YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司

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

Stock Code : 1558

Our Mission:

For Everyone's Health

2016

Environmental, Social and Governance Report

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CHAIRMAN'S STATEMENT

With the industrial upgrading of the People's Republic of China economy and the constant implementation of the process of structural transformation, the necessity for the harmonious development of enterprises and the society is becoming increasingly focused. We understand that we can only achieve long term development and continued growth of corporate values under the new economic environment if we give up on pursuing the maximization of the unilateral interests of the enterprise, and take social responsibility and environmental protection as important as making corporate profits for continuous improvement.

CHAIRMAN'S STATEMENT

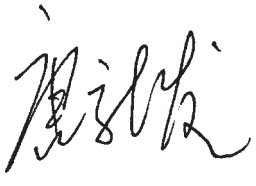
Dear investors,

Being a rising-sun industry that never declines, the development of the pharmaceutical industry is not only related to social economic growth, but also related to the vital interests and life safety of the people. With the ambition of YiChang HEC ChangJiang Pharmaceutical Co., Ltd., being a Chinese enterprise that is determined to become an international leader in the pharmaceutical industry, the balance between the corporate development and shouldering social responsibility is always an important macroscopic guidance for the development of the Group. While constantly enhancing the core technical competitiveness of the Group, adhering to the high quality control standards and striving to create value for our shareholders, we also shoulder the social responsibility at all times so as to effectively protect the public interest, safeguard the public interest and achieve the harmonious development of the enterprise and the society.

With the industrial upgrading of the People's Republic of China ("China" or the "PRC") economy and the constant implementation of the process of structural transformation, the necessity for the harmonious development of enterprises and the society is becoming increasingly focused. We understand that we can only achieve long term development and continued growth of corporate values under the new economic environment if we give up on pursuing the maximization of the unilateral interests of the enterprise, and take social responsibility and environmental protection as important as making corporate profits for continuous improvement.

As a leading private listed company in the pharmaceutical industry in the PRC, HEC Pharm insists on shouldering social responsibility, contributing to the community while realizing corporate development, and promoting a positive social influence with a good corporate image. In 2016, on the basis of the existing technology and product advantages, HEC Pharm adhered to the modern management concept and constantly optimized the talent team and its core competitiveness, always maintaining the vitality and creativity of the enterprise. Meanwhile, we further increased its investment in product quality, safe production and operation, environmental protection, public health, resource conservation and energy consumption. In addition, we have been more active in participating in social welfare activities. We have made important contributions to promoting regional economic development, industry technological progress and government drug emergency reserves and other aspects, sharing the stable development of the enterprise with the community.

In the future, we will remain our initial objectives and gradually intensify the system reform while optimizing the existing strategies, striving to incorporate the concept of shouldering social responsibility into the long term development of the enterprise. We will take social responsibilities such as governance optimization, environmental protection, energy conservation and employee benefit increase as one of the pillars for the future development of the enterprise. We will play a leading role in the industry, striving to promote the mutual healthy development of the enterprise and the pharmaceutical industry and promote the harmonious development of the society.



Tang Xinfa

Chairman

14 July 2017

GENERAL MANAGER'S STATEMENT

The Group constantly deepens the idea of sustainable development internally, which taking the lead to incorporate the responsibilities on environment, social and management into the internal management system of the Group so as to achieve the development of environment, social and management in harmony. I believe that the sustainable competitiveness of our brand can be enhanced constantly if we carry through to the end of this idea.

