



2016 Environment, Society and Governance Report

上海醫藥集團股份有限公司

Shanghai Pharmaceuticals Holding Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02607)



Dedicated
to Uplifting People's Healthy Living Qualities

Definitions

In this report, unless the context otherwise requires, the following terms shall have the following meanings:

"Shanghai Pharmaceutical Group",
"Shanghai Pharmaceuticals Holding",
"Shanghai Pharmaceuticals",
"the Company" or "We"

Shanghai Pharmaceuticals Holding Co., Ltd.

Shaphar

Shanghai Pharmaceutical Co., Ltd.

SPH Keyuan

SPH Keyuan Xinhai Pharmaceutical Co., Ltd.

SPH Sine

Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.

SPH No. 1 Biochemical and Pharmaceutical

Shanghai SPH No. 1 Biochemical and Pharmaceutical Co., Ltd.

SPH New Asiatic

Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.

SPH Traditional Chinese Medicine

Shanghai Traditional Chinese Medicine Co., Ltd.

Chiatai Qingchunbao Pharmaceutical

Chiatai Qingchunbao Pharmaceutical Co., Ltd.

SPH Changzhou Pharmaceutical

SPH Changzhou Pharmaceutical Co., Ltd.

SPH Zhongxi Sunve

Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.

SPH Growful

SPH Qingdao Growful pharmaceutical Co., Ltd.

SPH Research Institute

Central Research Institute of Shanghai Pharmaceuticals Holding Co., Ltd.

SPH Xiamen Traditional Chinese Medicine

Xiamen Traditional Chinese Medicine Co., Ltd.

Huqingyutang Pharmaceutical

Hangzhou Huqingyutang Pharmaceutical Co., Ltd.

SPH Herbapex

Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd.

SPH Zhonghua

Shanghai Zhonghua Pharmaceutical Co., Ltd.

SPH Medical Instruments

Shanghai Medical Instruments Co., Ltd.

SPH Material Supply and Marketing

Shanghai Pharmaceutical Material Supply and Marketing Co., Ltd.

SPH Dong Ying

SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd.

SPH Sales

Shanghai Pharmaceutical Group Pharma Sales Co., Ltd.

A shares

domestic shares of the Company, which are listed on the Shanghai Stock Exchange and traded in RMB

H shares

overseas shares of the Company, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars

Renminbi

Renminbi, the lawful currency of the PRC



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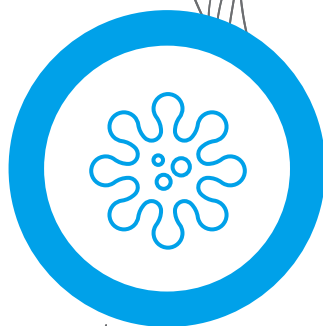
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Our responsibility, our promise (2017)

2016

Obtain a total of **99** GMP certificates



Ranked **55th** on
Fortune China,

Rise by **6** positions from its
ranking in 2015

Ranked **51st** on Top 500 Enterprises
of China's Manufacturing Industry,

Rise by **14** positions from its ranking
in 2015





Commercial network directly covers **20**
provinces and municipalities,

serving over **25 thousands**
medical institutions,

Over **120** hospitals providing supply chain
extension service and pharmacy trusteeship
service

Applying or obtained a total of **194** authorized patents

CHAPTER 1

About this report

Scope

The duration of this report is from 1 January 2016 to 31 December 2016. Unless otherwise stated, the data and cases mentioned in this report are derived from Shanghai Pharmaceuticals Holding Co., Ltd. (hereinafter referred to as "Shanghai Pharmaceuticals") and its subsidiaries.

Standards for preparation

This report makes reference to the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), "Notice on Strengthening the Social Responsibility Commitment of Listed Companies and Releasing the "Guidelines on Environmental Information Disclosure of Companies Listed in Shanghai Stock Exchange" "promulgated by the Shanghai Stock Exchange, the "Guidelines for Preparation of Corporate Social Responsibility Reporting" and the "Environmental, Social and Governance Reporting Guide", as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and its Main Amendments.

Content selection

This report makes reference to the principles of GRI's substance, sustainable background, stakeholders' engagement and integrity, and fully takes into account the Company's development strategy and business development initiatives.

Indicator selection

This report takes into consideration the relevance, substance and availability of all specific indicators related to performance disclosure of key issues. We will continue to adjust and optimize the disclosure indicators in future reports.

Form of promulgation

This report is published online. The online version can be downloaded from the Shanghai Stock Exchange website (www.sse.com.cn) and the Company website (www.sphchina.com).

For further information on the Company's business, please refer to the 2016 annual report of Shanghai Pharmaceuticals.

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CHAPTER 2

Messages from the Chairman

Keep going beyond, let us do better

In 2016, the operating revenue of Shanghai Pharmaceuticals was RMB120.765 billion, up by 14.45% on a YOY basis. Net profit attributable to the equity holders of the listed company was RMB3.196 billion, representing an increase of 11.10% on a YOY basis. The Company ranked No. 55 on Fortune China 500. We believe that these achievements are the result of our commitments to corporate social responsibility.

Shanghai Pharmaceuticals cares about the public, shareholders, employees, partners and society, community and environment, and actively meets the needs of all parties, while creating sustainable development of green, harmonious internal and external environment for the enterprise. These are the core values of corporate social responsibility. Shanghai Pharmaceuticals keeps going beyond, improving and developing, and is always in the leading industry position.

As a pharmaceutical company, we are accountable to the people. We have to persevere to keep our promise “let people take medicine of high quality, make medicine affordable and take medicine with ease”.

As such, we accord high priority to R&D and innovation. We have made a record R&D investment, accounting for 5.4% of industrial sales revenue, a strong impetus to R&D of innovative drugs and generic drugs, as well as secondary development of existing products. As an example of our innovation ability, the “analysis of ingredients of Yinxing Tongzhi” was granted the Gold Award of the 44th session of Geneva International Invention Exhibition, and we signed a clinical trial strategic cooperation framework agreement with eight top 3 hospitals in Shanghai in light of the evaluation of the consistency of quality and effect of generic drugs. In manufacturing, we constantly improve the management level to ensure a stable production of drugs in line with the intended purpose of use and registration requirements. Lean projects continued to deepen with comprehensive coverage, generic drug “Rosuvastatin Calcium Tablets” were granted approval by the US FDA. The continuous promotion of Group procurement brings obvious improvements in cost reduction and efficiency. Through the preparation of “quality manual”, we strictly fulfill the quality commitment to the public and society.

In respect of distribution and circulation, we actively expand the pharmaceutical commercial network to 20 provinces, municipalities directly under the direct control and autonomous regions nationwide. Financing to upgrade the health services cloud, continue to promote a pharmaceutical retail O2O drug purchase mode integrating online and offline services and patient service capabilities. Achieve dispensing to your door through the “prescription extension delivery” and “Yiyao Station” services.

As a listed company, we are accountable to the shareholders. We have to continue to improve performance in response to their support.

In early 2016, subject to the impact of fluctuations in the capital market, the Company’s stock price continued to be under pressure, and the market value once shrunk to 38 billion. As such, the Company tried to stabilize the stock price by a number of methods to restore the market value gradually. The highest single-day market value reached more than 54 billion, and the biggest increase reached nearly 42%, which boosted the market confidence. At the same time, for the purpose of protecting the dividend of small and medium shareholders to share the growth of enterprises, since 2012, the Company has insisted on maintaining the annual cash profit distribution, with the dividend ratio of more than 30% for 5 consecutive years, while taking sustainable development into account.

In 2017, under the guidance of the strategic direction of deepened capitalization, re-internationalization, focusing on grand health and expanding the new frontier, Shanghai Pharmaceuticals builds up an overall ideology of our annual business development: conforming to industrial reform, recognizing the industrial development trend and accurately grasping the development direction of Shanghai Pharmaceuticals; expediting the transformation and development, expediting the intensive development, innovation development, international development, combination with production; aiming to become the industry leader.

As a state-owned enterprise with 41,000 employees, we are accountable to the employees. We have to provide employees with a healthy and safe working environment where they can meet both challenges and opportunities, as well as a platform for their career development.

Shanghai Pharmaceuticals has recorded no incidence of occupational disease for a number of years, has invested more in occupational health year by year, and has continued to increase the number of safety education and training courses. 20 companies in Shanghai has applied to Shanghai Work Safety Association to be the safety culture construction units in Shanghai Municipality.

We have set up “Little Wild Goose Mentorship Program” and “Large Wild Goose” new manager learning project to provide new hires and potential managers with a systematic learning and development path. For remuneration, recruitment, welfare, etc., Shanghai Pharmaceuticals has always adhered to fair and just principles, strongly supported the establishment of corporate culture, and enhanced the cohesion of employees and corporate ownership.

As a company with full coverage of supply chain, we are accountable to the partners. We focus on cooperation and win-win situation.

We guide the subordinate drug manufacturers to carry out supplier management and procurement process control by making reference to the "quality manual", "supplier quality audit control procedures" and other documents. We avoid the social risks of suppliers by taking specific management measures such as supplier classification, on-site audit, etc. The supplier market competitiveness has been significantly improved through carrying out strict and rational management.

As a company with a tradition of public welfare, we are accountable to the society and community. We have to provide positive solutions to resolve the social problems.

From the Group to its subordinates, Shanghai Pharmaceuticals is always devoted to the development of social welfare undertakings to care and love the needy by fully utilizing our strengths. Through the "love and care plan", Shanghai Pharmaceuticals has built hope clinics in remote areas and trained rural doctors to support the national poverty alleviation plan in an innovative and pragmatic manner. Through the innovative "medication consultation + chronic disease management" model, we deliver medicine to the community to provide timely and convenient health services for the community residents. We conduct regular science lectures to provide the community residents with the medical knowledge and at the same time, enhance communication between drug manufacturers and drug users. We invite residents to visit the pharmaceutical factory to allow residents to understand the company's operations, its emphasis on environmental protection and investment, and deeply understand the corporate philosophy and culture, in order to effectively enhance the social corporate relations.

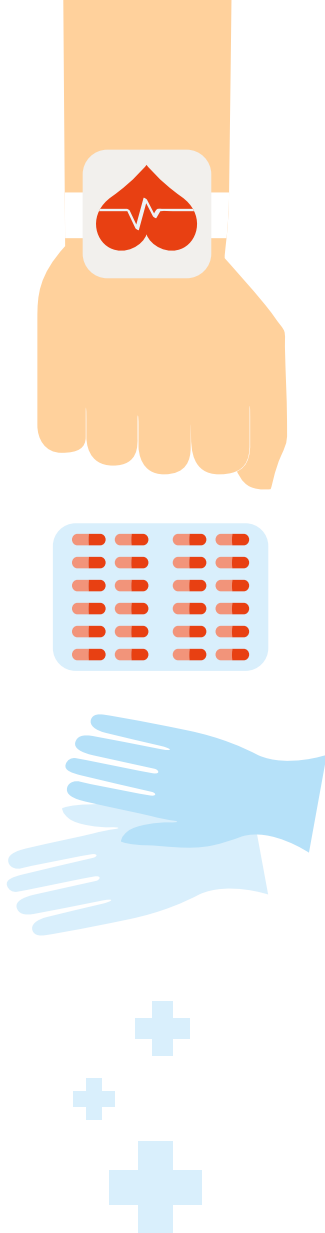
As a sustainable enterprise, we are accountable to the environment. We focus on environmental protection.

The Company will improve the environmental system and continue to increase investment in environmental protection. Twelve of the Company's subordinates have established ISO14000 environmental management system. We also attach great importance to protection of natural resources and earnestly implement the national policy of rational development and utilization, so to ensure the sustainable use of resources.

The past, current and future development of Shanghai Pharmaceuticals is inseparable from the emphasis and practice of corporate social responsibility and accountability to all the parties concerned. We found that the fulfillment of social responsibility and business development maintain a benign interaction: the more concerned about social responsibility, the more capable to promote the advancement of enterprises; and enterprise development will further enhance the ability to fulfill social responsibility, as well as its breadth and depth. Shanghai Pharmaceuticals will, as always, continue to uphold the importance of corporate social responsibility and investment, and constantly keep going beyond to courageously move forward to contribute more social values.

Chairman of Shanghai Pharmaceuticals
Holding Co., Ltd.:





CHAPTER 3

Overview of the Company

Main businesses covering pharmaceutical R&D and manufacturing, distribution and retail

The main businesses of Shanghai Pharmaceuticals cover pharmaceutical research and development and manufacturing, pharmaceutical distribution and services, pharmaceutical retail and e-commerce. Through continuous focus on the core resources of the industrial chain, simultaneous development of endogenous development and extension, the Company holds a leading industry position in the domestic pharmaceutical industry.

The Company's R&D work is guided by clinical needs, and biological products are developed in synergy with chemical drugs and traditional Chinese medicine. Our main focus is on innovative drugs in tumor, immune and cardiovascular fields, as well as generic drugs of large varieties in the fields of angiopathy, digestive system, psychiatry and neurology, antineoplastic, anti-rheumatism and diabetes; at the same time, we actively carry out consistency evaluation in generic medicines, new drug research of traditional Chinese medicine and the secondary development of large varieties products being listed; produce chemical and biological drugs, modern Chinese medicine and health care products, medical equipment and others; our distribution network directly covers 20 provinces, municipalities under the direct control and autonomous regions in China, serving more than 25,000 medical institutions, and we continue to expand the terminal service network, especially the grass-roots community medical institutions. We innovate supply chain solutions, and are committed to creating a modern, efficient, agile, intelligent supply chain service providers and solution providers.

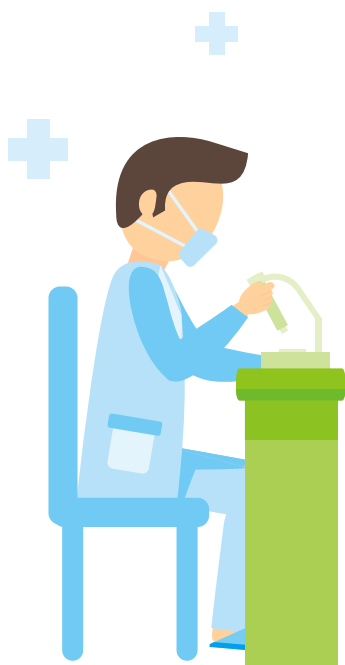
In 2016, under the conditions that the macroeconomic growth stabilized, the supply side accelerated to reform, the growth of pharmaceutical industry ceased to drop and stabilized, and the planning and supervision was escalating, Shanghai Pharmaceuticals closely adhered to the new round scrolling strategic planning of "Three Three Three Plus One" and annual budget arrangements, and actively responded to market changes and policy opportunities, made a number of strategic breakthroughs, smoothly completed the annual business goals. In 2016, we obtained a number of new drug clinical approval documents in the pharmaceutical research and development, at the same time deeply promoted lean management and informatization and automation of production; expedited the tapping of commercial network layout and channel into the market, continued to promote innovation services for distribution and e-commerce, carried out strategic development of medical services and health care products business, in order to further strengthen industry competitiveness.

In the new development period, the Company will actively grasp the national strategic opportunities, follow the development trend of the industry, and incorporate into the development strategy of the SIIC. In addition, the Company will establish an international view and vision by focusing on health industry, and driven by innovation development, intensive development, international development and combination with production, to maintain the leading position in the pharmaceutical industry in China and strive to enter into the top 500 enterprises in the world by the end of the "13th Five-year Plan" period.

Taking advantages of the unique combination of industrial chains, aggregate core resources to strive to provide a series of more convenient solutions for medical institutions, patients, suppliers, etc.



R&D	Manufacturing of chemical and biological drugs	Manufacturing of Chinese medicine	Distribution services	Pharmaceutical retail	Others
<p>R&D management center (SPH Research Institute)</p> <p>Enterprise research institute and technology center</p>	<p>SPH Sine</p> <p>SPH Zhongxi Sunve</p> <p>SPH No. 1 Biochemical and Pharmaceutical</p> <p>SPH New Asiatic</p> <p>SPH Changzhou Pharmaceutical</p> <p>SPH Dong Ying</p> <p>SPH Sales</p>	<p>SPH Traditional Chinese Medicine</p> <p>SPH Zhonghua</p> <p>SPH Growful</p> <p>Huqingyutang Pharmaceutical</p> <p>Chiatai Qingchunbao Pharmaceutical</p> <p>SPH Xiamen Traditional Chinese Medicine</p> <p>SPH Herbapex</p>	<p>Shaphar</p> <p>SPH Keyuan</p>	<p>Fahrenheit Pharmacy Distribution</p> <p>Guofeng Pharmacy Distribution</p> <p>Yutiancheng Pharmacy Distribution</p> <p>Leimeng Pharmacy Distribution</p> <p>Renshoutian Pharmacy Distribution</p> <p>Shanghai Pharmaceuticals Grand Health Cloud Commerce</p>	<p>SPH Material Supply and Marketing</p> <p>SPH Medical Instruments</p>



Our overall strength is in a leading position in domestic pharmaceutical industry

During the reporting period, the Company's operating income was RMB120.765 billion, up by 14.45% on a YOY basis. Net profit attributable to the equity holders of the listed company was RMB3.196 billion, representing an increase of 11.10% on a YOY basis. As at 31 December 2016, the owners' equity of the Company was RMB36.834 billion and its total assets were RMB82.742 billion.

