaranteed on three aspects and meeting the average” by the end of 2018 in accordance with the guideline of “targeted approach to aid the needy towards each village and household with the industry driving the whole village forward” towards three targeted villages with a contribution of not less than 2 million for each village. The aforesaid objective is to put the poor village people in a stable condition that they no longer need to worry about food and clothes, basic medical services and residential safety are guaranteed and the index of the main areas of basic public services meets the average level in Guangdong Province.

Outline of targeted approach to aid the needy in 2016

In order to perform their duties in alleviating poverty, Xing Qun, Guang Hua and Cai Zhi Lin proactively initiated various poverty alleviation measures, including to conduct household research, to file cases of household in poverty for the record (建档立卡), to hold debate forum for the industry and to analyze the situation of villages, and formulated a 3-year plan on targeted poverty alleviation based on such works. At current, policies formulated are being implemented in an orderly manner.

Follow-up alleviation plan

In 2017, we will make great efforts on industrial “blood creating” alleviation as well as educational and intellectual alleviation. These will be implemented across the whole village and we will take extra care of the underprivileged and improve the residential environment. On top of improving the annual poverty alleviation plan, we provide greater support to the poverty by proactively implementing the policy of “special policy to each household” in order to practically achieve the objective of targeted approach to aid the needy.

Case: Technical alleviation helped agricultural development

In 2016, the Company initiated joint training of grapefruit and vegetables planting in the three targeted villages of targeted approach to aid the needy in Songyuan of Meizhou City, namely Jingkou Village, Yuanling Village and Wanxi Village. The training was mainly



about market analysis of grapefruit. By combining the characteristics of different varieties, detailed presentation were given on field planting, soil cultivation, irrigation, pruning and pest control as well as common skills of vegetables planting. The training, which critically addressed the actual agricultural situation, was well-received and had attracted peasant households to discuss and raise questions. Through the training, local peasant households had been taught agricultural skills and experience and their technical level of planting was enhanced, which could help them increase their income and improve their living standard.

Case: Base construction achieved “blood creating” alleviation

In 2016, WLJ Great Health planned to invest about RMB0.4 billion in the construction of the first raw liquor extraction base in Meizhou. The base can provide local residents with more than 400 job positions, which can in turn drive the economy of Meizhou to grow rapidly. WLJ Great



Health proactively participated in the poverty alleviation campaign in Guangdong Province and fulfilled its duties as a corporate citizenship to take actions in order to achieve the objective within three years. The base construction led the transformation of public welfare services from the traditional “blood transfusion” to “blood creating” poverty alleviation combining with industries.

11.1.2 Flood and disaster relief

We concern about people’s livelihood and proactively participate in disaster relief and reconstruction.

We have developed a mechanism to immediately respond to serious natural disaster by sending relief materials to the disaster area.

Case: Immediate flood relief

At the beginning of July 2016, flooding occurred in various areas of Hubei. Wang Lao Ji responded to the disaster with its rapid and efficient emergency mechanism for social welfare and incredible capability to penetrate into the grass-roots of towns and villages. It launched a



disaster relief campaign with various parties and sent 15 tons of relief materials swiftly and safely to the disaster areas on the same day of disaster to provide urgent relief for the victims. On 14th July, Wang Lao Ji quickly formed a team of volunteers with local charities in Hubei and provided relief and care for victims across Yangxin County in Hubei. By timely giving a helping hand to the victims in disaster areas, Wang Lao Ji had shown the efficiency of its charitable mechanism and how it adhered to its social responsibility to provide vitality to the health of local citizens.

11.2 Persist in undertaking volunteer services

We proactively provide voluntary services to spread love and care across the society. In 2016, we were granted the “Awards of Model Corporate of Social Responsibilities in China”.

Case: Time to Go Home Again

When the 2016 Lunar New Year was just around the corner, the voluntary campaign, namely "Let Love Return Home in Time", was held again. Wang Lao Ji established the “Love Train Line” for less fortunate and poor migrant workers. A number of Lunar New Year special green lines were also launched to send migrant students home to enjoy their time with families during the Lunar



New Year. Among the students receiving the services in 2016, there is a new social group of “nomadic tribes”. The newly established “Orange Love Coaches”, with 13 distance services departing from Beijing brought thousands of migrate students, who can’t wait to go home, back home.

Case: To celebrate Lunar New Year with Nansha stationed troops

When the 2017 Lunar New Year was just around the corner, He Ji Gong sent love and blessings to Nansha stationed troops. The troops enjoyed a range of on-site services, such as the provision of health advice and scientific pharmacy information, knowledge of Nansha spirit and the spirit of



Xiang Xiuli, medication trial, test and Q & A activities. We have persisted our care and support for the modernization of the people's armed forces, which we always regard as our responsibility and obligation and is also a concrete manifestation of the "Integration of Military and Civilian Development" put forward by the central government. The activities demonstrated the great respect and attention of He Ji Gong attached to the national defense. We also strive to pass on our red genes in a better manner and promote the spirit of Nansha and the Xiang Xiuli's spirit.