GENERAL MANAGER'S STATEMENT

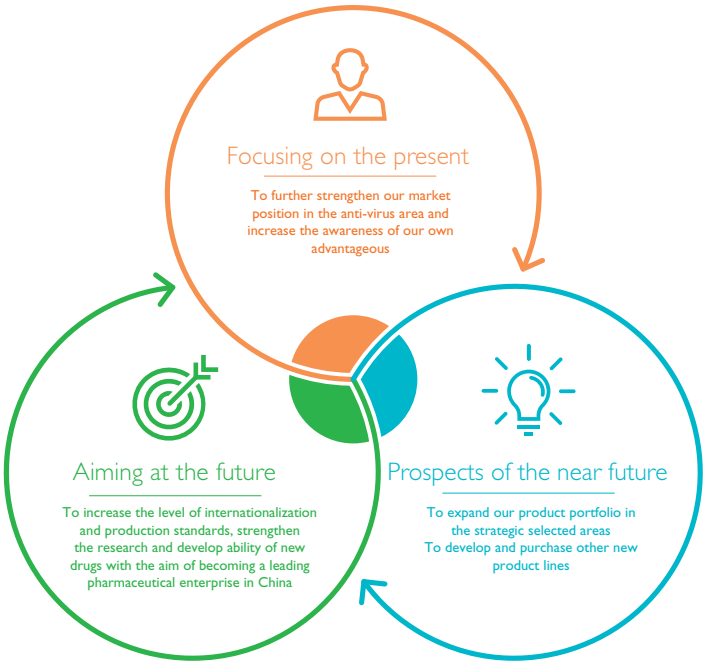
Dear investor,

On behalf of the board of directors of the Company, I hereby present this report on the environmental, social and governance strategy and performance of the Group.

With respect to Environment, the Group always attaches equal importance to both resource development and ecological protection and follows a green and low-carbon route. We focus on the utilization and protection of water resources, the whole process of clean production, 100% waste water recycle, greenhouse gas emissions and disposals, and the protection of water and soil resources and land conservation.

With respect to Social, the Group is always compliance with the Labour Law of the PRC to safeguard labours interests. We respect the dignity, happiness and diversity of our employees' lives. We treat all employees equally and respect their human rights and freedom. We are against discrimination, and prohibit forced labour. We respect the living of our employees and pay attention to their working environment, provide them with safe and hygienic work and living conditions. We protect our employees' health and safety. Meanwhile, we are also constantly improving our own supply chain management system. We focus more on the enhancement of the operating efficiency as a result of the continuous optimization of supply chain management while at the same time ensure the Group's products meet the relevant requirements of various indicators.

With respect to Governance, due to the expanding of the Group, optimization and standardization of the management model has an even more important role and significance for our future strategic development. Since the establishment of the Group, we have always been carrying out full and effective communication and dialogues with stakeholders in optimizing and upgrading the management model, enhancing corporate internal control through a series of governance systems such as general meeting, board meeting, supervisory meeting and employee representatives' meeting. In the process of summing up the historical experience, we have incorporated corporate governance into various processes, such as product research and development, production and marketing.



Jiang Juncai
General Manager
14 July 2017

ABOUT THIS REPORT

BASIS AND PRINCIPLES OF PREPARATION

This report is prepared for the reporting period of 1 January 2016 to 31 December 2016. It sets out the activities of our Group, other brands under the Group, our offices and manufacturers of the reporting period in relation to the environment, society and governance. We review our performance in this report so as to pursue continuous improvement in the future. This report contains a simple summary of the relevant activities of the Group and is to be published on the website of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the Group's official website. The terms used in this report have the same definitions as those in the Group's 2016 Annual Report, and the two reports should be read together.

Under the new normal of China's economy and the guidelines of regulatory authorities, Environmental, Social and Governance (the "ESG") has inevitably become an important subject during the operation and management of an enterprise. In recent years, with the emergence of ESG investment philosophy, YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (referred to as "HEC Pharm", "the Group", "our Group", "our Company", "the Company" or "we") has also conformed to the relevant regulatory rules and released our first ESG report last year.

As a pharmaceutical company, HEC Pharm always regards upholding responsibility, benefiting the public and contributing to the society as its corporate value. We also understand the profound effects of environmental, social and corporate governance policies on our future development. Meanwhile, our business model and strategy have also deeply affected the society, the environment and each stakeholder. This report will step by step explain our concepts in respect of environmental, social and corporate governance, our relevant initiatives and performance of this year and our future plans and objectives, so as to make the public understand that HEC Pharm has been contributing to "green growth and environment protection".

This report is compiled based on the Environment, Social and Governance Reporting Guide ("the Guide") promulgated by the Hong Kong Stock Exchange, and to the greatest extent practicable,the Company is taking the reference of the sustainability reporting guidelines proposed by the Global Report Initiative (GRI), which ensures the level of disclosure provided staying in line with the best international standards in the aspects of environmental, social and governance.