Awards and accolades

- > Ranking **1059th** in top 2000 global enterprises of 2016 issued by Forbes (Chinese Edition)
- > Ranking **55th** in top 500 Chinese enterprises of 2016 issued by Fortune (Chinese Edition)
- > Ranking **133rd** in top 500 Chinese enterprises of 2016, **51st** in top 500 enterprises in Chinese manufacturing industry in 2016, issued by China Enterprise Confederation and China Entrepreneur Association
- > Ranking **16th** in top 100 Shanghai enterprises of 2016, **7th** in top 50 enterprises in Shanghai manufacturing industry in 2016, jointly issued by Shanghai Enterprise Confederation, Shanghai Entrepreneur Association and Shanghai Federation of Economic Organizations
- > Ranking **3rd** in top 10 enterprise groups in Chinese pharmaceutical industry in 2016, **2nd** in top 100 industrial enterprises in comprehensive strength in Chinese chemical pharmaceutical industry in 2016, 9th in excellent BPC-exporting enterprises in Chinese chemical pharmaceutical industry in 2016, jointly issued by China Chemical & Pharmaceutical Industry Association, China Association of Pharmaceutical Commerce, China Nonprescription Medicine Association and China Development Promotion Association for Pharmaceutical Industry
- > Ranking **3rd** in top 100 in Chinese pharmacy industry in 2015 and being selected as 2016 Chinese Medicine Enterprise with the Most Sense of Social Responsibility, issued by CFDA Southern Medicine Economic Institute and Medicine Economic Newspaper
- > Being selected as the best Industrial Enterprise with Drug R&D Product Line in China in 2016 by China Medicine Industry Information Center
- > 2016 Top **50** enterprises in chemical R&D strength in China, top **50** in comprehensive medicine R&D strength in China, top **50** in TCM R&D strength in China selected by China Medicine R&D Innovation Summit
- > 2016 Top **100** listed companies with core competitiveness in China, the enterprise with the most industrial brand influence among Chinese listed companies selected by China Institute of Development Studies for Listed Companies, China Famous Brand Institute
- > Being selected as the "Internet + times" lean culture construction benchmarking enterprise by China Corporate Culture Institute as
- > Being awarded by Shanghai Contract Credit Promotion Association as 2014-2015 Shanghai contract credit enterprise with the credit rating of grade **AAA**
- > Being selected as 2016 five-star enterprises to fulfill social responsibility in China by China Federation of Industrial Economics
- > "Shanghai Medical Care Guardian Plan" being named as "Charity Innovation Award" in 2016 China Charity Festival
- > Being awarded by the China Youth Development Foundation with "2016 Hope Project Contribution Award"



CHAPTER 4

Strategy and Analysis



Mission

- Perseverance, committed to enhancing people's healthy living quality



Vision

- Become a respectful manufacturer with leading brand medicine and a service provider in healthcare field with industry reputation



Core values

- Innovation, integrity, cooperation, tolerance, responsibility



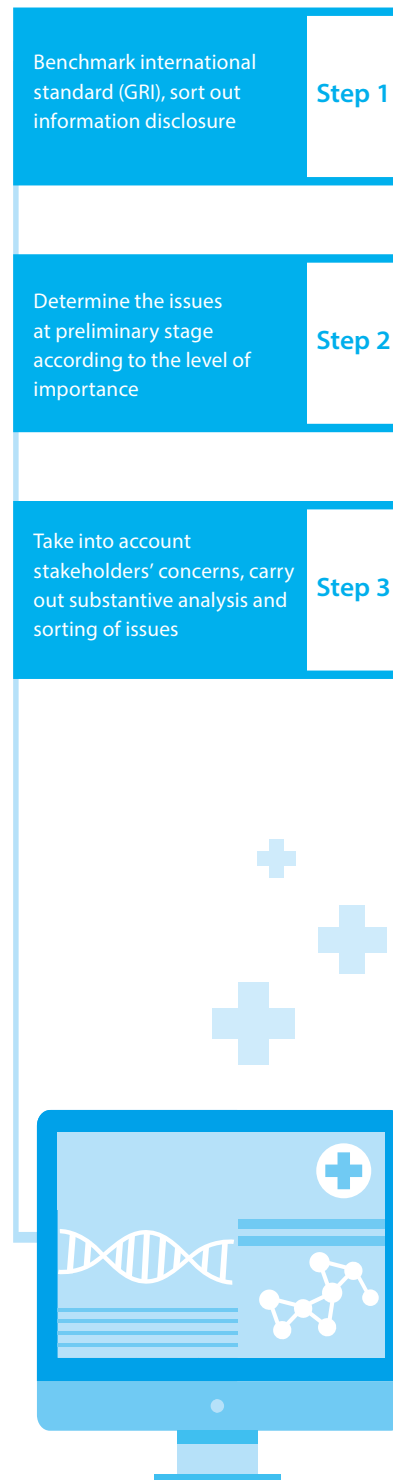
4.1 Responsibility Management System

	Management responsibilities	Management structure
Strategy	Formulation and improvement of corporate social responsibility strategy	Strategy Committee Strategic Operations Department
Management and practice	To be in line with the business of the Company, our corporate social responsibility practice includes but not limited to: R&D innovation, lean manufacturing, promotion of access to medicines and services, meeting the medication needs of special group, providing solutions to resolve social problem, accountable operations, etc. (please refer to relevant sections)	Horizontal: functional responsibility system Vertical: line management system
Communication	Capital market / responsibility brand communication in doctor-patient market Communication with other stakeholders (please refer to relevant sections below)	Board of Directors' Office / Office Stakeholder Communication Department

4.2 Stakeholders and Communication Channels

Stakeholders	Stakeholders' concerns	Our communication channel
Shareholders	Performance Governance Compliance	Open information disclosure Shareholders' general meeting, investor performance conference, roadshow / reverse roadshow, etc. Investor relations hotline, E interaction, etc.
Clients	Safety / quality Service Price	After-sales service, research on level of satisfaction Academic seminar Rational drug use and popularization Brand communication
Employees	Power enhancement Personal development Protection of rights and interests	Performance management communication Training Workers' congress WeChat, BBS, intranet, internal publication
Partners	Supply chain management Cooperation to achieve win - win situation	Industry communication Training Business exchange platform Cooperative assessment
Community and environment	Solutions to resolve social problems Environmental protection	Friendly activities Responsible operation

4.3 Substantive Analysis of Key Responsibility



Our concerns	Stakeholders' concerns
Drug safety, product / service accessibility, market behavior, staff development, corporate value, corporate governance, Business ethics, friendly activities, environmental protection	Drug safety, product / service accessibility, friendly activities, corporate value, business ethics, corporate governance, environmental protection, market behavior, staff development

Key responsibility issues	
Public health	> Take medicine of high quality, make medicine affordable, take medicine with ease (R&D innovation, product quality, production cost, network construction, etc.)
Solutions to resolve social problems	> Friendly activities
Accountable operation	> Shareholders efficiency, governance, management and control > Employees diversified equality occupational health growth and protection of rights and interests > Environment environmental protection



CHAPTER 5

Let people take medicine of high quality,
make the medicine affordable



Our goal

- Take medicine of high quality, make medicine affordable



Our management ideology

- Reliable efficacy of new drugs - R&D innovation
- Quality assurance, reasonably affordable - manufacturing process



Our measures

- Continue R&D strategies and build up R&D direction
- Promote the consistency evaluation of generic drugs, comprehensive implementation of Lean Six Sigma management, centralized procurement, and implementation of quality responsibility



Our achievements

- A number of achievements won domestic and international scientific and technological awards
- Concluded clinical trial cooperation agreements with third-level class-A hospitals; effectively promoted the consistency evaluation of generic drugs; the quality of generic drugs has been internationally recognized; stable supply of drugs; integration of informatization and industrialization to improve management accuracy and management efficiency and further reduce procurement costs

5.1 Development driven by R&D, Innovation to Bring Hope

1 R&D results, good news to patients

1. Application for development of humanized anti HER2 compound antibody obtained clinical approvals.
2. Application for recombinant anti CD20 humanized monoclonal antibody injection obtained clinical approvals.
3. Application for chemical drugs - class 1.1 innovative drugs SPH1188 obtained clinical approvals
4. Application for chemical drugs - class 1.1 innovative drugs SPH3127 developed with the Mitsubishi Tanabe Pharma obtained clinical approvals and clinical phase I studies have been carried out
5. Clinical phase II studies for class 1.1 innovative drugs Deuteporfin developed with Fudan Zhangjiang have been carried out.
6. New class 1 Chinese medicine - salvianolic acid A and its powder injection obtained clinical approvals.

2 R&D results were granted major domestic and international technology awards

The "R&D and Industrialization of Recombinant Human Adenovirus Type 5 Injection (Oncorine), Drug for Treating Malignant Tumour" of Shanghai Sunway Biotech Co., Ltd., a subsidiary of the Company, was granted the second prize of Shanghai Science and Technology Award by the Shanghai Municipal people's government.



"Analysis of ingredients of Yinxing Tongzhi" was granted the Gold Award of Geneva International Invention Exhibition

The technical strength of products of Shanghai Pharmaceuticals obtained international recognition

In April 2016, the "analysis of ingredients of Yinxing Tongzhi" of Shanghai Xingling SCI.&Tech. Pharmaceutical Co., Ltd., a subsidiary of Shanghai Traditional Chinese Medicine Co., Ltd., was granted the Gold Award of Geneva International Invention Exhibition jointly awarded by Swiss Federal Government, the Government of the Canton of Geneva, the Government of Geneva City and World Intellectual Property Organization.

Yinxing Tongzhi is a traditional Chinese medicine prescription drug, mainly used for prevention and treatment of cardiovascular and cerebrovascular diseases, such as stroke, coronary heart disease, angina pectoris, etc. Clinical application shows that it has certain effect for treating cognitive disorders, blood lipid regulation and other aspects, and is better than ordinary Yinxing leaf preparations. Shanghai Xingling began the R&D of Yinxing Tongzhi in the early 90s of last century. In 2000, it was approved as class 2 innovative drugs of Chinese medicine and obtained the production approval. Invention patent was also granted by China, the United States, the United Kingdom and Australia.

The Yinxing Tongzhi series produced by Shanghai Xingling is in the form of tablets, capsules, granules (trade name: Steyron®). The production process is unique and advanced. The whole process is digitally controlled, and advanced fingerprint technology is used to monitor bulk pharmaceutical chemicals and the active ingredients and adverse ingredients Yinxingsuan in the preparations, to achieve high sensitivity process quality control. The content of the active ingredient Yinxing Tongzhi is higher than the national standard. At the same time, the series of products sets up both upper and lower limits for several content indicators, which is the breakthrough in quality control of traditional Chinese medicine products. Yinxing Tongzhi is one of the 26 billion drugs of Shanghai Pharmaceuticals, and the sales revenue of bulk pharmaceutical chemicals and preparations in 2015 was RMB143 million. At present, in addition to Shanghai Xingling, there are

six manufacturers in China producing Yinxing Tongzhi preparations, and Shanghai Xingling is the only company with the approval of producing bulk pharmaceutical chemicals of Yinxing Tongzhi. In addition to production and sales of Yinxing Tongzhi preparations, Shanghai Xingling also supplies bulk pharmaceutical chemicals of Yinxing Tongzhi to the above 6 companies. According to IMS data, the sales of the Yinxing leaf preparations nationwide in 2015 was RMB5.979 billion, of which the oral preparations accounted for 30%; all Yinxing Tongzhi preparations are oral preparations, accounting for 27% of the sales of oral preparations.

The 44th Geneva International Invention Exhibition was held in Switzerland from 13 to 17 April 2016, and about 48 countries, 725 enterprises or universities and scientific research institutions would share nearly a thousand kinds of inventions. About 59,000 visitors around the world joined the exhibition, and more than 650 media reporters reported this event.





The awards ceremony was held in the afternoon of 16 April local time

"Analysis of ingredients of Yinxing Tongzhi" was granted the Gold Award of Geneva International Invention Exhibition



Geneva International Invention Exhibition was founded in 1973. It is a large-scale international exhibition jointly organized by Swiss Federal Government, the Government of the Canton of Geneva, the Government of Geneva City and World Intellectual Property Organization, and is one of the world's longest history, and largest invention exhibitions. It accords high priority to the combination of practicality and access to market. Among the Chinese delegation, our project is the only project which is granted the gold award in pharmaceutical category in the current session of the international invention exhibition.

3 Patient-oriented, define three-year R&D direction

Overall R&D strategy:

To meet clinical needs, collaborative development of biological products, chemical drugs and Chinese medicine:

1. Focus on the development of tumor, immune and cardiovascular fields; strive to keep the quality and efficacy of generic drugs consistent with the original research drugs, optimize the process to reduce costs; carry out secondary development of a number of products with therapeutic advantages as early as possible to form a product mix
2. Strengthen evidence-based medical research on key species of traditional Chinese medicine, based on the secondary development of key species, taking those clinical trials that have not yet met the needs as the starting point, create large varieties with a clear mechanism, exact effect and advanced technology

The next three-year direction:

- 1, For biological drugs: focus on intensive investment in antibody Bio-better and its breakthroughs. Specific varieties are: recombinant humanized CD20 antibody injection; humanized anti HER2 compound antibody development

2. For chemical drugs: mainly class 1.1 new drugs, including: SPH3127, Deuteporfin, SPH1188-11

3. For generic drugs: focus on quality and efficacy consistency evaluation of existing key species; concurrently development of large varieties in the fields of angiopathy, digestive system, psychiatry and neurology, antineoplastic, anti-rheumatism as well as diabetes

4. For traditional Chinese medicine: conduct research on new traditional Chinese medicine steadily; carry out joint development of traditional Chinese medicine formula particles with Tsumura; combined with the Group's strategy "One Policy for One Product", strengthen the second development of large varieties being listed, extend the product life cycle, and maintain the product value. Improve the quality standards, optimize the process, conduct research on new indications, such as Wangbi Tablets, Yangxinshi Tablets, Weifuchun, Pill of Eight Treasures and other species



4 Strive to promote consistency evaluation of generic drugs

During the Reporting Report, the Company fully promoted quality and efficacy consistency evaluation for generic drugs. According to the directory of 289 generic drugs needed to complete the consistency evaluation before 2018 as latest released by CFDA, a total of 156 drugs are related to the subsidiaries of Shanghai Pharmaceuticals (a total of 370 approvals), covering the Company's key species such as oral solid preparations. According to market and clinical needs, taking into account the overall condition of the Company, the Company planned to implement quality and efficacy consistency evaluation for 90 drugs, and the first batch of 70 drugs were applied for approval, including 21 drugs not listed in the directory of 289 generic drugs. The Company had employed 15 higher colleges and R&D companies as technical service provider, established reference product purchase warehouse for Shanghai Pharmaceuticals, and signed strategic framework agreement with eight third-level class-A hospitals in Shanghai so as to carry out clinical test cooperation.

Shanghai Pharmaceuticals cooperated with eight third-level class-A hospitals in Shanghai to carry out strategic cooperation of drug clinical test

The quality and efficacy consistency evaluation of generic drugs is the key work of strategic significance at the "13th Five-year Plan" national level. On 7 November, the Ministry of Industry and Information Technology and other six ministries issued the "Guidelines for 13th Five-year Plan of Pharmaceutical Industry" to include the consistency evaluation in the product quality upgrade project. Its full implementation will lead to a "big shuffle" in the biomedical industry --- reform of supply side, which is significant in enhancing the overall level of China's pharmaceutical industry and safeguarding the public in safe use of drugs. On 8 December, Shanghai Pharmaceuticals signed strategic framework agreement with eight third-level class-A hospitals in Shanghai so as to carry out clinical test cooperation, and intended to apply a three-in-one linkage model for which the government guided and witnessed, the Group of key varieties led and coordinated project implementation, and a number of third-level class-A hospitals jointly promoted, in order to conduct drug clinical trial research, promote the consistency evaluation of generic drugs and help people select the best drugs. The eight third-level class-A hospitals are: Rui Jin Hospital Affiliated to Shanghai Jiao Tong University School of Medicine, Huashan Hospital Affiliated to Fudan University, Zhongshan Hospital Affiliated to Fudan University, Shuguang Hospital Affiliated to Shanghai University of Traditional Chinese Medicine, Xin Hua Hospital Affiliated to Shanghai Jiao Tong University School of Medicine, Changzheng Hospital Affiliated to Chinese People's Liberation Army Second Military Medical University, Shanghai Mental Health Center and Children's Hospital Affiliated to Fudan University.



5 R&D system is improving

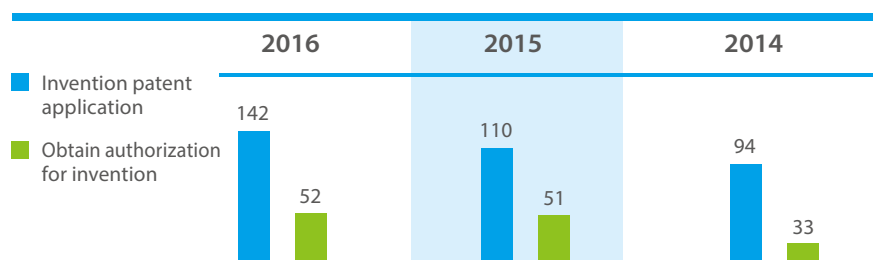
During the reporting period, the Company continued to optimize the R & D system, set up a R&D management center, and set up intensive management of the R&D businesses of the four core enterprises within the group at pilot scheme. At the same time, the Company strengthened the open cooperation, optimized the R&D model and started the cooperation project on R&D class 1 new type of anti-pulmonary fibrosis drug with Sichuan University; promoted the construction of industrial pilot base of Shanghai Pharmaceuticals (Benxi) North Pharmaceutical Co., Ltd. as per schedule; and completed the construction of production base of bulk pharmaceutical chemicals of SPH ZhongxiSunve Pharmaceutical Co., Ltd.