Case: "Two Lessons One Practice" volunteering services in the community

In 2016, He Ji Gong volunteers visited the Guangchuan Nursing Home. They offered volunteering services and essential balm for refreshment and bug bite relief to the elders. They also played games which are beneficial to the physical and mental health of the elderly together. In this volunteering campaign, the volunteers melted the hearts of the elders



with just simple actions, which demonstrates an enhancement of the organic integration of "Two Lessons One Practice" education approach, corporate volunteering service and corporate brand marketing. Through this activity, we have played a leading role to further increase the public awareness of the concept of giving back to the society.

11.3 Safeguard public health

Adhering to the philosophy of “Operating with honesty and integrity to achieve win-win results”, we provide the public with high-quality pharmaceutical products and after-sales services. We also uphold our concept of "GYBYS brings love to all" and persist in being a guardian of public health, by advocating and practicing health welfare, as well as promoting public welfare.

11.3.1 Recall expired drugs

To celebrate our 12th anniversary in 2016, we created the first "Household Expired Drug Recall (Free Stock Replacement) Scheme" in the world and marketed the recall activities on the internet. We carried out the household expired drug recall campaign online through the official flagship store of the Company on T-mall on 13 March. We also worked hand in hand with Ali Health to realize the drug recall via mobile phone devices. The integration of internet provides consumers with convenience in the process of drug stock replacement and facilitates the process to become more scientific, systematic and standard.

We also proactively promote healthy lifestyles: An innovative microfilm "Happy Run" was released on that day, aiming to raise the public awareness of the importance of healthy running with Zhong Nan Shan as a happy and healthy example, so as to pass positive motivation to achieve a healthy life.



11.3.2 Medical charity services

We have actively provided community services, covering free medical consultations, health seminars, health advice, health knowledge, health checks and so on, to bring professional services to the public.

Case: A Large Free Medical Consultation Campaign for “International Stomach Care Day”

The International Stomach Care Day was held on 9 April 2016. A free medical consultation campaign was jointly launched by the Professional Committee of Digestive Diseases of Guangdong Provincial Association of Traditional Chinese Medicine and Zhong Yi to arouse attention to the state of spleen and stomach sub-health. In view of



the self-directed medication of a relatively high proportion of patients suffering from stomach diseases, Zhong Yi has carried out free medical consultation campaigns for “International Stomach Care Day” in over 100 chain drug stores in Zhuhai, Huizhou, Chaozhou and other cities, with the theme of "A happy spleen and stomach are essential to good health", so as to provide the majority of patients who suffer from stomach problems with accurate information on stomach medicine as well as the method of use.

Case: Corporate Culture Demonstration Base’s Service Day

He Ji Gong participated in the Service Day of Guangzhou City Corporate Culture Demonstration Base on 24 September 2016. The Xiang Xiuli•Lei Feng volunteering team of He Ji Gong sincerely served the citizens in the community and made great effort to promote the He Ji Gong corporate culture. At the culture exhibition booth of He Ji Gong, the youths of the volunteering team distributed brochures of the "100 Stories of 100 Communists" to the public, in order to pass on the red genes and promote the Xiang Xiu-li’s spirit, as well as to deepen the Xiang Xiuli•Lei Feng volunteering services of He Ji Gong. The volunteering team also promoted knowledge of corporate brand and scientific medication and carried out medication trial, test, and other public welfare activities, in order to bring professional services to the public.



12 Outlook

2017 is an important year for the 13th Five-Year Plan. With the challenges and opportunities throughout the period, we have adhered to our target of manifesting the philosophy of "GYBYS brings love to all" and comprehensively implement the development concept of "innovation, coordination, green, open and sharing". We have also deepened the management improvement and implemented innovation-driven approach and environmental protection policies, so as to effectively raise the management standard and the ability to fulfill obligations, which in turn uphold our social responsibility in a better manner.

- Deepening the management improvement

We actively respond to the new macroeconomic trend and the severe challenge arising from the slowdown of industry growth. We continue to deepen the management enhancement with an aim of ranking in the top 500 enterprises of the world. In 2017, we will further strengthen the cost management, in order to minimize costs and improve efficiency. We will also strengthen the systemization based on the approach of governance by rules, deepen comprehensive management and maintenance of stability regarding production safety and promote information management, thereby achieve fast and steady development.