The data and information used in this report are referenced from our archived documents, records, statistics and research. In order to review our performance for the past year more effectively and scientifically, we have engaged KPMG Huazhen Certified Public Accountants LLP (Special General Partnership), a third-party organization, to assist in compiling this report so as to better reflect the requests from various stakeholders.

The resources and dedication we contributed to this report have shown our performance in environment, society and corporate governance and our determination to integrate sustainable development into our daily business operations.

This report is published in both Chinese and English. In the case of any discrepancy, the Chinese version shall prevail.

GROUP OVERVIEW

GROUP BUSINESS

The Group is a pharmaceutical manufacturing company that focuses on the research and development, manufacture and sale of pharmaceutical products in the therapeutic areas of diseases such as anti-virus, endocrine, cardiovascular and antitumor diseases. To date, the Group has more than 16 years of history, and has gradually become a leading pharmaceutical manufacturing company in China's domestic pharmaceutical industry in terms of drug sales performance and R&D capabilities.

Since our establishment, we have always believed in "serving the Chinese people with a higher standard". In the meantime, we have a solid industrial base and leading competitive strength both in pharmaceutical manufacturing and pharmaceutical marketing. As of 31 December 2016, we manufactured, promoted and sold a total of 33 pharmaceutical products, and have a nationwide product distribution network. Currently, we are the only manufacturer of oseltamivir phosphate granules in the Chinese market. Our core product, Kewei (oseltamivir phosphate), is a leading product in China's anti-influenza market with the highest sales volume in China during 2013 to 2016. With the simplification in the drug approval process, we will obtain several approvals for major and competitive products in the areas of anti-viral, digestive system diseases and diabetes. In particular, we are likely to become the first domestic manufacturer to sell a new Class 1.1 drug of yimitasvir phosphate for hepatitis C, as well as a series of drugs for insulin (including the second and third generations of insulin). As always, we will pursue higher standards and stricter requirements and continue to manufacture innovative drugs of better quality that meet international standards.

In 2016, among the biological products developed by our independent new drugs research and development team, the insulin glargine injections, protamine recombinant human insulin injections (premixed 30R) and protamine recombinant human insulin injections have successful been granted with clinical trial approval by the China Food and Drug Administration (the "CFDA"). In the same year, the Class 1.1 drug of yimitasvir phosphate for hepatitis C developed by the new drug R&D team of Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司) ("Sunshine Lake Pharm"), a non-wholly-owned subsidiary of Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司) ("Shenzhen HEC Industrial"), the controlling shareholder of the Company, also successfully obtained Phase II/III clinical trial approval by the CFDA. According to the cooperative development agreement for hepatitis C project entered into by the Company and Sunshine Lake Pharm, upon successful research and development of the relevant product, the Company will be granted the global exclusive license for the research, development, production and sale of the product.

In addition, the Group has set up strategic relationships with many renowned domestic and international pharmaceutical enterprises in 2016. We entered into a strategic agreement with Lannett Company, Inc. (LCI.NY) for the joint development of insulin generic drugs to enter into the USA market. We have also established a joint venture with TaiGen Biopharmaceuticals Holdings Ltd (太景醫藥研發控股股份有限公司) ("TaiGen Biopharmaceuticals") (4157.TWO) to conduct clinical trials of combination therapy with Yimitasvir Phosphate and Furaprevir. We have reached a strategic cooperative partnership with China National Accord Medicines Corporation Ltd. (國藥集團一致藥業股份有限公司) ("China National Accord Medicines") (000028.SZ) with the first operation project duly launched in 2016. We believe these powerful partnerships will bring huge development prospects for the Company's business growth.

The Group also values the importance of academic activities, and has conducted promotion activities in the forms of academic conferences, seminars and symposiums. In 2016, we reinforced the academic promotion efforts for pharmaceuticals in provinces including Guangdong, Anhui, Hubei and Zhejiang in China and organized a number of national and provincial level large-scaled academic seminars, including the First Guangdong-Hong Kong-Macau Respiratory Forum and the Launching Ceremony of Guangdong Influenza Standardized Diagnosis and Treatment Academic Direct Through Train (第一屆粵港澳呼吸論壇暨廣東流感規範化診療學術直通車啟動會), Tenth Hospital Pharmacy Academic Conference in Central and Southern Regions (中南地區第十屆醫院藥學學術) and Annual National Pediatrics Conference (全國兒科年會), we further established extensive relationship with major medical institutions and relevant academic institutions to lay a solid foundation for the academic promotions and the enhancement of product and brand awareness.