6 Phase 1 of North Pharmaceutical R&D and industrial pilot base projects has entered the final stage

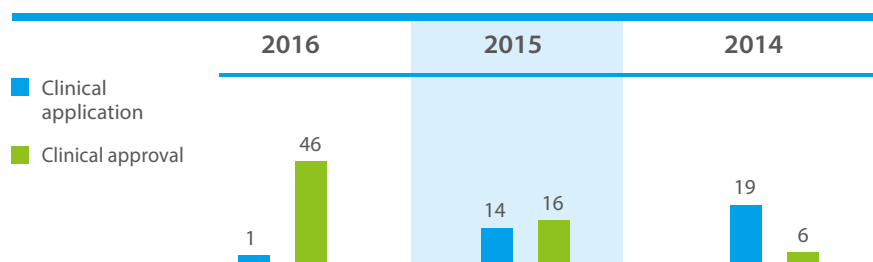
Promotion of R&D of bulk pharmaceutical chemicals and high-end formulations and construction of industrial pilot base of Shanghai Pharmaceuticals (Benxi) North Pharmaceutical Co., Ltd. is on schedule and has entered the final stage of process equipment installation and testing.

Key indicators:

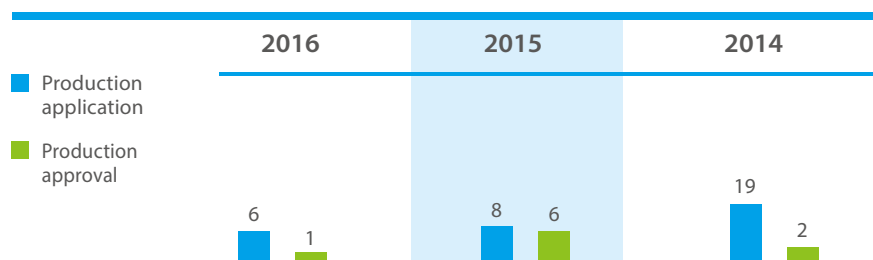
1. Invention patent application / authorization for invention obtained (number of application/authorization)



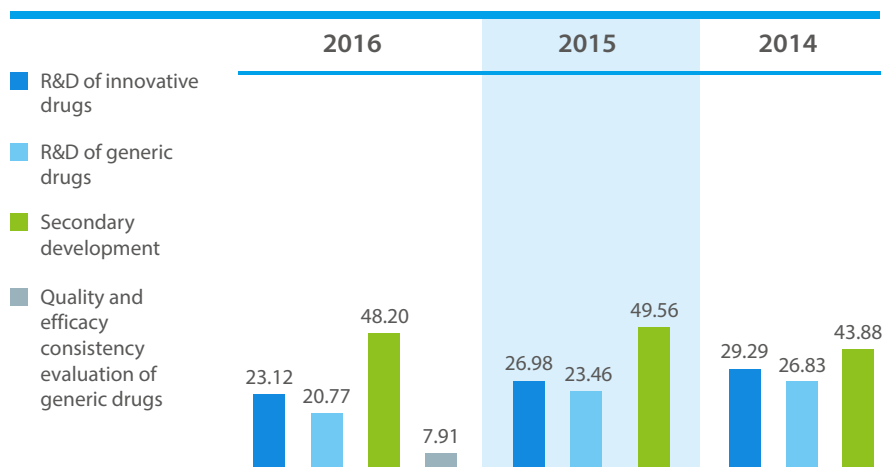
2. Clinical application / approval (number of application/approval)



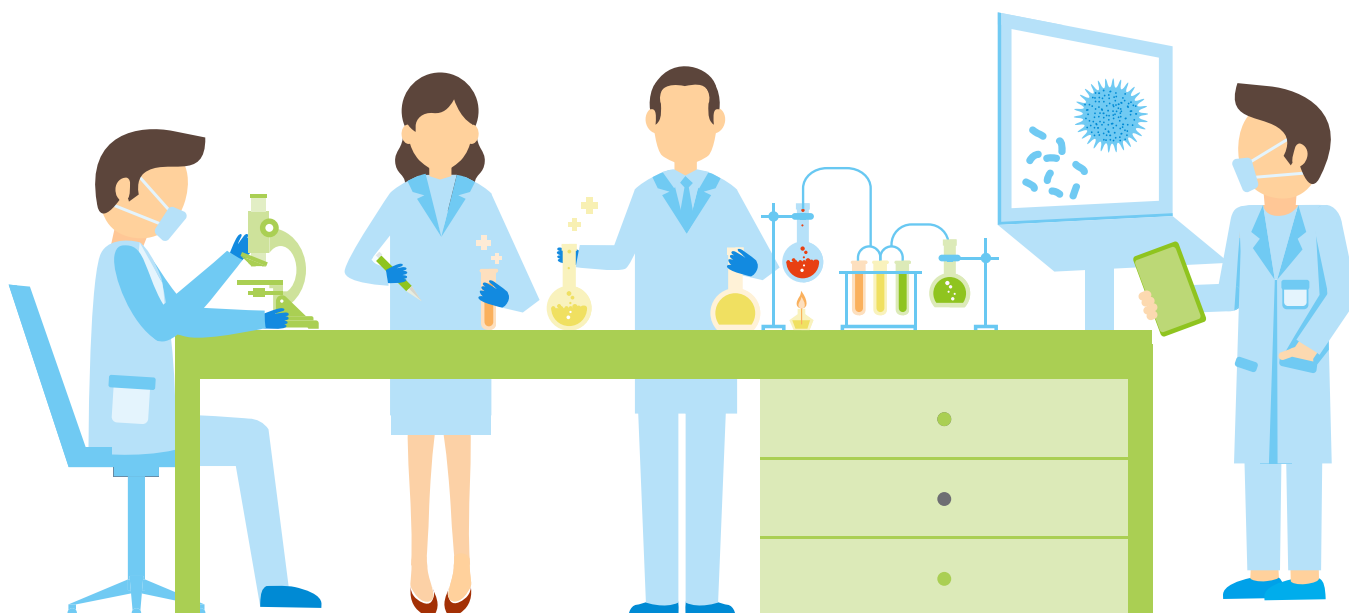
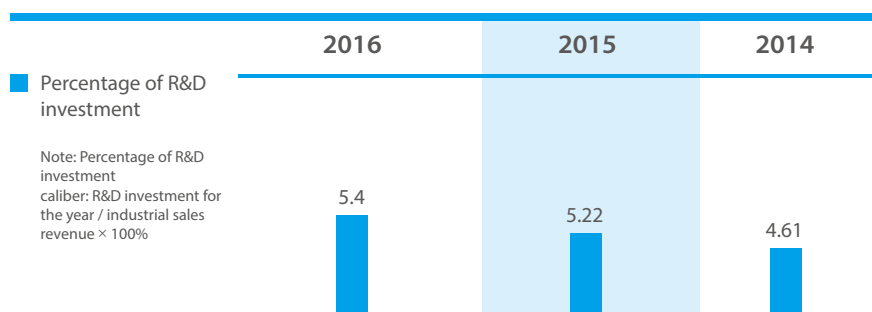
3. Production application / approval (number of application/approval)



4. R&D expenditure distribution (%)



5. Percentage of R&D investment (%)



5.2 Strive for Excellence, Continuously Improve the Quality and Safety of Drugs

1 Production management quality level continues to improve

As at 31 December 2016, all 41 drug manufacturers affiliated to the Company passed GMP certification and obtained a total of 99 GMP certificates, including 26 certificates involving aseptic production and 73 certificates involving non-aseptic production. By reforming and passing the GMP certification, the Company has comprehensively enhanced its technological equipment, production management and quality management in pharmaceutical manufacturing to ensure continuous and steady production of drugs that meet the intended use and registration requirements.

2 Quality management focuses on internal audit and implementation

2016 quality work focused on "compliance according to law, risk control". In view of the change of drug supervision mode, taking into account the actual situation of all enterprises of the Group, the quality audit of GMP compliance, such as supplier management, production site management, data integrity and computer system verification, was carried out. In 2016, the on-site quality audit of 39 enterprises affiliated to the Company was carried out, among other things, namely 25 times of GMP follow-up inspection, 5 times of special inspection, 9 times of compliance self-examination sampling. At the same time, the quality audit expert database and technical backbone database were

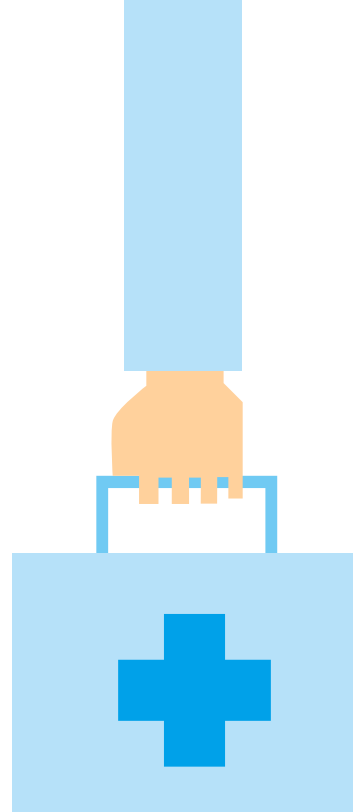
established to enhance the improvement of the quality management level and quality control risk.

On the other hand, in order to implement drug quality management, the Group and 17 drug manufacturers and business enterprises directly affiliated to the Group signed the "2016 letter of responsibility for quality management of drug production and business operations". Strengthen the compliance awareness, improve the management system, and enhance the ability to prevent and control quality risks through quarterly quality regular meeting and "quality of the month" activities.

3 Generic drugs obtained approval from US FDA

1. The generic drug, Rosuvastatin Calcium, applied by Changzhou Pharmaceutical Factory Co., Ltd. to US FDA obtained approval from US FDA. The drug has a strong hypolipidemic effect and is fast and safe, and is known as "super statins". It is suitable for patients who suffer from primary hypercholesterolemia or mixed dyslipidemia (type IIb) with dietary control and other non-pharmacological treatment but cannot properly control dyslipidemia. It is also suitable for patients with homozygous familial hypercholesterolemia as adjuvant therapy for dietary control and other lipid lowering measures such as low density lipoprotein removal therapy, or when these methods are not applicable. The current Rosuvastatin Calcium obtained ANDA approval from US FDA, which played an active role to promote the Company to expand the international preparations market.

2. Production of bulk pharmaceutical chemicals such as valaciclovir hydrochloride and ganciclovir by SPH Kony (Changzhou) Co., Ltd. passed the US FDA certification. The valaciclovir hydrochloride is bulk pharmaceutical chemicals used for production of valaciclovir hydrochloride tablets and capsules for treatment of herpes zoster and herpes simplex infection. Ganciclovir is bulk pharmaceutical chemicals used for production of ganciclovir tablets and capsules for treatment of cytomegalovirus infections caused by immunological damage. These two bulk pharmaceutical chemicals produced by Changzhou Pharmaceutical passed the US FDA certification, which brought a positive impact on expansion of the international bulk pharmaceutical chemicals market by the Company.



4 Lean Six Sigma management is effective

During the reporting period, the Company continued to implement lean management. Lean projects covered R&D, production, quality, sales, warehousing, transportation, accounting, inventory, e-commerce and other aspects. The number and quality of projects hit record high time. The Group has completed 118 Lean Six Sigma projects in aggregate, the project is expected to bring more than an annual income of RMB10 million. For talent training, it is expected to add 104 new certified green belt people, 54 new black belt trainees and 259 new green belt trainees.

Case:

In early 2016, SPH Kony (Changzhou) Co., Ltd. set up a project "Improve the yield of valaciclovir hydrochloride", and the product yield increased by nearly 4 percentage points at year end, amounting to millions of annual income indirectly.

5 Balance of sales and production ensures stable supply of drugs

Since 17 March 2015, Shanghai Pharmaceuticals has promulgated the "Measures for management of balance of sales and production of key products by Shanghai Pharmaceuticals Holding Co., Ltd. (Trial implementation)", defined the scope of control over the balance of sales and production of key products, control mode, control requirements and assessment, rewards and punishments, and completed the construction of balance of sales and production system. After one year, Shanghai Pharmaceuticals' two-level platform and management network for balance of sales and production has successfully covered 3 industrial enterprises and counterpart sales.

The "Measures for management of balance of sales and production of key products by Shanghai Pharmaceuticals Holding Co., Ltd. (Trial implementation)" was promulgated on 17 March 2015

For production, based on the requirements of the "Measures for management of balance of sales and production", under the premise of legitimate and compliant operations, through the coordination mechanism of sales and production of resources and research, sales and production linkage mechanism, a stable supply of multiple products can be secured.

6 Implement integration of informatization and industrialization, continue to improve management efficiency and management accuracy

Through the introduction of automated equipment and information systems, gradually upgrade the manufacturing level. Taking the creation of a boutique production line, boutique production workshop and boutique manufacturing enterprises as the starting point, promote the deepened integration of informatization and industrialization of Shanghai Pharmaceuticals. Promote industrialization via information technology, promote information technology via industrialization, and take a new road to industrialization; support via information technology, pursue sustainable development model.

Case:

Case: In 2016, after the MES system of SPH Dong Ying became online, the Company's procurement, warehousing, production, quality departments all operated online, which leveraged the control of planning, distribution and other core processes, quality monitoring of the entire production of materials, entire logistics tracking of procurement and storage of raw materials and packaging materials, pickup check-out, workshop process inventory and check-out and sales of packaging materials, entire operation tracking of inspection and testing system. The Group was the first to use sales and procurement platform locally. The Group's unified software was used in financial module. Seamless integration was achieved among different systems. Transparent, standardized, refined basic goal was achieved, enterprise management efficiency and management accuracy reached a new level.

7 Promote centralized purchasing to further reduce procurement costs

During the Reporting Period, contracts of framework agreement concerning reagent purchasing were renewed. Centralized purchasing of instruments of small laboratory, like gas/liquid, network version software, balance, moisture meter and PH meter was completed, saving several millions of RMB in purchasing.

8 Quality responsibility

Pursuant to the "Drug Administration Law of the People's Republic of China", "Drug production quality management practices", "Medical equipment production quality management practices" and other relevant national laws and regulations, the "Quality Manual" of Shanghai Pharmaceuticals Group Co., Ltd is prepared. This manual is the Company's programmatic documentation on quality management, is the basic rule for the Company to establish, implement and maintain a quality management system, and is the Company's quality commitment to its customers and the society.

All members of the Company implements the quality policy of this manual in a comprehensive and stringent manner. The manual further regulates the production of drugs, medical equipment and other products, as well as business activities to ensure and maintain the continuous suitability and effectiveness of the quality management system, and to confirm the customers and other relevant parties that the Company has its ability to provide products and services that meet the requirements of applicable laws and regulations as always, and that the Company takes actions to fulfill social responsibility.

The "Quality Manual" specifies the Company's liability to its customers, including but not limited to the following:

Product quality level - during the production of products, relevant laws and regulations related to product production, technical standards, customer feedback requirements and product quality review analysis results should be identified, and the measures to raise the product quality level should be determined.

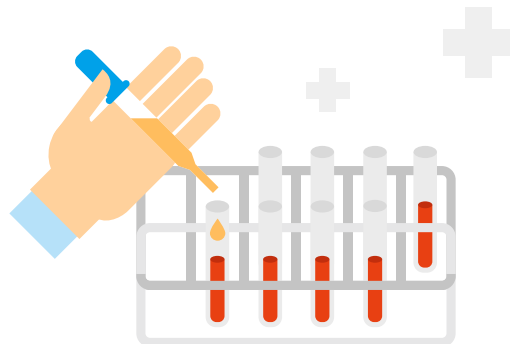
Product environmental protection level - during the production of products, the environmental impacts should be taken into account, including energy conservation and conservation of natural resources.

Service quality level - When a product is delivered to a customer (including direct sales, distribution and retail), regulatory requirements and customer feedback related to product sales should be identified, and measures to improve the service quality should be determined.

Authenticity of advertising - when introducing the products and services, the production and business units should promote accurately according to the registration or permission approvals.

Ability to handle customer complaints, rework and product return - in handling any complaints from customers and rework and product return, the production and business units should be dealt with promptly.

Preparation of "Quality Manual". This manual is the Company's programmatic documentation on quality management, is the basic rule for the Company to establish, implement and maintain a quality management system, and is also the Company's quality commitment to its customers and the society.



9 Supply chain management

Drug manufacturers subordinate to Shanghai Pharmaceuticals conduct quality audit of suppliers and implement procurement process control to ensure that the procurement of products meets quality standards, and that the procurement process complies with relevant laws and regulations, in order to meet the requirements of product quality and safety.

Through the "Quality Manual", "Supplier quality audit control procedures" and other documents, Shanghai Pharmaceuticals guides the subordinate drug manufacturers to carry out supplier management and procurement process control. Subordinate enterprises formulate the corresponding written documents to standardize the operation of enterprise supplier management and procurement process to ensure compliance with the requirements of the "Drug production quality management practices" and other laws and regulations.

For the purposes of ensuring that the procurement of products complies with the requirements of regulations, registration approval and quality standards, enterprises will conduct quality audit for all suppliers purchasing products. What type of quality audit control of the supplier and the purchased product is used depends on the impact of the purchased product on the quality of the final product of the entity and the requirements for risk management.

Generally, the following processes are included: supplier classification, audit model, supplier selection, audit preparation, preliminary examination, qualified suppliers, monitoring and measurement, review, etc. The above processes have a standardized written record.

Enterprises subordinate to the Group strictly manage and require suppliers through the following measures:

1. The procurement center makes a detailed distinction between existing suppliers according to the supplier management requirements provided by the QA department, which can be divided into productive suppliers and non-productive suppliers. Productive suppliers are divided into Class A, B and C. Class A refers to productive supplier of raw materials, class B refers to productive supplier of ancillary materials and reagents, and class C refers to productive supplier of packaging materials. The procurement center and QA department strictly control the suppliers of the procurement center, conduct research and formulate procurement center qualified supplier directory.
2. To avoid the social risks of suppliers, we formulate an annual audit plan and supplier on-site audit plan to ensure that suppliers comply with national standards during production. On-site audits of suppliers are conducted and ratings are given.