- Implementing innovation-driven approach

With an objective of enhancing the wellbeing of consumers, we integrate the advantages of resources and establish a platform for research and development. In 2017, we will continue to make effort on the development of health industry based on the concept of "Bringing global resources together, creating an international brand, serving people all around the world". The innovative business will be supported by a solid foundation of capital increase, which attracts more medical talents and demonstrates the state of being the most vital industry, thereby create more value for human health and well-being.

- Implementing environmental protection policies

We are committed to promote ecological harmony through green operations and establish an internal environmental protection system. In 2017, we will strengthen the implementation of the environmental policies and take more actions for environmental protection, thereby deepen the environment culture in the Company. We persist in energy conservation and emission-reduction and adhere to low-carbon operation, so as to contribute to build a green world.

In 2017, we will continue to uphold the philosophy of the "Pursuing excellence with love and care" and work hand in hand with stakeholders to achieve sustainable development.

13 ESG achievements

➤ Emissions

Area	Performance Indicator	Unit	The Group
A1.1 The types of emissions and respective emissions data.	Nitrous oxide emissions	Kg	68,351
	Sulfur dioxide emissions	Kg	7,444
A1.2 Greenhouse gas emissions in total	Greenhouse gas emissions	Kg CO2	117,551,542
A1.3 Total hazardous waste produced	Hazardous waste produced	Ton	1,262
	Percentage of hazardous waste handled	%	100
A1.4 Total non-hazardous waste produced	Non-hazardous waste produced	Ton	16,334
	Percentage of non-hazardous waste handled	%	Detailed statistics not yet prepared
A1.5 Description of measures to mitigate emissions and results achieved.	Nitrous oxide emissions mitigated	Kg	251
	Sulfur dioxide emissions mitigated	Kg	323
	Greenhouse gas emissions mitigated	Kg CO2	3,724,022
A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Hazardous wastes reduced	Ton	Detailed statistics not yet prepared
	Non-hazardous wastes reduced	Ton	Detailed statistics not yet prepared

➤ The efficiency of use of resources

Area	Performance Indicator	Unit	The Group
General Disclosure	Policies on the efficient use of resources		Chapter 10 Energy Management
A2.1 Direct and/or indirect energy consumption by type in total	Raw coal	Ton	16,114
	Natural gas	Cubic meters	11,118,884
	Gasoline	L	431,253
	Electricity	kWh	114,866,517
	Steam purchased	Cubic meters	32,178
A2.2 Water consumption in total	Water consumption in total	Ton	3,064,795
A2.3 Description of energy use efficiency initiatives and results achieved.	Total electricity saved	Ton	2,658,835
	Heat recovery	Ton of standard coal	267
A2.4 Description of water efficiency initiatives and results achieved.	Total water consumption	Ton	3,065,795
	Water resources recycled	Ton	19,471,044
	Greywater recycled	Ton	610,023
	Total water saved	Ton	77,631,269
A2.5 Total packaging material used for finished products	Total packaging material	Ton	15,454

➤ Employee

Area	Performance Indicator	Unit	The Group
General Disclosure	Average number of paid annual leaves per employee	Day	7
	Coverage of "Five Social Insurance and One Housing Fund"	%	100
B1.2 Total workforce by employment type, gender, age group and geographical region.	Total workforce	Person(s)	22,353
	Male/Female	Person(s)	14,566/7,787
	Below 30 years old/ 30-50 years old/ 51years old and above	Person(s)	10,329/10,172 /1,852
	Senior management/middle management/junior management/normal employee	Person(s)	11/178/1,018/ 21,146
B1.2 Employee turnover rate by gender, age group and geographical region	Male/Female	%	26.25/14.55
	Below 30 years old/30-50 years old/ 51years old and above	%	31.97/15.36/5.02
B2.1 Number and rate of work-related fatalities.	Number of work-related fatalities.	Person(s)	0
	Rate of work-related fatalities	%	0
B2.2 Lost days due to work injury	Lost days due to work injury	Day	150
B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	Rate of applicable employee	%	98.61
	Average health and safety training hours completed per employee	Hour	64,499
General Disclosure	Accumulated training established	Subject	627
B3.1 The percentage of employees trained by gender and employee category	Rate of Male and Female receiving training	%	89.93/98.44
	Rate of Senior management/middle management/junior management/normal employee receiving training	%	100/94.38/89.39/95.23
B3.2 The average training hours completed per employee by gender and employee category.	Hour of employee receiving training for the year	Hour	31.5
	Average hour of Male and Female receiving training	Hour	36.5/30.6
	Hour of Senior management/middle management/junior management/normal employee receiving training	Hour	43.6/56.5/56.1/31.8