GROUP ACHIEVEMENTS

Major achievements of the Group over the years are as follows:

ACHIEVEMENT

2006 — The Company was licensed exclusively by oseltamiv phosphate licensor to manufacture oseltamivir phosphate products in the PRC — 01

2008 — Entered into the domestic pediatric pharmaceutical market in China — 02

2009 — Oseltamivir phosphate was selected into the Central Medical Reserve (中央醫藥儲備基地) — 03

2013 — Kewei product dominated the largest market share of oseltamivir phosphate products in China — 04

2015 — The Group successfully listed on the Hong Kong Stock Exchange — 06

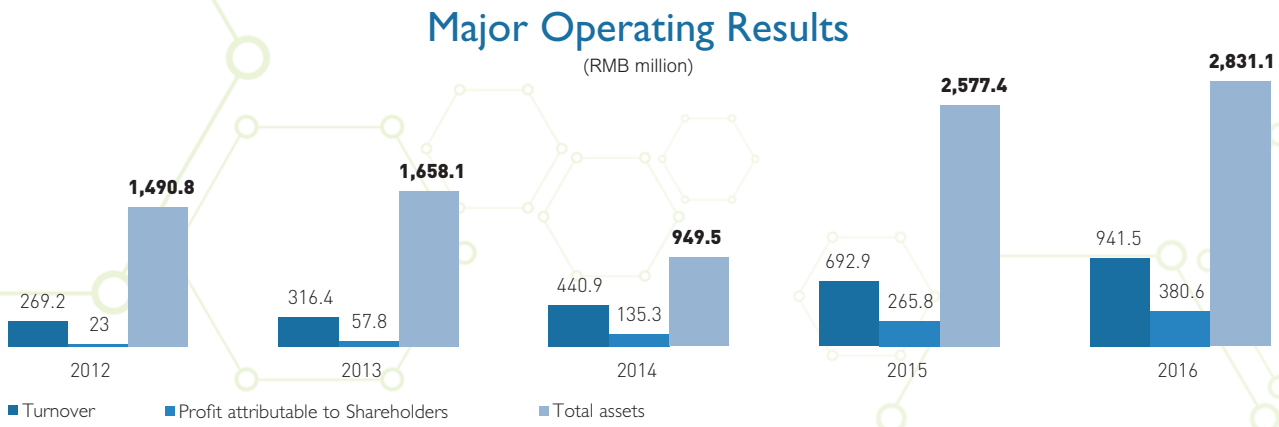
2016 — Both insulin and HCV products of the Group obtained new clinical trial approval
The Group was granted a number of awards in 2016 — 07

Note: In 2016, the Group won the following awards: "Listed Enterprises of the Year 2016" promulgated by Bloomberg Businessweek; awarded as "2016 Outstanding Product Brand in China's Chemical and Pharmaceutical Industry" at the "2016 Annual Summit of China Chemical Pharmaceutical Industry"; awarded as "The Most Valuable Pharmaceutical Stock Company" in the "2016 Golden HK Stock" and won the "The Best Investment Value Award" in the "2016 China Financial Market Listed Company Awards".

GROUP OPERATION STATUS

Through the listing of its H Shares, the Group has established a complete corporate governance system during the first year after its Listing. Under the leadership of the Board, the management strived to earn reputation and win the competition in the market by increasing its efforts in compliance management, system establishment and internal governance, and adhering to our operation philosophy of producing drugs of high quality that reaches international standards in the daily management.

Under such high standards and stringent requirements, the Group achieved historical breakthrough in operation results and continued to lead the industry throughout 2016 despite the challenges and difficulties in the market. Our revenue amounted to RMB941.50 million, representing an increase of 35.88% as compared with last year; and net profit amounted to RMB380.60 million, representing an increase of 43.19% as compared with last year. From 2012 to 2016, the compound annual growth rate (CAGR) for the revenue and the net profit was 136.75% and 201.69%, respectively. Sales of Kewei products amounted to RMB736.27 million, representing an increase of 62.24% as compared to the same period in last year.