CHAPTER 6

Let people take medicine with ease



Our goal

- Take medication with ease



Our management ideology

- Promote online and offline drug / service accessibility

Commercial model innovation

Business model innovation

Improve drug access

Meet the needs of special group



Our measures

- Respond to two-invoice system and speed up the national commercial network layout
- Improve the service capacity of SPHC
- Strengthen supply chain extension services
- Designated production



Our achievements

- Expanded the commercial network to fill the blank provinces
- More comprehensive "Yiyao" services
- Supply chain extension to benefit more patients
- Ensure the normal supply of cheap shortage drugs

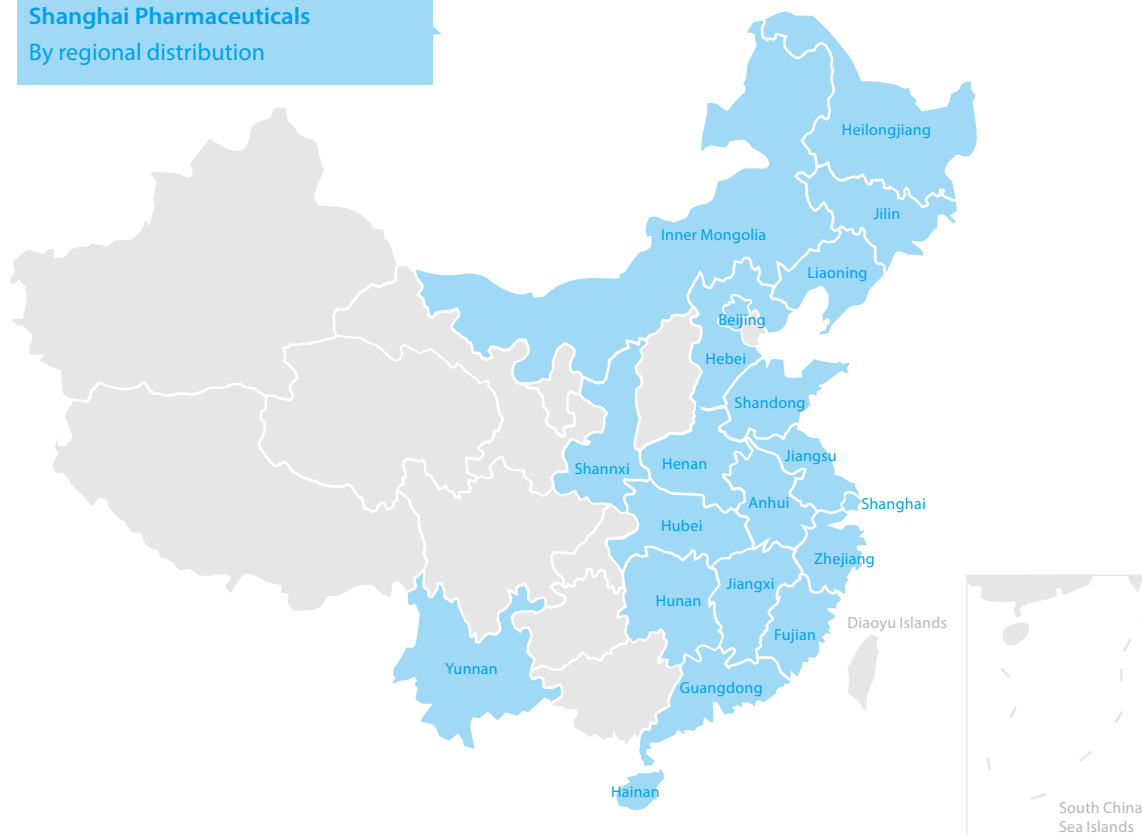
6.1 Grasp the opportunity to actively respond to the reform of two-invoice system

Actively grasp the opportunity of reform of the two-invoice system. Shanghai Pharmaceutical Co., Ltd. and SPH Keyuan Xinhai Pharmaceutical Co., Ltd. speed up the national commercial network layout and the upgrading of terminal coverage, and enhance the efficiency of the supply chain terminal services. In 2016, through the acquisition of Yunnan Shanghai Pharmaceuticals Co., Ltd. and Harbin Yangpuyuhua Pharmaceutical Distribution Co., Ltd., Shanghai Pharmaceuticals achieves its commercial layout strategy in Yunnan and Heilongjiang to fill the gaps.

The commercial network of Shanghai Pharmaceuticals has covered 20 provinces, municipalities under the direct control and autonomous regions. For construction of the provincial platform and provincial level city distribution network, Shanghai Pharmaceuticals implements a larger scale of mergers and acquisitions, focusing on improving prefecture-level city channel construction in Jiangsu, Zhejiang, Hubei, Guangzhou and other provinces.

The commercial network of Shanghai Pharmaceuticals has covered 20 provinces, municipalities under the direct control and autonomous regions

Logistics warehousing layout of Shanghai Pharmaceuticals
By regional distribution



6.2

Taking the patient-oriented approach, increase the drug-related service capacity in an all-round manner

1 More advanced services of SPHC

For online services, SPHC's online / offline pharmaceutical retail O2O drug purchase model and its ability to serve patients are lifted to a new level; for offline services, including three areas: operate pharmacies together to increase the distribution points, participate in comprehensive transformation of the community to achieve the approach of taking drugs nearby, carry out quantized purchase to reduce drug costs

For online services, in March 2016, Shanghai Pharmaceuticals Grand Health Cloud Commerce Co., Ltd. (hereinafter referred to as "SPH Cloud Health"), a company aiming at providing more convenient pharmaceutical services to patients, obtained A+ Round Financing of a total of RMB135 million by SB China Capital and Shanghai Charity Foundation, so that its online / offline pharmaceutical retail O2O drug purchase model and its ability to serve patients are lifted to a new level. At present, a series of "Yiyao" products and services is launched for patients, hospitals and pharmacies respectively: "Yiyao • members" financial products to help patients solve their financial problems arising from the high-priced self-funded drugs;

"Yiyao • pharmacy" to provide a "one-stop" prescription drug retail solution; "Yiyaobao" project to provide a "Internet +" drug supply chain whole process solution for hospitals. In the future, SPHC will continue to invest more in the Internet relating to medical e-commerce.

Rapidly expand retail network coverage and layout through its own funds + M&A funds, improve the three-tier offline retail network, give priority to improve the layout of East China, and gradually expand to the whole country. Strive to become the leading domestic branded medical e-commerce and retail enterprises.

In 2016, the supply chain extension services expanded from the original drugs to the supplies, and from Shanghai Municipality to the whole country

2 Three-pronged approach to enhance the convenience of taking drugs

For offline services, the efforts and effectiveness of enhancing the approach of taking drugs with ease are reflected in three areas, namely, increased distribution points of co-established pharmacies, participation in comprehensive transformation of the community to achieve the approach of taking drugs nearby, and purchase in quantity to reduce drug costs. At present, there are two new co-established pharmacies in Qingdao, and three new co-established pharmacies in Ningbo. For comprehensive transformation of the community, carry out the "Yiyaoquan" project for extended prescription, undertake Shanghai "1 +1 +1 contract execution". More than 70% of pilot hospitals choose Shaphar as their only distributor, and the number of extended prescription reaches 22,000 in a single month. For participation in quantized purchase of medical insurance, there are 12 areas covering six common names in the second batch of quantized purchase of medical institutions in Shanghai Municipality, and it is entitled to the only right to distribute in 11 areas.

3 Energize healthcare industry, expand the hospital supply chain extension services

Through the provision of supply chain extension services, we relieve the medical staff from cumbersome material management (including drugs, medical supplies, etc.), so that they have more time and energy to focus on medical work, and patients can get more professional treatment and care. Heading towards this goal, in 2016, the supply chain extension services expanded from the original drugs to the supplies, and from Shanghai Municipality to the whole country.

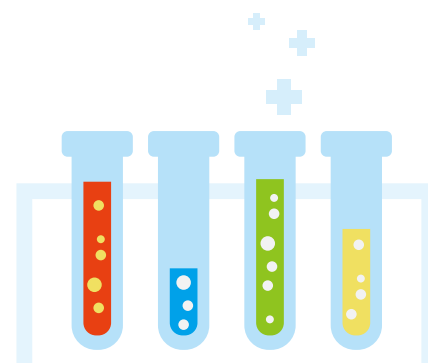


6.3 Meet the medication needs of special group

1 Perseverance, ensure normal supply of cheap shortage drugs

For the purpose of solving the problem of shortage of cheap drugs, the "Focused direction of industrial revitalization and technological transformation in 2015" issued by the Ministry of Industry and Information Technology proposed 17 varieties of shortage drugs, of which 10 varieties are produced from Shanghai Pharmaceuticals to ensure the normal supply.

Varieties of shortage drugs	Manufacturers
Corticosteroid	Shanghai SPH No. 1 Biochemical and Pharmaceutical Co., Ltd.
Dobutamine	
Tannic acid	
Vasopressin	Shanghai SPH No. 1 Biochemical and Pharmaceutical Co., Ltd. Shanghai Harvest Pharmaceutical Co., Ltd.
Oxytetracycline	Shanghai Harvest Pharmaceutical Co., Ltd.
Pilocarpine	
Norepinephrine	
Isoproterenol	
Dopamine	
Digoxin	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.



Shanghai Pharmaceuticals designated production varieties

Designated production varieties	Treatment area / Coverage	Manufacturer	Supply situation
Dobutamine hydrochloride injection	Used for heart failure caused by decreased myocardial contractility in patients with organic heart disease, including low blood volume syndrome due to open heart surgery	Shanghai SPH No.1 Biochemical and Pharmaceutical Co., Ltd.	Emergency medicine for clinical need but in small dosage, normal sales in the pilot area, timely delivery, no feedback from medical institutions on shortage and late delivery
Lobeline Hydrochloride Injection	Mainly used for neonatal asphyxia, asphyxia caused by carbon monoxide poisoning, poisoning due to inhalation anesthetics and other central inhibitors (such as opioids, barbiturates), as well as respiratory failure caused by pneumonia, diphtheria and other infectious diseases	Shanghai Harvest Pharmaceutica Co., Ltd.	

Shanghai Pharmaceuticals designated production base

Designated production base	Main production varieties	Treatment area / Coverage
Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Methotrexate, digoxin	Digoxin: Hypertensive patients with valvular heart disease, congenital heart disease, chronic heart failure patients, etc. Methotrexate: acute leukemia, malignant lymphoma, head and neck cancer, lung cancer, etc.

Case: Fulfill social responsibility, the medication needs of special group are superior to the interests of the Company

The dosage of drugs required by special group is usually small, resulting in a loss of manufacturers. However, in order to meet the clinical needs of such group, the Company still produced such drugs at a loss. Taking the "corticotropin injection" as an example, the Company produced such drugs as an example of corporate social responsibility. Although the Company suffered loss for many years, it never gave up, and made investment of special funds amounting to RMB15 million. The newly-built hormone production line was used to specially produce corticotropin to ensure that the quality of drugs and production capacity meet market demand.

2 Provide professional pharmacy services to meet the needs of special group

Included in the municipal-level major commodity reserves in the Municipality with a total of 79 varieties, amounting to a total of more than RMB1,900 million

Direct To Patient (DTP): stores distributed 20 cities, 25 stores

Drug reserves

Included in the municipal-level major commodity reserves in the Municipality with a total of 79 varieties, amounting to a total of more than RMB1,900 million, of which 70 varieties are emergency western medicine, and eight varieties are emergency Chinese medicine; mainly antibiotics, transfusion medicine, antiviral drugs, detoxification and emergency rescue drugs for radiation damage, which are stored by Shaphar and SPH Traditional Chinese Medicine. In accordance with the requirements of the Shanghai Reserve Commodity Management Office, the enterprise medical reserve management network operates normally, its two storage enterprises implement 24-hour duty system to ensure the quality and transportation of the municipal reserve medicine commodity. In addition, since 2007, the Company has begun to organize and implement drug storage on behalf of the military combat. The amount was more than 1,500 million, and Shanghai Pharma was the storage enterprise while other subsidiaries acted as emergency units.





CHAPTER 7

Positive solutions to assist resolving social problems



Our goal

- Effective solutions to resolve social problems



Our management ideology

- Closely integrated with its core resources



Our measures

- Targeted poverty alleviation
- Rural doctors training
- Co-establishment and study aid
- Love dedication
- Charitable donations
- Community investment



Our achievements

- More social recognition, public image enhanced
- Clearer social welfare ideology, focused resource allocation

7.1 Take targeted measures in poverty alleviation

1 Targeted poverty alleviation plans

Full participation of the society is required to help the dream of "Live in dignity and a healthy China" to become true. Shanghai Pharmaceuticals has always focused on close integration between its own core resources and social needs, in order to create a more comprehensive value. In accordance with the spirit of important speech on poverty alleviation work from General Secretary Xi Jinping, the Company, in conjunction with the advantages of its own resources, gradually and orderly carries out the work of targeted poverty alleviation.

In 2015, the Company and the China Youth Development Foundation officially launched the "Shanghai Medical Care Guardian Plan", and the first phase of the special fund for the plan was RMB10 million, which was the first social welfare special fund under the China Youth Development Foundation for the purpose of improving rural medical care. The fund will be used to build rural health clinics in remote mountain areas, subsidize rural patients suffering from rare diseases, and train rural doctors in three years, and to integrate with relevant medical resources to carry out activities such as "volunteer medical consultation in the countryside", and implement health education and serve the local public.

The Company and the China Youth Development Foundation officially launched the "Shanghai Medical Care Guardian Plan"

2 Overview of annual targeted poverty alleviation

In accordance with the "Shanghai Medical Care Guardian Plan", in 2016, the Company mainly focused on the construction of hope clinics in remote mountain areas, training rural doctors, providing assistance after major disasters, helping poor families and subsidizing students and other aspects of work.

1. Funding reconstruction of rural health clinics / health rooms: has completed the construction of the first batch of five hope clinics in Wenshan Qiubei County of Yunnan Province; has launched the construction of the second batch of nine hope clinics in Yunnan Dali (7), the Red River (2), among which four health clinics in Yunnan Dali have completed the main construction; has launched the construction of the third batch of five hope clinics in Zunyi City, Guizhou Province. Construction of a total of 19 health clinics has completed or launched, and the cumulative coverage in poverty areas is over 58,000 people. In addition, the screening work of the fourth batch of hope clinics in Sichuan Province has launched via Aba, Ganzi, Liangshan areas. At present, reconstruction of three health rooms is on request.

2. Training of doctors in township (village) and county: from 25 November to 3 December 2016, rural doctors from the reconstruction area in 3 states, 5 counties and 14 villages in Yunnan were invited to participate in medical training in Shanghai. The training covered five specialties, namely internal medicine, surgery, gynecology, pediatrics and orthopedics, and a total of more than 20 clinical disease categories including chest pain diagnosis and differential diagnosis, diagnosis and treatment of hypertension, common surgical diseases like acute abdomen, urology common diseases, rheumatoid arthritis, diabetes, high pregnancy, children with hematuria, and ankle injury. After training, the general diagnosis and treatment ability of rural doctor was improved, enabling the reconstructed hope clinics to play a more important role.

In 2016, mainly focused on funding the reconstruction of hope clinics and health rooms in villages, training doctors in counties, and disaster emergency assistance (medical rescue bags, etc.)





3. The disaster emergency assistance (medical rescue bags, etc.): since 30 June, the continuous heavy rainfall in the middle and lower reaches of the Yangtze River caused flooding in Hubei, Anhui and other places in China, urban waterlogging, debris flow and landslides caused serious casualties and significant property damage. The Company responded quickly and launched the disaster assistance program with the China Youth Development Foundation. The 1-million donation from the China Youth Development Foundation was used to aid students from poor families in Hubei and Anhui suffering more severe disaster to study, and the implementation of relief materials was reviewed in late September.

HS



3 List of targeted poverty alleviation work of listed companies 2016

Unit: RMB

Index	Quantity and development status
A. Overall situation	
In particular: funds	RMB3.53 million
1. Education to lift out of poverty	
In particular: 1.1 Amount of money invested for subsidized poor students	RMB1.12 million (mainly used for subsidizing poor students)
1.2 Number of subsidized poor students (person)	6,029 persons
2. Health poverty alleviation	
In particular: 2.1 Amount of money invested for medical and health resources in poverty areas	RMB2.24 million (mainly used for construction of hope clinics i villages, training of rural doctors etc.)
2.2 Estimated coverage in poverty areas (person)	58,518 persons
3. Social poverty alleviation	
In particular: 3.1 Designated poverty alleviation	RMB170,000 (poverty alleviation in relevant poverty areas in Hengren County)
B. Awards (content, level)	

"Shanghai Medical Care Guardian Plan" was granted "Charity Innovation Award" in 2016 China Charity Festival Named by China Federation of Industrial Economics as 2016 five-star enterprises to fulfill social responsibility in China Awarded by the China Youth Development Foundation with "2016 Hope Project Contribution Award"

4 Subsequent targeted poverty alleviation plans

According to the particular environment of each poverty area and the conditions of different poor people, implement accurate identification of poverty target, accurate assistance and accurate management through the application of scientific and effective procedures. Mainly focusing on the promotion plan relating to the "Shanghai Medical Care Guardian Plan" of the Company, followed by taking into consideration the advantages of the Company's resources, continue to vigorously promote the construction of hope clinics in remote mountain areas, rural doctor training, implementation of health education, etc.; moreover, in light of the actual local situation in poverty areas, carry out rare disease financing, and effectively promote the equalization and accessibility of basic medical healthcare.