➤ Operating Practices

Area	Performance Indicator	Unit	The Group
B5.1 Number of suppliers by geographical region.	South China/Central China/North China/East China/Northwest/East west/HK,Macao,Taiwan,oversea	Supplier	199/71/50/16 4/20/40/6/0
	Rate of domestic purchase	%	100
B5.2 Number of suppliers where the practices are being implemented	Number of suppliers where the practices are being implemented	Supplier	550
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	%	Statistics not yet prepared
B6.2 Number of products and service related complaints received	Number of products and service related complaints received	Complaint	76
	Consumer's satisfaction	%	Statistics not yet prepared
	Ratio of complaints to number of consumers	%	Statistics not yet prepared
B6.5	Number complaints received due to consumer data leakage	Time	0

➤ Community Investment

Area	Performance Indicator	Unit	The Group
B8.2 Resources contributed to the focus area	Donation to external organizations	Ten thousand dollars	1,102
	Charitable activity	Time	800
	Number of employee participating in volunteering activities	Person(s)	2,000

Appendix

Statistical Table of 2016 Targeted Poverty Alleviation by the Company

Unit: 0,000 Currency: RMB

Index	Number and implementation information of the Company
1. General information	143.49
Including: 1. Fund	118.24
2. Materials trade	25.25
3. Number of poor people helped to be removed from administrative record for poverty registering (Person)	98
2. Itemized input	
1. Poverty alleviation through industrial development	
Including: 1.1 Type of industrial poverty alleviation projects	<input type="checkbox"/> Poverty alleviation through agriculture and forestry ✓ <input type="checkbox"/> Poverty alleviation through tourism <input type="checkbox"/> Poverty alleviation through E-commerce <input type="checkbox"/> Poverty alleviation through assets income <input type="checkbox"/> Poverty alleviation through science and technology <input type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects	5
1.3 Amount invested in industrial poverty alleviation projects	4.4
1.4 Number of poor people helped to be removed from administrative record for poverty	0

registering (Persons)	
2. Poverty alleviation through employment	
Including: 2.1 Amount invested in vocational training	0.65
2.2 Number of people receiving vocational training (Persons/Time)	124
2.3 Number of poor people in administrative record for poverty registering employed (Persons)	0
3. Poverty alleviation through relocation	
Including: 3.1 Number of relocated people employed (Persons)	0
4. Poverty alleviation through education	
Including: 4.1 Amount invested in subsidizing poor students	0
4.2 Number of students receiving allowance (Persons)	16
4.3 Amount invested in improvement of education resources in poverty area	0
5. Poverty alleviation through health enhancement	
Including: 5.1 Amount invested in medical and health resources in poverty area	12.81
6. Poverty alleviation through ecological protection	
Including: 6.1 Name of project	<input type="checkbox"/> Launching ecological protection and construction <input type="checkbox"/> Establishing compensation for the ecological protection <input type="checkbox"/> Creating ecological and public welfare positions <input type="checkbox"/> Others
6.2 Amount invested	0

7. Protection for the most impoverished people	
Including: 7.1 Amount invested in helping the three left-behind groups	0
7.2 Number of people of the three left-behind groups helped (Persons)	43
7.3 Amount invested in helping poor people with disabilities	0
7.4 Number of poor people with disabilities helped (Persons)	36
8. Poverty alleviation in the society	
Including: 8.1 Amount invested in poverty alleviation in the east and west parts of the country	0
8.2 Amount invested in fixed-point poverty alleviation work	0
8.3 Poverty alleviation fund	0
9. Other projects	
Including: 9.1 Number of projects (Project)	10
9.2 Amount invested	100.39
9.3 Number of poor people helped to be removed from administrative record for poverty registering (Persons)	5
9.4 Details of other projects	Mainly including the renovation of the dilapidated buildings, showing love and care, donations, village public welfare projects (renovation of culture centers and complex buildings), better living environment projects (street light improvement project), reforming the solar street lamp, purchasing of NCMS, building the dam.
3. Awards (details and levels)	

14 Feedback form for readers

Dear Readers,

Thank you for your time to read our report. We welcome and look forward to receiving your comments and thoughts on the report, which will help us to improve our preparation of report and social responsibility performance.

1. Which of the following best describes your identity as stakeholders?

- Government
 Investor
 Employee
 Client
 Supplier
 Academic / Research institution
 Industry peer
 Community and the public
 Welfare organization / NGO
 Media

Others (Please specify)_____

2. Regarding the following aspects, you think:

	Very Good	Quite Good	General	Quite Poor	Very Poor
Report structure					
Information disclosure					
Format design					
Readability					
Overall					

3. Which chapter best suits your needs? (You may choose 2 items)

- Chairman statement
 Corporate governance
 Responsibility management
 Responsibility themes
 Enhance wellbeing of consumers
 Maximize returns for shareholders
 Greening our home
 Nurturing employees
 Maximize the interest of society

4. Other comments or suggestions on our social responsibility report or obligations performance.



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