In 2016, the Group achieved remarkable results in both strengthening the market position of existing key products and layout of future products. Kewei is in a period of double opportunities for replacement of domestic products and imported products with great competitive strength and continuous explosive growth. While placing the antiviral drugs Kewei as our leading product, the Company is also focusing on the growing Ertongshu products by strengthening promotion as well as building and laying sales channels, striving to forge the product as "a second Kewei". For non-academic varieties such as Oumeining and Xinhaining, since 2017, we start to set up a professional sales team to carry out meticulous invitation of investment for these non-academic varieties to increase the market shares.

In addition, the Group has made substantial progress in the area of in-depth antiviral research. In February 2016, the Group and TaiGen Biotechnology Co., Ltd. (太景生物科技股份有限公司) have reached a memorandum of understanding on the development of a novel treatment for chronic Hepatitis C virus (HCV) and formally commenced the cooperation on 10 January 2017 through the establishment of Dongguan HEC TaiGen Biopharmaceuticals Co., Ltd. (東莞東陽光太景醫藥研發有限公司). The two companies are expected to jointly conduct clinical development with the two National Class 1.1 innovative anti- Hepatitis C new drugs held by both parties to form an all-oral interferon-free combo treatment for Hepatitis C. In the insulin product field, the Group successively obtained the approvals for protamine recombinant human insulin injections, protamine recombinant human insulin injections (premixed 30R) and insulin glargine injections clinical trial in 2016.

FUTURE OUTLOOK

In 2017, the Group will continue to adhere to the dual-track strategy of "strengthening leading market position of existing key products" and "laying out products of multi-treatment areas". We will further strengthen our market leading position of existing products on the original basis, enhance marketing and promotion and develop other marketing models and channels while maintaining the concentration on enhancing product quality and Company's economic growth. We will strive to maintain our strong growth momentum, and increase our market share further through first-mover advantages of our key products. Meanwhile, we are committed to continuously expanding products lines of the Group in areas of anti-virus, endocrine and metabolic and digestive diseases to expand our product reserve. On the basis of the strategic cooperation agreement with China National Accord Medicines, we will take advantage of its channels to further strengthen our market share and sales of existing key products. Meanwhile, in building of own sales team, we plan to further recruit talents and strengthen building of our existing sales team, to provide strong support for the sales of products in the future.

At present, the Group has a total of 11 varieties under development covering several treatment areas including antiviral, endocrine and metabolic diseases as well as digestive disease, indicating a strong reserve of products.

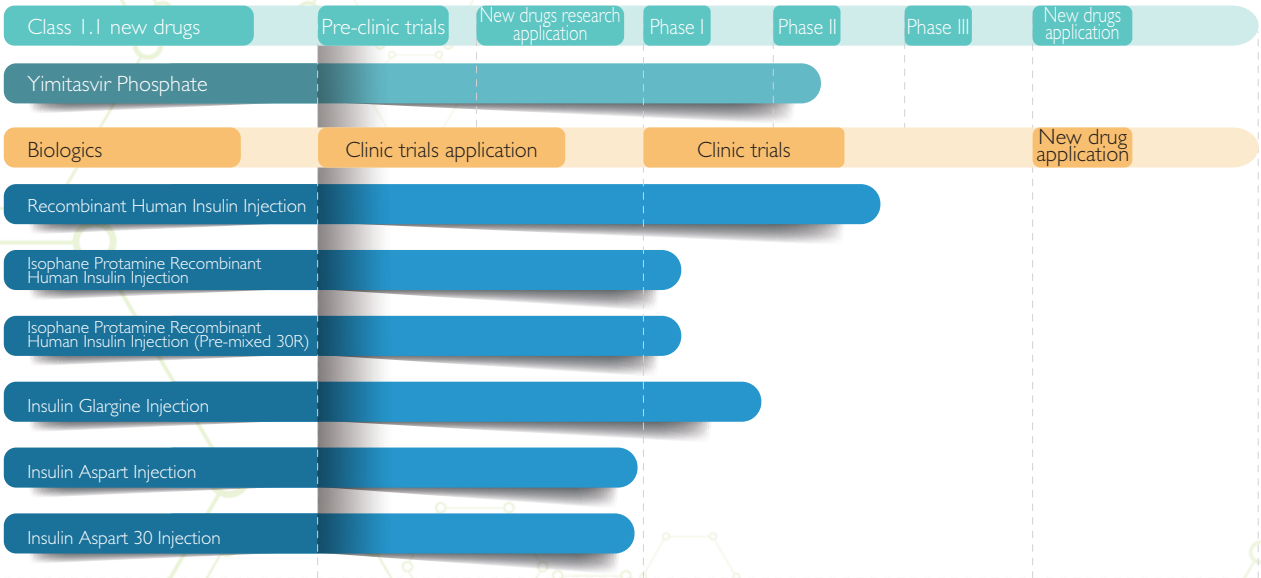
Looking forward, with the simplified drug review process and the progress of research and development of our Group in the areas of antiviral, endocrine and metabolic as well as pharmaceutical-related intellectual property rights by HEC Research Group[1] under Shenzhen HEC Industrial, our controlling shareholder, the Group will further obtain approvals of a number of competitive and major varieties.