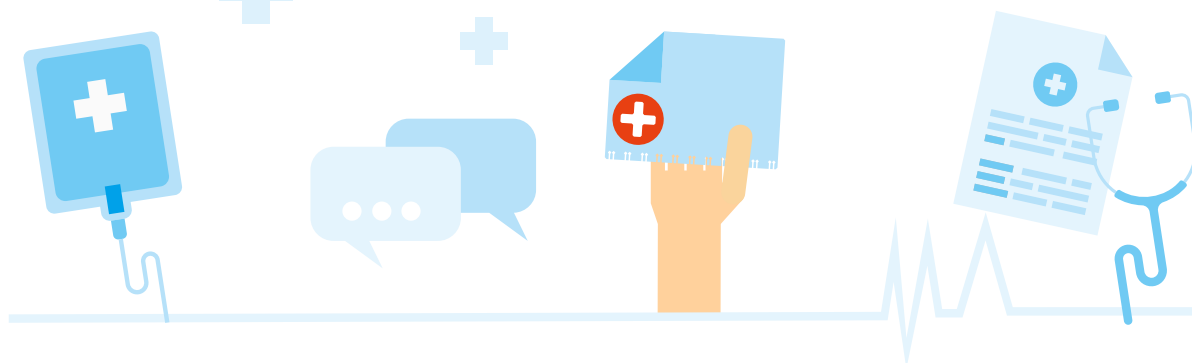
Implement accurate identification of poverty target, accurate assistance and accurate management through the application of scientific and effective procedures

7.2 Rural doctors training to enhance local medical standards

1 Shanghai-Yunnan charity walk • Longchuan rural doctor training program

On 30 November, the signing ceremony of Shanghai Pharma's Longchuan rural doctor training project was held in Kunming

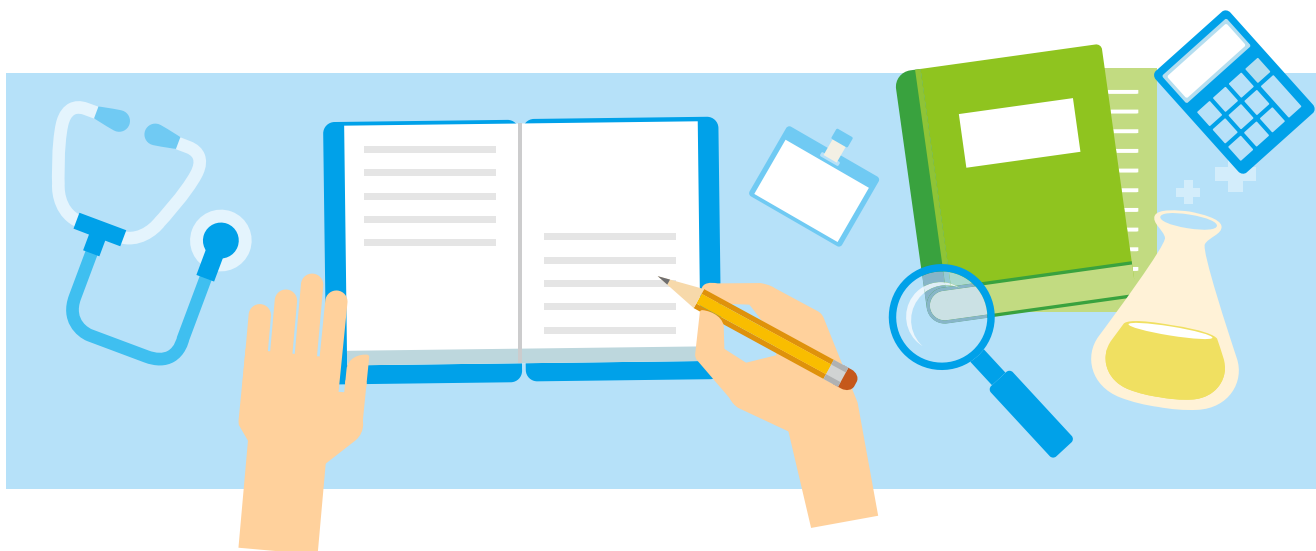
In order to improve the quality of rural teachers and doctors in Yunnan Province, the Shanghai Charity Foundation signed an agreement with the Zhaotong Municipal People's Government of Yunnan Province to launch the "double thousand people" program for rural teachers and rural doctors. In order to contribute to their own strength, Shaphar actively cooperates to participate in and support the Shanghai Charity Foundation for aid and doctor training programs in Yunnan. On 30 November, the signing ceremony of Shanghai Pharmaceuticals' Longchuan rural doctor training project was held in Kunming. The Shanghai-Yunnan charity walk • Longchuan rural doctor training program was jointly organized by the Shanghai Charity Foundation, Yunnan Charity Federation, Shanghai Industrial Investment (Holdings) Co., Ltd. and Shaphar, and was Zhaotong's "double thousand people program", especially the deepening and extension of training of rural doctors. The training was jointly conducted by the Shanghai Charity Foundation, the Shanghai Municipal Commission of Health and Family Planning and Zhongshan Hospital, and conducted in combination of online and offline methods, including distance learning via the Internet, on-site training in Shanghai, etc. and covered all frontline hospital management and doctors in the rural hospitals in Longchuan County.



7.3 Co-establish and aid study for your development of little wild goose

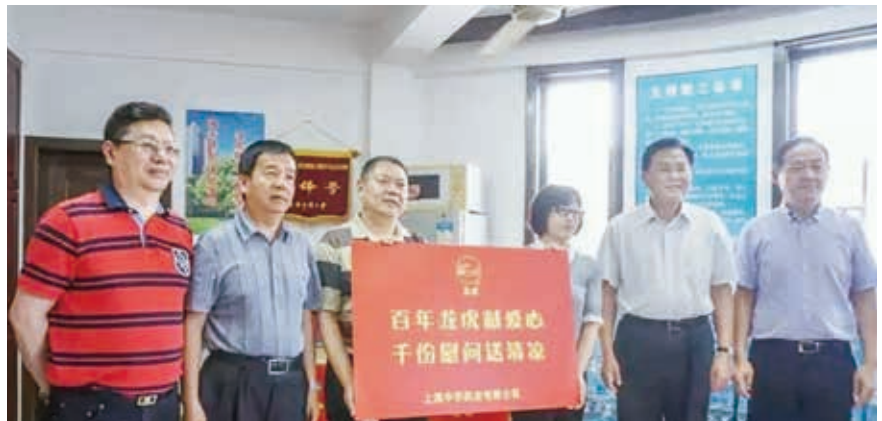
"Aspiration and Virtue" class of East China University of Science and Technology to help students

The "Shanghai Pharmaceuticals Little Wild Goose Aspiration and Virtue Scholarship", and "Little Wild Goose Little Wild Goose Aspiration and Virtue Club" jointly set up by the Company and the East China University of Science and Technology are operated as scheduled. In 2016, the Company provided students with a one-month summer internship, the first batch of 32 students of "Aspiration and Virtue class" visited Shanghai Pharmaceuticals to deeply understand the culture of Shanghai Pharmaceuticals, and understand the management process of drug production and operation.



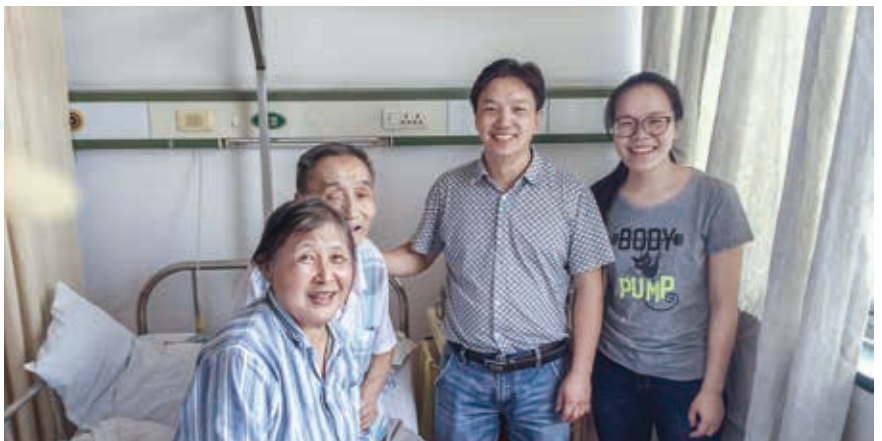
7.4 Care for people, warm their hearts

SPH Zhonghua set up the Dreams Come True Charity Foundation, provided sanitation and greening workers with summer cooling products of "Longhu" series, and expressed sincere appreciation to sanitation workers and greening workers who worked hard in hot summer.



SPH Zhongxi Sunve carries out "Joy and love together" charitable activities

To care patients with rheumatoid arthritis, lupus erythematosus and other immune system diseases, SPH Zhongxi Sunve carries out the "Joy and love together" charitable activities. On the eve of the Mid-Autumn Festival, the staff visited 17 patients in the patient's home and the ward, narrowing the psychological distance between the patient and the enterprise.



7.5 Love dedication, charitable donations

In June 2016, Yancheng Funing County was destroyed by heavy hail and tornadoes, SPH Zhonghua and Changzhou Pharmaceutical Factory donated relief supplies of more than RMB400,000.



Big hand holding small hand, living forever

SPH No. 1 Biochemical and Pharmaceutical is not only committed to the production and supply of safe drugs to patients, but also bear social responsibility and devote to love and is concerned about the growth of teenagers and children in China. 48 2016 Corporate Social Responsibility Report Shanghai Children's Welfare Institute annually and gave washing machines, diapers and other necessities to care children.



Care for the children of other family as we care for our own

On 6 August 2016, SPH Kyuan visited Shaanxi Province as their home, giving helpless prisoners' children who treated these innocent children love and donations to children's welfare institute in central Jingyang warm their hearts and soul.

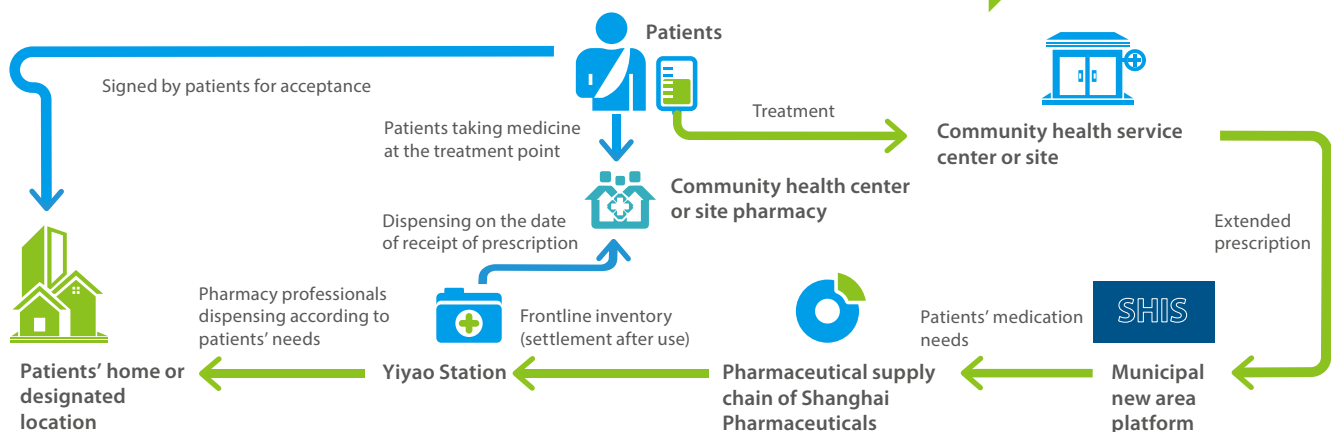


7.6 Community investment

The Company attaches great importance to community relations. Affiliated enterprises actively participate in community affairs in various aspects, and constantly strengthen the positive interaction with the community. While contributing to the community, the Company creates favourable conditions for its sustainable development.

1 Shaphar's "extended prescription dispensing" and "Yiyao Station" services achieve door-to-door dispensing

The "external prescription dispensing in designated pharmacy" model has been operating. Although residents find it convenient to get the medication near their home, many drugs are not included in its list of essential medicines. Patients often need to go to the class 3 hospitals to get the necessary medicines. In order to solve this issue, Shaphar relies on intensive terminal network, advanced information technology, complete varieties, efficient logistics and distribution and other features, takes two-pronged approach to provide extended prescription dispensing and "Yiyao Station" services, to explore a viable approach.



Extended prescription

Organize part of the patients suffering from chronic diseases with dispensing as the main needs to the grassroots level so that patients with minor diseases are not required to dispense in the community. This has become a key step in re-allocation of medical resources and optimization of healthcare environment. Extended prescription is to extend the prescription of the hospital to the community. Focusing on chronic diseases with clear prescription, family doctors can access the prescription details of class 3 hospitals of the residents who have signed the contract, and then directly prescribe via the treatment platform in the community hospitals, to achieve "door-to-door" dispensing.

Yiyao Station services

Extended prescription and site hosting pharmacy of Shaphar are collectively referred to as "Yiyao Station". Through cooperation with the community health service station, upon medical treatment, patients can get their prescription medication in "Yiyao Station" which is next to the site. At the same time, Shaphar takes advantage of its network covering nearly 600 retail outlets, to set up "Yiyao Station" in all districts of the Municipality to provide citizens with convenient drug dispensing services.

Features of "Yiyao Station" services:

Comprehensive coverage - the first batch of 65 pilot hospitals in the Municipality, more than 70% of them choose Shaphar as the only distributor.

Sorted distribution - under normal circumstances, Shaphar can complete drug sorting, packaging and distribution within 24 hours. Taking medicines nearby - the public can take their medical insurance card and clinic prescription to get the medication in the nearby "Yiyao Station" on their own, or to call and inquire medication knowledge and healthy living guidelines.

Door-to-door dispensing - for residents who cannot move properly due to age or health reasons, Shaphar can deliver the medicines to their home without additional charges. Gentle reminder - when signing the contract, the public provides the correct delivery address and contact phone number to improve delivery efficiency.

2 Medication advisory + chronic disease management, Huashi to the community

Carry out chronic disease management, become a new approach for chronic disease prevention and control

At present, the incidence of cardiovascular and cerebrovascular diseases, osteoporosis, diabetes and metabolic diseases and mental illness and other chronic non-communicable diseases increases year by year, and these diseases have become a major threat to the health of the people. Chronic disease management becomes a new approach for chronic disease prevention and control.

Huashi, affiliated to Shaphar, is one of the pharmaceutical retail chains with the largest Shanghai network. Taking into account the concept of "proud of the service" concept and the continuous pilot scheme and exploration of service model, the chronic disease management center of Liangchenglu pharmacy of Huashi emerged and officially opened in January 2016. In addition to chronic disease medication advisory services provided by professional pharmacist and practicing pharmacists to patients, personal health management database is established for patients through the "membership system". Registration advisory and drug purchase information will be followed up regularly to ensure service upgrade based on the customer demand-oriented approach. A chronic disease medication area is also set up in the store, and provides free services such as measurement of blood pressure, blood sugar, blood lipids, body weight, bone density and other services. Setting up dedicated atomization equipment for patients with respiratory diseases arising from haze and other reasons has become a major highlight.



3 SPH No. 1 Biochemical and Pharmaceutical's universal science education base project

In recent years, in order to create a harmonious relationship between drug manufacturers and drug users, and allow more people to understand the R&D and production processes of biochemical formulations, staff of SPH No. 1 Biochemical and Pharmaceutical who are practicing pharmacists will act as volunteers to provide universal biochemical medical knowledge in the form of "Science lecture hall", so that the drug manufacturers and drug users can communicate freely with obstacles. Since 2013, the Company has been approved to establish one of universal science education bases in Minhang District for three consecutive years, universal science base activities will be carried out every two weeks on average.

As of today, more than 4,000 people are invited cumulatively, and residents in the community surrounding the Company, students as well as enterprises and institutions are beneficial to these activities. The people covered include Shanghai residents in Minhang area or across Minhang area, students and enterprises and institutions. In 2016, a group of teachers and students from Australia were invited, winning acclaim.

Create a harmonious relationship between drug manufacturers and drug users, and allow more people to understand the R&D and production processes of biochemical formulations



Primary and secondary school students from Jiangchuan street visited the Company



Teachers and students from The Scots College Sydney, Australia visited the Company

4 Create a harmonious social relationship for residents

SPH No. 1 Biochemical and Pharmaceutical refurbished the landscape pool this year. In addition to its landscaping purpose, the pool can also be used to store water for firefighting, and the water used for landscaping can be recycled to reduce water waste. Based on the fact that the original noise does not exceed the standard, the sound insulation screen behind the air conditioning exhaust on the roof of the two rooms of the Company is still transformed to better reduce the noise emissions and the impact on the surrounding residents. These improvements have been praised by the residents.

"Environmental Protection Open Day" allows residents to understand the enterprise, our emphasis on and investment in environmental protection, deeply understand the corporate philosophy and culture, effectively rule out the hidden dangers of conflicts between the society and the enterprises. Meanwhile, it demonstrates the confidence and determination of SPH No. 1 Biochemical and Pharmaceutical to accept the supervision from the public. While carrying out our economic development, we also do a good job to save energy and reduce emissions, and are accountable to the public, the environment and the community.

Refurnish the landscape pool. In addition to its landscaping purpose, the pool can also be used to store water for firefighting, and the water used for landscaping can be recycled to reduce water waste



Residents from Jiangchuan street visited the Company

5 "Growful healthy walk" - a practical branded charitable activity

"Growful healthy walk" was launched in July 2012, covering more than 100 communities and more than 500 events cumulatively, and directly serving more than 30,000 people



In order to disseminate the concept of healthy living, promote social welfare undertakings, better fulfill social responsibility, and provide services for the people's health, Shanghai Growful launched "Growful healthy walk", a large branded charitable activities in July 2012. In the past four years, the activities was carried out through the double-channel

model of "Please come in" and "Please go out", covering more than 100 communities and more than 500 events cumulatively, and directly serving more than 30,000 people. This lays a good foundation for the public.

From 5 August to 3 September, "Growful healthy walk" was held in the southern city, North District, Licang District and Laoshan District of Qingdao Municipality and Lacey City, as well as more than 10 street communities such as North Village, Yichun Second Road, Tongan Road and Junfeng Road. 15 community parties named "Holding hands for 60 years, Growful healthy walk" were carried out, and nearly ten thousand people participated in this activity on the spot.