In the future, we will maintain our internationalized high-level management and high standards in operation and keep abreast with the times and carry forward our spirit of innovation to keep on producing our own innovative drugs.

1. *including Yichang HEC Research Co., Ltd. (宜昌東陽光藥研發有限公司), Linzhi HEC Pharmaceutical Investment Co., Ltd. (林芝東陽光藥業投資有限公司) and their respective subsidiaries.*

RESEARCH AND DEVELOPMENT PROJECTS

Various Products Under Development



In the future, the Group will remain committed to the implementation of the development strategies of professionalism, branding and variation. We are committed to the establishment of a professional marketing team, a steady and innovative operation and a strategic integration of resources. Backed by our powerful HEC Research Group, the Group will further develop and expand our product lines, explore the market, strengthen marketing promotion and expand the market coverage to create the brand characteristics and core competitiveness of the unique "HEC Pharm" in the industry. By doing so, we can promote the further growth and profitability of our business and create more value for consumers, investors and partners.

We believe that only through innovation and pursuit of quality, as well as continuously pursuing high level development of the Company in the future, will we be able to create stable and excellent value for our customers. "The road ahead will be long and our climb will be steep".

STAKEHOLDERS' PARTICIPATION AND SIGNIFICANCE ASSESSMENT

STAKEHOLDERS' PARTICIPATION

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

The Group's Stakeholders Participation in 2016

Stakeholders	Key interests	Channels and means of participation	Activities and measures
Shareholders and investors	The Group's sustainable operating capacity, protection of shareholders' interest and return on investments, the truthfulness, precision and timeliness of information disclosure	Shareholders' general meetings, investors conferences, site visits, roadshows, information disclosures	Publishing the notifications and resolutions of the shareholders' general meetings, disclosing information of the Group and publishing notices and regular reports in accordance the requirements. With staging roadshows to enhance investors' recognition. Publishing our contact detail in our website and reports and ensuring communication channels being smooth
Management	The Group's operation strategy	Interviews and questionnaires conducted by third parties	Assessing the main areas of ESG that affect the Group and implement relevant measures in the daily business activities

STAKEHOLDERS' PARTICIPATION AND SIGNIFICANCE ASSESSMENT

The Group's Stakeholders Participation in 2016

Stakeholders	Key interests	Channels and means of participation	Activities and measures
Employees	Protection of their basic rights, allowance and benefits, work environment, professional development, occupational health and safety, and realization of self value	Workers union, communications channels between employees and management, opinion boxes, staff activities, training and education	Providing a healthy and safe work environment. Establishing a fair promotion mechanism, maintaining a communication platform for communicating with employees. Caring about our employees and help those who are in need, organizing employee activities
Customers and consumers	Guarantee of the product quality and quantity, protection of confidential information	Communications through regular visits	Signing of confidentiality agreements. Strengthening quality control. Ensuring a steady production and logistic process. Signing long term sales agreement with customers
Suppliers	Public bidding process, long-term stable cooperation, timely payment	Public bidding meetings, business meetings, regular communications	Choosing the best suppliers through public bidding process and performed our contractual obligations. Strengthening our regular communications and maintain long-term cooperation with good quality suppliers. Do not default on any payment
Community and the public	Job opportunities, ecology and the environment, compensation and assistance	Co-hosting of community activities	Local residents enjoying a priority in our hiring process. Protecting the ecological environment of the neighborhood