6 SPH Sine's "Millions of people seeing Sine"

6,690 visitors joined "Millions of people seeing Sine" in 2016, and the health lectures "Baiyutang" were held.

SPH Sine's old branded charitable science activities, "Millions of people seeing Sine" has been launched for 17 years. In 2016, the total number of visitors was 6,690, and the health lectures "Baiyutang" were held. This year, 195 people from Jinqiao area where the Company is located visited SPH Sine. The community (Jinqiao) attended class 3 times, with a total of 270 people. The community arranged "Xueleifeng" activities once this year with an audience of 500 people. Closely cooperate with "love education" institutions, with 2,940 students this year. Cooperate with Wen Wei Po to launch "Wen Wei-Sine healthy walk". Carry out "Concerned about health, care about life" activities with Shanghai University for the Elderly, part of the streets and other units, and 1,000 people were benefited. These activities were highly praised by the community.





CHAPTER 8

Create overall value based on responsible operation



Our goal

- Create overall value



Our management ideology

- Take stakeholders' appeals seriously

Responsible to shareholders

Responsible to employees

Responsible to the community



Our measures

- Strengthen transparent management, promote business development and realize synergy of management and control
- Focus on employees' career development and occupational health and raise their remuneration, benefit level and comprehensive capacities
- Insist on green production and low-carbon operation



Our achievements

- Operating results kept growing at 10%-plus, EPS increased 11% and dividend distributed to all the shareholders was not lower than 30% of the net profit distributable last year
- We provided our employees with professional, high-efficiency and individualized training courses and growth paths in light of their work posts and career development needs.
- We continuously promoted lean management, improved quality management system and adhered to the effective management plan providing efficient services under whole-process quality control.

8.1 Governance and control

In 2016, the Company attained the business objective and completed various key tasks for 2016 and promoted implementation of strategies in response to a sequence of significant policy and market changes including reduced drug price brought by a new round of bidding, implementation of quality conformance evaluation of generic drugs, and rollout of new drug examination and approval policy, zero-profit drug policy, two-invoice system and replacement of business tax with value-added tax.

The Company amended the Implementation Rules of the Audit Committee of the Board of Directors, initially built the risk management framework and further optimized its risk management and internal control system

1 Governance mechanism

The Company worked energetically to build a comparatively perfect modern governance system for listed companies and constantly improved its corporate governance structure in strict accordance with the Company Law, the Securities Law and other relevant laws, and relevant regulations formulated and issued by regulatory departments.

In 2016, according to the Stock Exchange of Hong Kong Limited's regulations on risk management and internal control in the Corporate Governance Code and Corporate Governance Report, and in light of its actual conditions, the Company formulated and issued the Overall Risk Management System to specify the responsibilities of different departments and units, risk evaluation standards and risk management procedure, and established the risk management system for the year. By risk identification, evaluation, response and report, a range of work results were achieved, including risk management organization structure, risk map, risk list, response measures, etc.

In 2016, to further improve the governance mechanism, the Company amended the Articles of Association according to the Opinions on

Further Strengthening the Protection of the Lawful Rights and Interests of Medium and Small Investors in the Capital Markets issued by the State Council and the Guidelines on Articles of Association (2016) issued by CSRC, specifying in the Articles of Associations that when the general meeting of the listed company deliberates matters that could materially affect the interests of medium and small investors, the votes by medium and small investors shall be counted separately, and the Company shall not impose any minimum shareholding limitation for collecting voting rights. To ensure all the shareholders can fully exercise their rights, the Company formulated and issued the Implementation Rules of Cumulative Voting System according to the Guidelines for the Corporate Governance of Listed Companies and Provisions on Strengthening the Protection of the Rights and Interests of the General Public Shareholders issued by CSRC, the Articles of Association and other relevant regulations, and adopted the cumulative voting system for the general meeting's voting on election of directors and supervisors.

2 Information disclosure

In respect of information disclosure, the Company, in line with investors' needs and compliance, took initiative to fulfil the obligation of information disclosure by innovative methods and enhanced time effectiveness and transparency of information disclosure in strict accordance with the Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.2 - Contents and Formats of Annual Reports (2016 Revision) issued by CSRC, Guideline on Industry Information Disclosure No. 7 - Listed Companies Engaging in the Pharmaceutical Manufacturing and Notice

on Further Improving Information Disclosure of Poverty Alleviation by Listed Companies issued by the Shanghai Stock Exchange, and Environmental, Social and Governance Reporting Guide issued by the Stock Exchange of Hong Kong Limited and other requirements,

From 1 January 2016 to 31 December 2016, the Company disclosed a total of four periodic reports (annual report 2015, first quarterly report 2016, interim report and third quarterly report 2016), 74 A-share temporary announcements and 100 H-share announcements and documents.

3 Communication with investors and safeguarding of their rights and interests



The Company regularly held conference calls involving global investors and conducted roadshows for global institutional investors. Meanwhile, the Company positively responded to and answered the investors' questions through the "E-interactive Platform" of the Shanghai Stock Exchange, investor hotline and e-mails. In 2016, the Company maintained good interaction with domestic and overseas investors and participated in and received investor survey, ensuring investors could be promptly informed of the Company's operating results and strategy plans. As at 31 December 2016, the "E-interactive Platform" of the Shanghai Stock Exchange had received 21 questions from investors, and the Company paid great attention and responded to them all in a timely manner.

Case 1: Profits shared through cash dividend

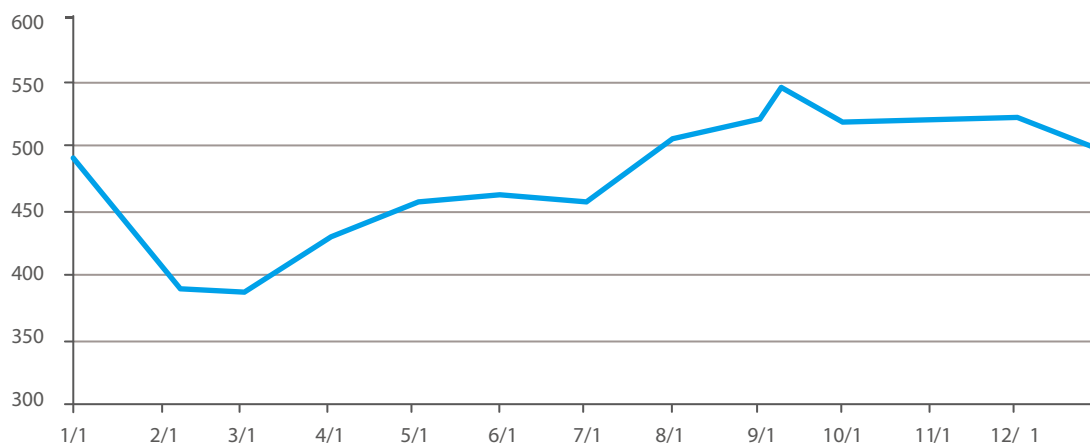
The Company highly valued general investors, especially the rights and interests of medium and small investors. From 2012 onwards, the Company insisted on distributing profits in cash every year while taking sustainable development into account, and the dividend proportion has exceeded 30% for five years in a row, ensuring that investors could share the bonus of enterprise growth.

Case 2: Market value management

In early 2016, the Company's share price sustained downward pressure, with the market value shrinking to RMB38 billion, under the influence of fluctuation of the capital market. Therefore, the Company took multiple measures to stabilize its share price, so the market value was revised up gradually. The maximum daily market value exceeded RMB54 billion in the year, with the steepest increase of approximately 42%. By the end of 2016, the Company's market value was kept at around RMB50 billion, boosting the market confidence.

Trend chart of market value of Shanghai Pharmaceuticals (601607.SH/2607.HK) in 2016

RMB100 million



4 Risk management and control

"Strengthening the Group's risk management and control and building the risk management system" is one of the work focuses of the Company. This year, the Company promoted the following work priorities relating to risk management and control:

I. Building of the overall risk management and control system

1. Finalized the Group's risk management framework
2. Formulated the Overall Risk Management System of Shanghai Pharmaceuticals (Provisional)
3. Determined the Group's key risk list and risk management and control measures
4. Promoted core subsidiaries' building of risk control and guided SPH Zhongxi Sunwe to complete building of Jinhe Bio-Pharmaceutical's internal control system and SPH Medical Instruments to complete building of Sunnico Finance Leasing's internal control system

5. Formed the Group's risk self-evaluation report at the end of the year

II. Continuously enhancing accounts receivable risk management

In 2016, the Company enhanced accounts receivable risk management by amending the accounts receivable examination and audit evaluation standards, implementing special audit twice every year and introducing new accounts receivable for more than one year minus operator performance indicator.

III. Collected risk events

In 2016, the Company, by collecting risk cases, summed up causes and effects of risk events, sorted out risk response measures, and preliminarily set up a historical significant risk event information database, creating a foundation for identifying and evaluating risks and providing response measures for disposal of risk events.

5 Anti-corruption

In respect of audit, the Company formulated the Purchase and Bidding Management Measures of Shanghai Pharmaceuticals as well as Management Measures of Supplier Integrity and Compliance of Shanghai Pharmaceuticals according to the Bidding Law of the People's Republic of China, the Regulation on the Implementation of the Bidding Law of the People's Republic of China and other relevant state laws and regulations. The two systems mainly specified the bidding and purchasing requirements for engineering projects, equipment, facilities, office supplies, office equipment, IT software and hardware, professional maintenance, consulting services, etc., and honesty and compliance requirements that the Company's staff should observe during transactions with suppliers.

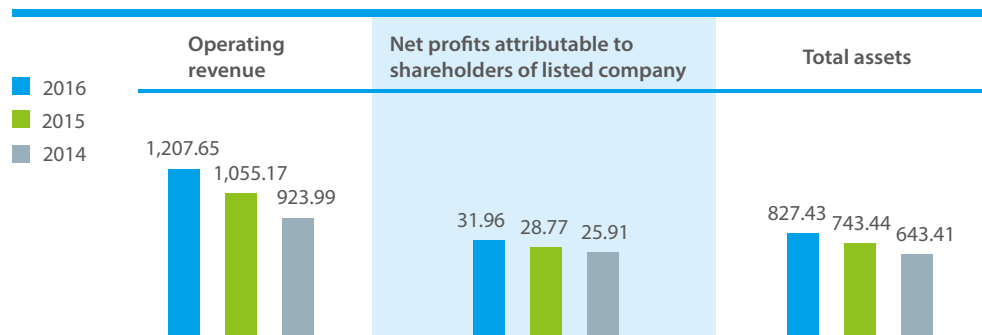
The discipline inspection commission of the Company continued to study, publicize and implement the Criteria of Honesty and Self-discipline for the Communist Party of China and Regulation of the Communist Party of China on Disciplinary Actions, and earnestly implemented Shanghai Pharmaceuticals' Measures for Implementation of Entity Responsibility of Party Committee and Supervision

Responsibility of Discipline Inspection Commission in Building of A Clean and Honest Government. Key work was carried out in promoting building of risk prevention and control system for major fields:

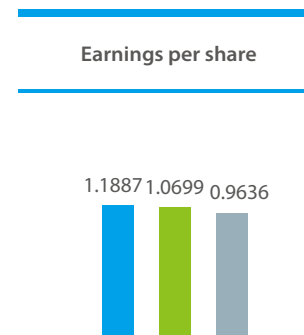
1. Promote implementation of Guidance Opinions on Strengthening Management of Sensitive Posts. Enhance incorruption education for employees at sensitive posts, conduct examination on the implementation of management of sensitive posts, and prevent corruptions from the source.
2. Implement the Measures for Management of Honesty and Compliance of Suppliers, cooperate with relevant business departments in urging various units to regulate management of suppliers so as to improve the enterprise's risk prevention ability.
3. Work out the Notice on Strengthening Management of Agency of Relevant Enterprise Products of the Group by Employees Who Have Left Shanghai Pharmaceutical Group, and further enhance management of agency of relevant enterprise products of the Group by employees who have left the Group.

Key indicators

(RMB100 million)



(RMB)



8.2 Employee development

1 Career development

Strengthen the introduction of market-oriented talents, establish a unified recruitment management platform, integrate recruitment channels and resources, optimize recruitment process and establish external talent pools

The Company gradually established employee career development channels, including the position system for R & D personnel, position system for technical-quality control personnel, and position system for skilled personnel, and kept improving the position standards.

The Company strengthened the introduction of market-oriented talents and extensively promoted the methods for selection of talents for competitive jobs; established a unified recruitment management platform, integrated recruitment channels and resources, optimized recruitment process and established external talent pools; annually organized theme recruitment in the campus, established strategic alliances with relevant universities and jointly established national education practice bases to improve students' practical ability through internships, graduation design, exchange of experts, directed and entrusted trainings, so as to shorten their run-in period after entering the company.

After systematic training, master instructing apprentice and skill competition, a number of leading skilled personnel with exquisite craftsmanship and working in the frontline emerged in the Company. In particular, one person entered the first batch of "Shanghai Craftsmen", one person won the first prize in the national pharmacist post skill competition, two persons were honoured as technical experts in Shanghai, and two persons were included in the "Thousand Talents Program for Chief Mechanics" of Shanghai.

2 Salary & welfare

Improve the normal growth mechanism and the underpinning mechanism for employee salaries, so as to improve the incomes of employees of the enterprise

The Company adhered to the salary payment concept centered on position, ability, performance and market and kept improving the normal growth mechanism and the underpinning mechanism for employee salaries, so as to improve the incomes of employees of the enterprise.

The Company, with SPH Research Institute as a pilot, promoted and implemented the project manager system for R&D personnel, and established a salary distribution system that matched the position system for R&D personnel and was directly related to the R&D projects. With SPH Sales as a pilot, the Company improved the salary distribution system directly related to the position system for sales personnel and double-dimension evaluation based on "performance + act". With reference to the enterprise's development, the Company actively improved the welfare system for employees, and some enterprises explored to establish the welfare items such as commercial health insurance, supplementary provident fund and enterprise annuity.



3 Training and development

The Company paid high attention to employees' growth and development and provided employees with systematic learning and development paths and training courses.

To comprehensively improve management level and leadership, the Company conducted the leadership development projects for senior management staff and developed the "Jing Yan" new manager study program. "Jing Yan" study program is a systematic and standardized management skill training program elaborately designed for highly-potential "post-80s" managers. The Company creatively built a training mode for hybrid talent, promoted the trainees' behavior change through online learning, micro knowledge contest, classroom learning, dialogue with management, workshop, on-the-job practice and case evaluation, and helped trainees change from individual contributors to new managers. The program received a gold award in the first CSTD Enterprise Learning Design Competition.

The Company held the "Young Geese Flying High - Induction Training for New Graduates" to enhance the new employees' sense of identity for corporate culture and improve their sense of belonging and sense of pride. 176 new graduates learned the Company's strategic plan, corporate culture, Lean Six Sigma, professionalism attainment and time management and participated in a variety of activities including visit to enterprises, team development training, face-to-face with senior management and interaction with campus ambassadors. The Company implemented the "young geese growth partnership program" and provided each new graduate with a guide acted by excellent league cadre, so as to accompany the "young employee" in growth during the one-year growth partnership period and help them change from a good student to a good employee.

To continuously promote the Company's Lean Six Sigma management, in 2016, the Company organized two traditional green belt training classes, four operational green belt training classes and one black belt training class for 350 persons and initially established the talent team for lean management.

To speed up promoting the strategy of digital Shanghai Pharmaceuticals in an all-round way, the Company started the learning program for IT project managers and organized online knowledge learning, offline case sharing and subsequent on-the-job practice to continuously train and improve IT project managers' project management ability and cross-department communication ability.

Develop "Jing Yan" new manager study program and hold "Young Geese Flying High - Induction Training for New Graduates" Organize two traditional green belt training classes, four operational green belt training classes and one black belt training class



4 Health and safety

Health:

The Company always insisted on the work objective of 100% report rate and detection rate of occupational hazardous factor, 100% notification rate of post occupational hazard, 100% physical examination rate and 100% training rate in occupational health management, and realized full coverage of occupational hazard management and no occurrence of occupational disease. The Company urged the enterprises to establish a sound occupational health monitoring system, arranged pre-post, on-the-job, off-post and emergency health examination for employees and built a sound occupational health monitoring file. The Company organized special occupational health examination, conducted review for building projects based on the principle that environmental protection facilities must be designed, constructed and put into use simultaneously with the main works, increased capital investment, improved the hardware equipment and facility level, effectively improved the operation environment and provided applicable personal protective equipment.

Case 1:

Changzhou Wuxin Pharmaceutical Co., Ltd. intensively improved the feeding process, increased the suspended hood, and transmitted liquid pumping materials via pneumatic diaphragm pump instead of vacuum intake previously used, so as to reduce unorganized emission.

Case 2:

Xinghuo Base of SPH Zhongxi Sunve rebuilt the waste gas absorption tower in the centrifugal room, increased the special gas detectors and five axial flow exhaust fans and equipped special personal labor protection articles, so as to greatly improve the work environment of the work site.

Health: urge enterprises to establish a sound occupational health protection system and ensure that “environmental protection facilities must be designed, constructed and put into use simultaneously with the main works”

Safety: insist that “work safety is the responsibility of both the Communist Party and the government and relevant cadres should be responsible for not only their own jobs but also related work safety” and applied supervision on production safety to every process.

Safety:

In accordance with Production Safety Law and relevant laws and regulations, the Group continued to promote the work safety responsibility system to prevent work safety accidents. The Group insisted that “work safety is the responsibility of both the Communist Party and the government and relevant cadres should be responsible for not only their own jobs but also related work safety” and applied supervision on work safety to every process. The Company has established a set of Work Safety Management Norms and Systems, continued to promote safety management system building, and improved safety standardization. To achieve the goal of “no serious production safety accidents, no significant fire and explosion accidents, no largely responsible major traffic accidents, no major occupational hazard accidents and less serious injury accident and general accidents”, the Company held safety and environmental education activities to increase employees’ safety awareness and conducted safety risk evaluation and inspection to responsively spot and eliminate safety risks.