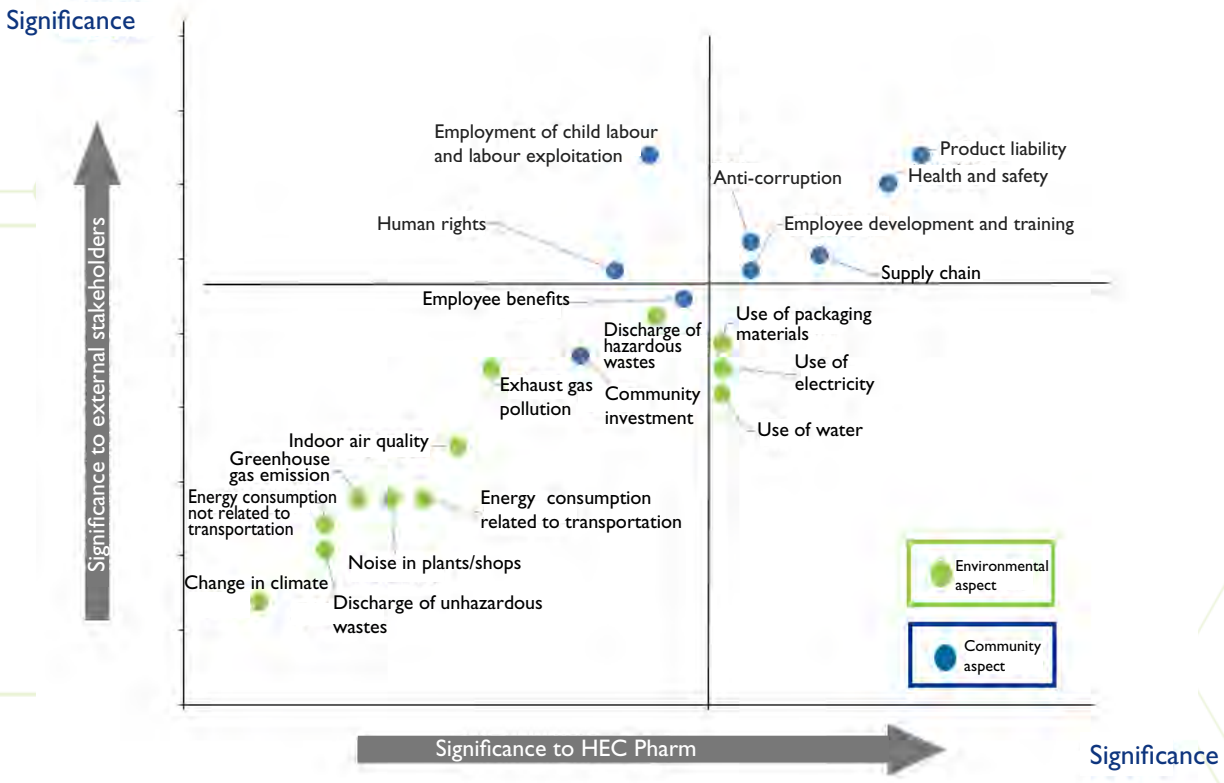
The Group's Stakeholders Participation in 2016

Stakeholders	Key interests	Channels and means of participation	Activities and measures
Banks	Timely payments, operating conditions and risks, credit risks	Post-lending follow-ups, regular communications	Timely repayment of interests and principals, cooperation in loan audits and monitoring
Government	Lawful operations, paying tax in accordance with the law, safety production, fulfillment of social responsibility	Site visits, work reports, submissions and approvals	Operating according to the law, compliance management, tax payments in accordance with the law, strengthening the Group's safety management, observance of the government's monitoring, inspection and examination, active fulfillment of social responsibilities
Industry peers	Fair competition, joint development, sharing of technology and experience, industry development	Seminars, exchange and visit, industry conferences	Observance of fair competition, mutual benefits through cooperation, sharing of experience, and promotion of sustainable development of the industry
Market regulators	Observing rules and regulations, compliance in operations, information disclosure and submission	Consultation, information disclosure	Strictly abide by regulatory rules, truthful, precise and timely disclosure and filing and reporting of information

STAKEHOLDERS' PARTICIPATION AND SIGNIFICANCE ASSESSMENT

SIGNIFICANCE ASSESSMENT

Based on the stakeholders and the significance assessment, the following items are identified as having significant impact on the sustainable development of the Group and are listed as focused areas for our sustainable development.