On 4 January 2016 the President of Shanghai Pharmaceuticals signed a Letter of Responsibilities for Work Safety in 2016 with the general managers of 19 subordinate enterprises, specifying the work safety goal for each year.

In January 2016 the Company issued the Temporary Provisions of Shanghai Pharmaceutical Group on Implementing “Work Safety Is the Responsibility of Both the Communist Party and the Government and Relevant Cadres Should Be Responsible for not only Their Own Jobs but also Related Work Safety”, highlighting the role of enterprises in ensuring work safety.

In 2016 the Security Department of the Company organized and held a campaign themed on anti-habitual regulation violation, requiring employees of various enterprises to discover the habitual regulation violations that happened around them and spot those safety risks brought by these violations in the production process. Problems spotted in the process were rectified responsively.

Making all efforts to promote the standardization of work safety, Shanghai Pharmaceuticals obtained “grade II” safe production standardization certificate. 49 enterprises under Shanghai Pharmaceutical Group obtained “grade II” safe production standardization certificate and 6 obtained “grade III” safe production standardization certificate, realizing full coverage of work safety.

The Company encouraged enterprises to participate in safety culture construction unit rating activities. 20 enterprises in Shanghai applied to Shanghai Work Safety Association for participating in Shanghai safety culture construction unit rating, which were three subordinate enterprises of Shanghai Pharmaceutical Co., Ltd., five subordinate enterprises of Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd., three subordinate enterprises of Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., five subordinate enterprises of Shanghai Traditional Chinese Medicine Co., Ltd., two subordinate enterprises of Shanghai SPH No. 1 Biochemical and Pharmaceutical Co., Ltd., Shanghai Zhonghua Pharmaceutical Co., Ltd. and Shanghai Haichang Medical Plastic Plant.

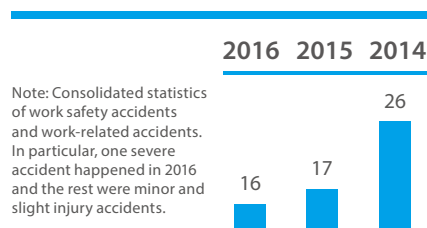
Case 1:

On 22 November 2016 Shanghai Pharmaceuticals hosted the Shanghai Pharmaceuticals Grade II Contingency Plan Drill in Xinghuo Base of SPH Zhongxi Sunve. The drill was witnessed by representatives of Shanghai Administration of Work Safety and fire authorities and the safety directors and managers of the Group’s subordinate enterprises. The drill improved not only enterprises’ ability to handle emergent work safety accidents on site but also the Group’s ability to coordinate the efforts of various departments in an emergency.

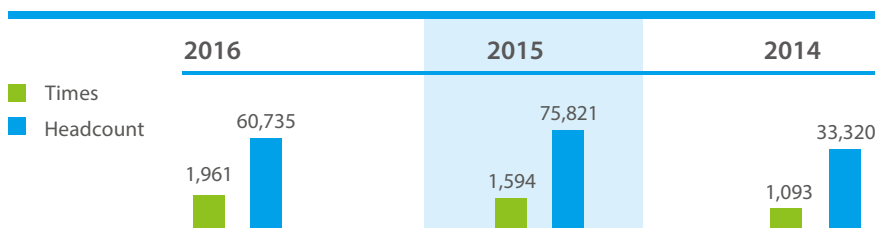


Key indicators

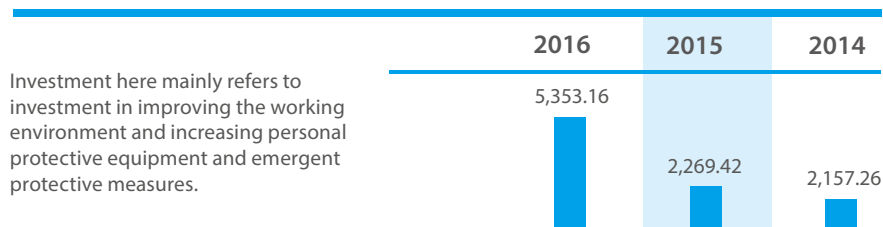
1. Work safety accidents or work-related accidents in the year (number of accidents)



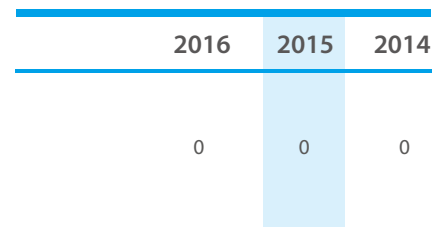
2. Safety education and training



3. Occupational health-related investment (RMB0'000)



4. Incidence rate of occupational diseases (%)



5 Employment and labour practices

According to the Labor Contract Law of the People's Republic of China and local labor laws, regulations and policies, Shanghai Pharmaceuticals recruited employees according to job requirements on the basis of impartiality and fairness and did not discriminate employees because of their gender, age, disease and race; the Company paid social insurance and other statutory welfare for all regular employees in a timely and fixed manner; all subordinate enterprises granted statutory holidays and paid leave to employees; Shanghai Pharmaceuticals had always insisted on legitimate employment and was not involved in use of child labor or forced labor.

In protecting the legitimate rights and interests of employees, the labor union of the Company made it available for staff members to express their demands and tried to maintain harmonious labor relations by holding different activities. In 2016, labor unions at all levels listened to and collected the views and suggestions of staff members through the workers' congress, labor emulation, continuous improvement proposals and seminars, after which they responsively reported these views and suggestions to the Party and government leaders of enterprises and urged enterprises to make improvement.

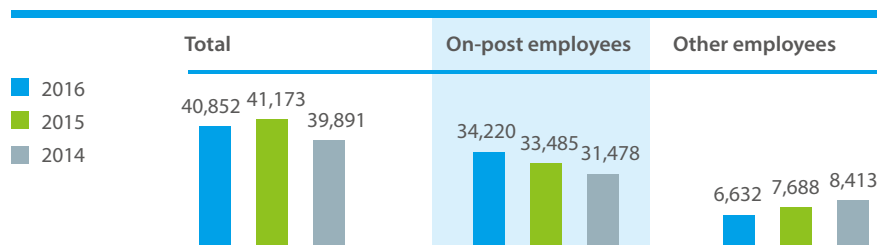
In addition, the Company urged labor unions at all levels to complete information collection and entry of membership cards. In 2016, 548 new cards were issued and 13,884 members were newly registered, accounting for 67.1% of the total members and all of whom were insured under the special insurance plan (over RMB280,000 of premium was paid); claims of 38 gravely ill members under the plan were settled; as at the end of the year, claims of 33 members were satisfied and ten of them were compensated RMB20,000.

In respect of caring for female employees, for the convenience of breast feeding employees, in 2016 the Company set up 11 new "Love Mummy Houses" in various subordinate enterprises, adding up to 23 in total.

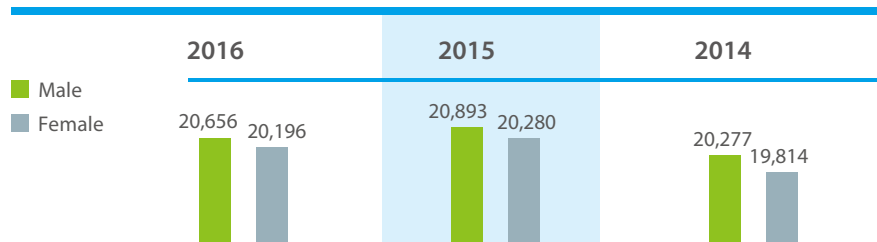
Protect the legitimate rights and interests of employees, urge labor unions at all levels to complete information collection and entry of membership cards, and care for female employees

Key indicators

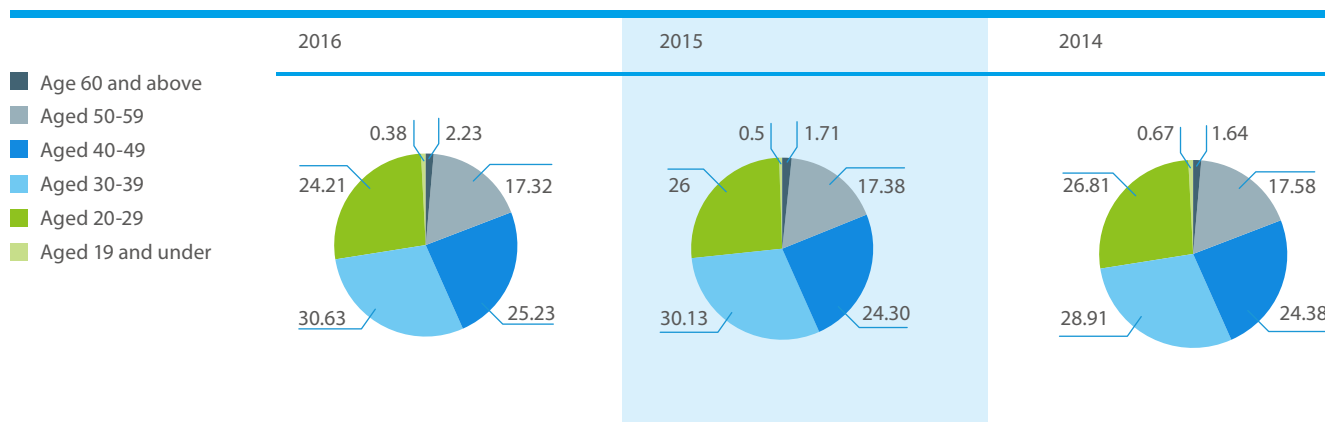
1. Total number of employees



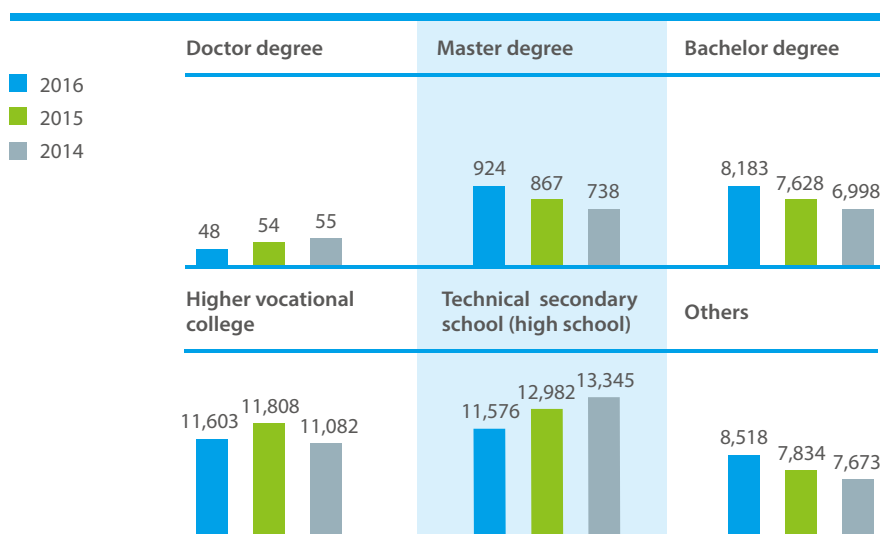
2. Sex composition



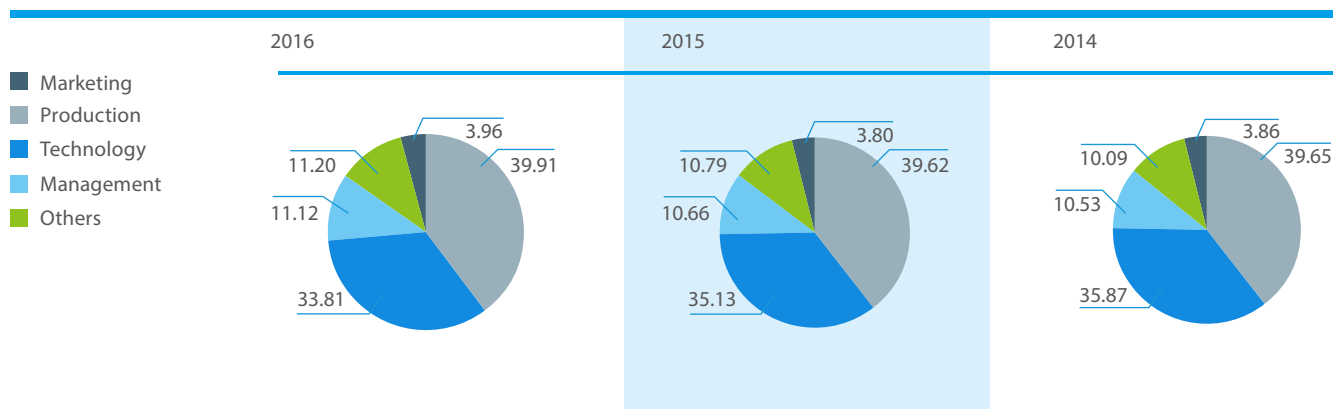
3. Age composition (%)



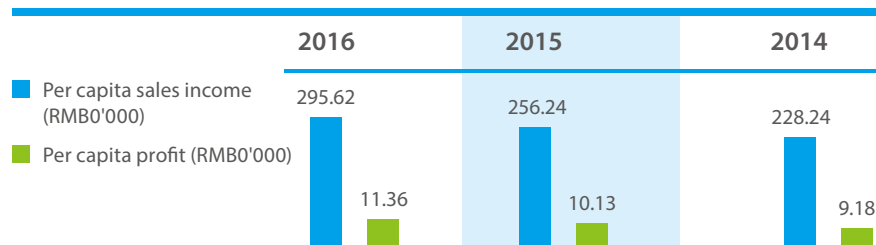
4. Education composition



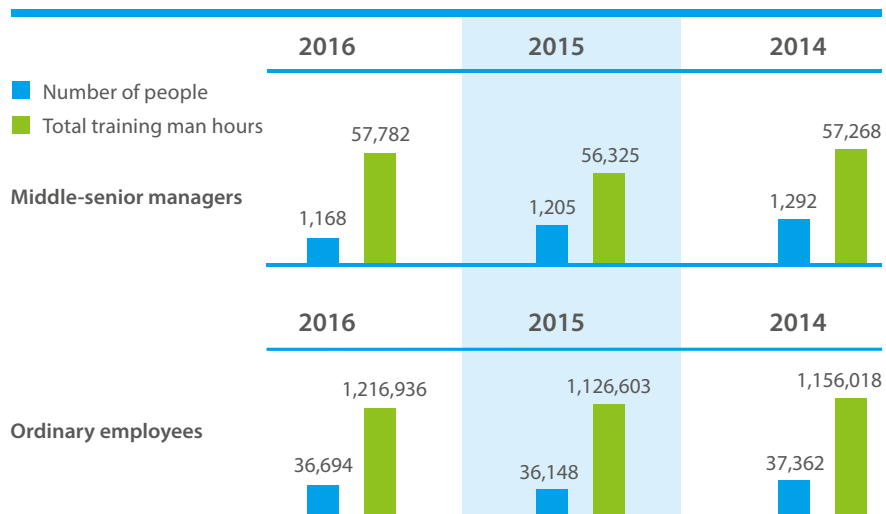
5. Employee structure (%)



6. Efficiency indicator



8. Training hours



8.3 Environmental management

1 Emission

On 4 January 2016 the President of Shanghai Pharmaceuticals signed the 2016 Letter of Responsibilities on Environmental Protection with the general managers of 19 subordinate enterprises

According to Environmental Protection Law and other relevant laws and regulations, the Company fully implemented its environmental protection responsibility and established an environmental-target responsibility system. Taking risk control as the starting point, the Company carried out enterprise environmental risk assessment, made a list of enterprise environmental risk sources, and conducted follow-up inspection on a monthly basis to responsibly eliminate environmental risks.

The Company has established six environmental management systems and procedures, which are the Guidelines for Enterprise Environmental Management, the Environmental Matters Reporting System, the Procedures for Handling Environment-related Complaints, the Procedures for Environmental Management On-site Inspection, the Environmental Management Regulations for Construction Projects, and the Procedures for Disposal and Management of Solid Wastes. Under these systems and procedures, subordinate enterprises were required to set up an environmental management department to have ad hoc persons responsible for environmental management, and improve their environmental management systems to increase work efficiency. Pharmaceutical production enterprises were required to establish an environmental risk identification system and make a list of enterprise environmental risk sources covering waste water pollution, exhaust emission, noise pollution, solid waste pollution and environmental management factors. Environmental risk sources were determined, environmental risk control measures were taken and routine follow-up inspection was carried out to ensure the effectiveness of environmental risk control measures and prevent environmental risks.

On 4 January 2016 the President of Shanghai Pharmaceuticals signed the 2016 Letter of Responsibilities on Environmental Protection with the general managers of 19 subordinate enterprises. Environmental protection objectives in 2016 were: 100% implementation rate of applying “environmental protection facilities must be designed, constructed and put into use simultaneously with the main works” to new projects; 100% operation rate of waste water (gas) treatment facilities; 100% up-to-standard rate of waste water (gas) monitoring; 100% legal and compliance rate of hazardous waste treatment; all processes of production meeting statutory requirements; observing environmental protection regulations; fulfilling the statutory obligations and responsibilities as required by administrative departments; and ensuing legal and compliant production and operation;

In 2016, under the leadership of the Company, various enterprises took a variety of environmental protection measures. At present 12 enterprises have established the ISO14000 environmental management system. This year, seven enterprises passed the second round of clean production audit acceptance inspection; two enterprises were expected to complete acceptance in the first quarter of 2017 and six enterprises had already applied for the second round of clean production audit. 19 enterprises prepared emergency plans for sudden environmental pollution accidents in accordance with the requirements of environmental administrative authorities, and most enterprises have completed expert argumentation and gone through relevant filing formalities. 13 enterprises involved in VOC emission earnestly made rectifications under the guidance of environmental administrative authorities.



2 Energy use

The Company established Management Measures for Assessing Energy Management by Energy-consuming Enterprises and Energy Information Management and Reporting Procedures for Energy-consuming Enterprises, requiring enterprises to strengthen energy management, truthfully calculate energy consumption, carry out energy-saving technological transformation and use energy in a rational and saving manner.

Case

SPH No. 1 Biochemical & Pharmaceutical SPH New Asiatic	Were included in quota management of Shanghai carbon emission trading. The enterprises will further increase the awareness of carbon emission control and management, actively participate in carbon emission related training programs, timely submit monitoring plans and carbon emissions reports, cooperate in carbon emission inspection, timely pay for the carbon emission quota, and strive to enhance their carbon emission management and trading capacity.	
SPH New Asiatic, SPH No. 1 Biochemical & Pharmaceutical, SPH Leiyunshang, SPH Sine, Shanghai Hutchison and joint-stock companies Shanghai Tsumura Pharmaceuticals, Shanghai Roche Pharmaceuticals, Shanghai Ajinomoto, etc.	As required by Shanghai Municipal Commission of Economy and Informatization, every year enterprises consuming 5,000~10,000 tonnes of standard coal should submit reports about their energy use and greenhouse gas emission in the year.	
Changzhou Pharmaceutical Factory	Won the first prize for wrap presentation in the National Pharmaceutical Industry Quality Control Group Activity held in July, 2016; passed the water-saving carrier re-examination by Zhejiang Water Conservancy Bureau in 2016; was granted RMB60,000 of subsidy for 2016 water-saving and emission reduction projects by municipal water conservancy bureau.	
Xiamen Traditional Chinese Medicine	Updated and renovated illumination lamps in 2016, which can save RMB16,100 every year and reduce consumption of standard coal by 7.6 tonnes; changed liquefied gas stoves to electromagnetic cookers, which can reduce carbon dioxide and nitrogen oxide emission and save RMB27,600 every year.	
Huqingyutang Pharmaceutical	Changed all steam traps to loose float traps; used condensate water with waste heat for rough barrel washing; used rainwater in the bottom of stand-by tank to water grasslands in summer, which can save 300 tonnes of water per year.	
Xinghuo Base of SPH Zhongxi Sunve	VOC control project was launched in September 2015. By using photoelectric catalytic equipment + activated carbon adsorption and waste gas wet catalytic oxidation equipment + acid mist purification tower and waste water treatment system with waste gas wet catalytic oxidation equipment + bubble film absorption equipment, the project was aimed at reducing consumption of activated carbon, lowering the cost of VOC treatment, and increasing the efficiency of VOC treatment. The project was completed on 20 October 2016; after the project is accepted and put into operation, annual emission of VOCs was estimated to reduce by 46.4%.	

Waigang Base of SPH Zhongxi Sunve

VOC pollution control project was launched in December 2015; professional environmental protection organizations were commissioned to prepare VOC emission reduction schemes and construction technique schemes. Installation and debugging of VOC pollution control facilities were completed by September 2016. Taking into account the practical situation of the base, operation costs and the convenience of future maintenance, "oxidation spray tower + demister + activated carbon absorber" were adopted in the project, which largely stopped hazardous wastes from come into being. After being accepted and put into operation, the project is estimated to cut annual VOC emission by more than 85%.



Sine Jinzhu

Sine Tianping

Sine Jinzhu implemented the photovoltaic project by installing solar energy on top of buildings and non-motorized roofs. The total investment amounted to RMB2.7 million, the installed capacity reached 299.52KW, and the annual power generation was about 300,000 kWh, with the surplus power incorporated into the national grid. Sine Tianping implemented the roof-distributed photovoltaic project by installing solar devices on 3 factory roofs and car parking spaces. The total investment was about RMB2 million and the installed capacity reached 140KW/h, with the surplus power incorporated into the national grid.

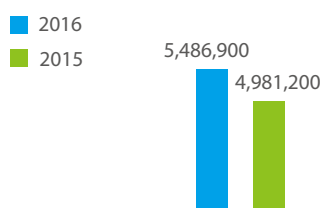
3 Environment and natural resources

Shanghai Pharmaceuticals attached great importance to the production of Chinese herbal medicines and protection of resources, and conscientiously implemented the state policies for rational development and utilization. In the meantime, we also made much of the artificial cultivation of Chinese herbal medicines to ensure the sustainable use of resources and reduce dependence on wild resources.

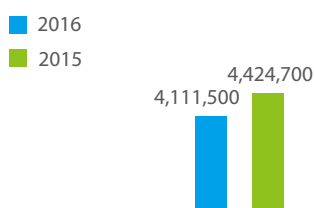
We extended upstream the industry chain of traditional Chinese medicines, strengthened source control and promoted building of standard bases of medicinal materials. So far, we have started setup of planting bases of Chinese yew, saffron, wild ginseng, dendrobe, salvia, ginkgo biloba, pseudo-ginseng, ginseng, ligusticum wallichii, honeysuckle and other herbs.

Key indicators

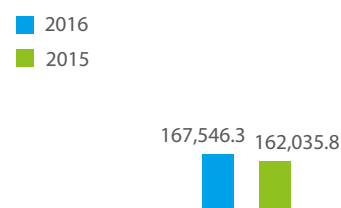
1. Total water consumption (tonnes)



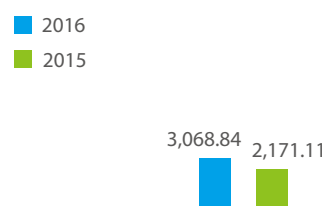
2. Amount of waste water discharged (tonnes)



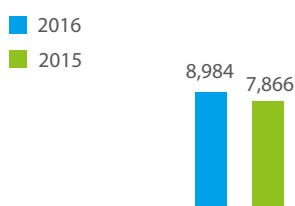
3. Emission of waste gas (0'000 cubic meters)



4. Disposal of hazardous wastes (tonnes)



5. Annual expenditure on environmental protection (RMB0'000)



Remarks:

1. The data for 2015 changed somewhat due to the increase of Shanghai Jinhe Biotechnology Co., Ltd.
2. Relevant enterprises carried out VOC renovation work, leading to an increase in statistics of emission of waste gas. Due to the relocation, SPH Zhongxi cleaned up hazardous wastes on site, leading to an increase (1,289.5 tons) in the disposal of hazardous wastes.
3. Statistics of the above indicators covers 13 drug manufacturers directly under the Group and their subordinates engaging in pharmaceutical production.

The list of enterprises is as follows:

SN	Name of enterprises directly under the Group	Name of subsidiaries of drug manufacturers directly under the Group
1	Shanghai SPH Sine Pharmaceutical Laboratories Co., Ltd.	Shanghai Sine Pharmaceutical Laboratories Co., Ltd., General Factory
		Shanghai Sine Pharmaceutical Laboratories Co., Ltd., No. 2 Subsidiary
		Shanghai Harvest Pharmaceutical Co., Ltd.
		Shanghai Fuda Pharmaceutical Co., Ltd.
		Shanghai Sine Tianping Pharmaceutical Co., Ltd.
		Shanghai Sine Tianping Pharmaceutical Co., Ltd. - Xinghuo
		Shanghai Sine Jiufu Pharmaceutical Co., Ltd.
		Shanghai Sine Yanan Pharmaceutical Co., Ltd.
		Shanghai Sine Wanxiang Pharmaceutical Co., Ltd.
		Shanghai Sine Jinzhu Pharmaceutical Co., Ltd.
		Shanghai Huashi Asia-Paci-c Bio-Pharmaceutical Co., Ltd.
		Shandong Xinyi Pharmaceutical Co., Ltd.
2	Shanghai SPH No. 1 Biochemical and Pharmaceutical Co., Ltd.	Shanghai Sunway Biotech Co., Ltd.
		Shanghai Ziyuan Pharmaceutical Co., Ltd.
		Shanghai Great Wall Pharmaceutical Co., Ltd.
3	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd.	Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., Asia Pioneer Pharmaceutical Factory
		Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., New Asiatic Pharmaceutical Factory
		Shanghai SPH New Asiatic Pharmaceutical Co., Ltd., No. 1 Subsidiary
		Shanghai New Asiatic Pharmaceutical (Minhang) Co., Ltd.
		Liaoning Medya Pharmaceutical Co., Ltd.
4	Shanghai Traditional Chinese Medicine Co., Ltd.	Shanghai LeiYunShang Pharmaceutical Co., Ltd., General Pharmaceutical Factory (Fengpu Subsidiary)
		Shanghai LeiYunShang Fengbang Pharmaceutical Co., Ltd.
		Shanghai Xingling Sci. & Tech. Pharmaceutical Co., Ltd. - Qingpu Base
		Shanghai Dehua Traditional Chinese Medicines Co., Ltd.
		Shanghai Yutiancheng Chinese Herbal Medicine Company Limited
		Shanghai Huapu Chinese Herbal Medicine Company Limited
		Shanghai Xinde Pharmaceutical Co., Ltd.
		Shanghai Huaying Pharmaceutical Co., Ltd.
5	Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd.	Shanghai LeiYunShang Pharmaceutical Co., Ltd. Shenxiang Ginseng & Antler Branch
		Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. - Lishan Road Base
		Shanghai Zhongxi Sunve Pharmaceutical Co., Ltd. - Xinghuo Base
		Shanghai SPH Zhongxi Pharmaceutical Co., Ltd.
6	Shanghai Zhonghua Pharmaceutical Co., Ltd.	Shanghai Jinhe Biotechnology Co., Ltd.
7	SPH Changzhou Pharmaceutical Co., Ltd.	Zhonghua Nantong Pharmaceutical Co., Ltd.
		Changzhou Pharmaceutical Factory Co., Ltd.
		Changzhou Wuxin Pharmaceutical Co., Ltd.
		Nantong Changyou Pharmaceutical Technology Co., Ltd.
		Chifeng Arker Pharmaceutical Technology Co., Ltd.
8	SPH Qingdao Growful pharmaceutical Co., Ltd.	Chifeng Mysun Pharmaceutical Co., Ltd.
9	Chiatai Qingchunbao Pharmaceutical Co., Ltd.	
10	Xiamen Traditional Chinese Medicine Co., Ltd.	
11	Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	
12	Liaoning SPH Herbapex Pharmaceutical (Group) Co., Ltd.	
13	SPH Dong Ying (Jiangsu) Pharmaceutical Co., Ltd.	SPH Kony (Changzhou) Co., Ltd.

4 Description of the environmental protection work performed by companies and their subsidiaries listed as key pollutant-discharging units by environmental protection departments

Three drug manufacturers were included by local environmental protection departments in the list of key pollutant-discharging units or key pollution sources

Three drug manufacturers under Shanghai Pharmaceuticals were included in the list of key pollutant-discharging units or key pollution sources by local environmental protection departments. In particular, SPH Growful was included in the List of Key Pollutant-discharging Units in Qingdao in 2016 Environmental Information Disclosure by Qingdao Environmental Protection Bureau; Changzhou Pharmaceutical Factory was listed in the List of Key Pollutant-discharging Units in Changzhou for 2016 by Changzhou Environmental Protection Bureau; Huqingyutang Pharmaceutical was included in the List of Key Pollution Sources in Yuhang District for 2016 by Yuhang Environmental Protection Bureau.

SPH Growful and Huqingyutang Pharmaceutical are manufacturers of traditional Chinese medicines, while Changzhou Pharmaceutical Factory mainly produces pharmaceutical products and chemical raw materials. The Company, in strict accordance with the environmental protection law, established pollution prevention & control measures, legally disposed of hazardous wastes – bringing the generated sewage into urban sewage treatment plant after pretreatment, and set on-line monitoring devices networked with local environmental protection departments in the sewage outlets in accordance with the requirements of local environmental protection departments; the waste gas was treated in relevant facilities before discharge. Changzhou Pharmaceutical Factory and Huqingyutang Pharmaceutical obtained ISO14000 environmental management system certificate.

Refer to the following table for specific waste discharge information:

Name of key pollutant-discharging units	Name of key pollutants	Discharge mode	Discharge condition	Discharge concentration and total amount	Excessive discharge	Implemented standards for discharge of pollutants	Approved total amount of discharge	Supervision and operation of pollution prevention & treatment facilities
Shanghai Pharmaceuticals Qingdao Growful Medicine Co., Ltd.	COD	Continuous	The factory is located at the main sewage outlet of the sewage treatment station	168 mg/L 10.85 tonnes	None	Standard B under the Wastewater Quality Standards for Discharge to Municipal Sewers (GB / T31962-2015)	The environmental protection department has not yet checked the total discharge amount of pollutant in 2016	To meet the requirement of environmental protection, established a biochemical sewage treatment station with daily treatment of 750 tonnes, and discharged the treated sewage into Huangdao Lianwan River Water Purification Plant for further treatment. The biochemical sewage treatment station was running normally in 2016.
	Ammonia nitrogen			2.9 mg/L 0.45 tonnes	None			
	Particulate matter	Interval	Waste discharge drum in the workshop	About 8.28 mg/ m ³ 0.85 tonnes on average	None	Grade II standard under the Integrated Emission Standard of Air Pollutants GB16297-1996 (Table 2)		To meet the requirement of environmental protection, installed 23 sets of dust-removing equipment to deal with the particular matters generated by the workshop - the linkage between dust-removing equipment and production equipment.
Hangzhou Huqingyutang Pharmaceutical Co., Ltd.	COD	Continuous	The factory is located at the main sewage outlet of the place where the pretreatment facilities are located	469 mg/L 66.77 tonnes	None	Takeover standards of Hangzhou Yuhang Water Co., Ltd.'s sewage treatment plant in development zone	10.71 tonnes	To meet the requirement of environmental protection, established a sewage pretreatment pool with capacity of 1,000 cubic meters, and discharged, after pretreatment, the waste water generated in the production into Hangzhou Yuhang Water Co., Ltd.'s sewage treatment plant in development zone for further treatment. The pretreatment facility was running normally in 2016.
	Ammonia nitrogen			2.06 mg/L 0.29 tonnes	None		0.60 tonnes	
Changzhou Pharmaceutical Factory Co., Ltd.	COD	Interval	The factory is located at the main sewage outlet of the place where the pretreatment facilities are located	97.2 mg/L 25.65 tonnes	None	Takeover standards of Changzhou southeast industrial sewage treatment plant	30.02 tonnes	Installed a set of oxidation + spray + adsorption exhaust treatment device with capacity of 40,000 (m ³ / h) to deal with the organic waste gas generated by the workshop, and after that discharged the waste gas through a 15 meter-high waste discharge drum.
	Ammonia nitrogen			36.4 mg/L 9.62 tonnes	Standard emission limit: 35 mg/L		3.00 tonnes	
	Hydrogen chloride	Interval	Waste discharge drum in the taco workshop	6.73 mg/ m ³ 0.95 tonnes	None	Grade II standard under the Integrated Emission Standard of Air Pollutants GB16297-1996 (Table 2)	2.90 tonnes	

5 Significant benefits brought by normalized green offices

1. Video conference

From January to December of 2016, the Company held 153 video conferences. Supposing four attendees outside Shanghai and average travelling expense of RMB4,000/person, the Company saved travel costs of more than RMB2.44 million in 2016.

2. Server virtualization

The Company installed over 130 virtual servers. The resource utilization rate was improved significantly after the application of virtualization technology.

CPU resource utilization	↑ 6 times
Memory utilization	↑ 3 times
Storage capacity utilization	↑ 3 times
Network bandwidth utilization	↑ 4 times
Power consumption	↑ 9 times
UPS power	↑ 5 times
CRAC power	↑ 3 times
Machine room area	↑ 6 times

3. Collaborative office management system (OA)

Up to now, the Group's OA has over 17,000 users, initiated over 1.24 million processes, and uploaded more than 1.08 million files. If each file has 10 pages on average and each electronic file is printed twice for distribution, it is equivalent to cumulative savings of more than 21.6 million pieces of paper.



CHAPTER 9

Our Responsibility, Our Promise (2017)

Organization

- > Focus on the needs of the stakeholders and conduct investigation and research on stakeholders in due time
- > Explore ways to establish responsibility indicators database
- > Accelerate the intensive transformation, establish R&D management center, and promote the optimization of management relations between subsidiaries to promote the organization flattening reform

Practice

- > Continue to promote the national network layout, innovation & development and service of distribution business to expand the coverage areas to 20 provinces and cities, with the growth much higher than the industry average
- > Provide help for health care reform and actively promote the development of new models like the joint pharmacy, comprehensive reform of communities and procurement of drugs with target quantity
- > Accelerate business development, start the strategic layout of full industry chain of traditional Chinese medicine and the Group's retail development strategy
- > Keep increasing industrial sales capacity, actively strengthen the construction of marketing center, build the core strength in the Group's industry marketing, and strengthen the market access platform function
- > Deepen the optimization of R&D system, and make significant progress in the consistency evaluation for quality of generic drugs, R&D of new drugs and internationalization of products
- > Continue to promote the enhancement of energy level of manufacturing sector, optimize the layout, and cut the cost to increase the profit
- > Further promote the execution of "Internet + medicine" business mode and service innovation, promote the national logistics construction and further improve the availability of drugs and services
- > Achieve new breakthroughs in industrial and commercial mergers & acquisitions, promote the combination of industry and finance, acquire Vitaco company, and establish medical investment management company to expand the health business
- > Strengthen the Group's risk management and control, launch the risk management and control system and authorize the construction of management systems
- > Continue to optimize the employment mechanism, explore mid-long term incentive mechanisms; continuously focus on employees' interests, and insist on all staff involvement in managing and improving environment
- > Cleaner production, environmentally friendly



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