Community

- Product liability
- Health and safety
- Supply chain
- Anti-corruption
- Employee training and development

Environment

- Use of packaging materials
- Use of electricity
- Use of water

ENVIRONMENT

ENVIRONMENTAL PROTECTION RELATED POLICIES

As environmental protection is one of our core values, we follow the relevant environmental laws and regulations in all places where we operate. Relevant laws and regulations include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Energy Conservation Law of the PRC(中華人民共和國節約能源法), the Measures on the Administration of Environ-mental Protection Standards of the PRC (中華人民共和國環境保護標準管理辦法), Law of the People's Republic of China on Environmental Impact Assessment (中華人民共和國環境影響評價法), Law of the People 's Republic of China on Promotion of Cleaner Production (中華人民共和國清潔生產促進法) and the Discharge Standard of Water Pollutants for Pharma-ceutical Industry Mixing/Compounding and Formation Category (混裝製劑類製藥工業水污染物排放標準). We are committed to implementing the ideas of "scientific planning, rational deployment, clean production, energy saving, green first, strengthening awareness, law compliance and sustainable development" in our business operations through environmental management. Meanwhile, we have formulated the "SR01-02 Environmental Management System" as our environmental guidelines for the daily management of production activities of the Group.

Our environmental protection policies include the following: compliance with all relevant laws, regulations, rules and requirements of environmental protection; reduction in the consumption of various resources including raw materials and fuel, reduction in the generation of waste, recycling and reusing as much as possible of the waste; avoiding generating waste that polluted the environment; using environmental friendly materials as well as design, technology and raw materials capable of conserving energy and reducing waste; vigorous promotion and implementation of the recyclable economy, minimizing and avoiding negative effects due to the Group's development on the environment; providing training for employees on the protection of the environment; creation of an environment for sustainable development.

In response to possible sudden environmental pollution incidents, the Group has developed a contingency plan to standardize the management of emergencies and improve the ability to cope with risks and prevent accidents. We have strengthened the monitoring of hazard sources and established an environmental accident risk prevention system, thus actively preventing and timely controlling and eliminating hazards. This allows us to better prevent and handle any sudden environmental pollution accidents and avoids or reduces the occurrence of sudden environmental pollution accidents as much as possible. We are always prepared to deal with sudden environmental pollution accidents, in particular from the aspects of awareness, materials, technical capability, and workflow. We have strengthened our training exercise, and our emergency systems are always on the alert so that we can respond quickly and effectively in case of an emergency.

The objectives of our environmental protection strategies include: zero environmental pollution accident; 100% industrial waste classified and standardized treatment rate; 100% hazardous waste lawful and standardized processing rate; 100% standardized discharge of sewage, waste gas, dust and noise; control of total amount of environmental emissions within the standards.

The Group encourages all employees to participate directly in the management of the enterprise and rewards them for any measures that reduce emissions. In 2015, our employees proposed the "Monitoring and improvement of extending the time of use of clopidogrel bisulfate test reference solution", which has achieved the desired results during the year of 2016. This not only reduced a considerable amount of consumable cost for the Group but also reduced the discharge of test reference solution.

EMISSIONS

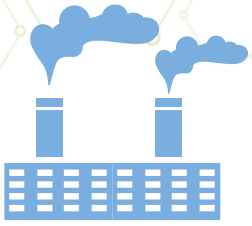
Our policies on emissions include the following: with the participation of all employees, we prioritize the protection and focus on the prevention. Our guiding principles call for comprehensive management, public participation, and taking up responsibilities for the damage. We combine our efforts on resource protection with damage control. By coordinating our planning, we manage every specific case, focus on key issues, implement our program on a step-by-step basis, and hold the polluters responsible for the cleanup process. We invest a reasonable amount of capital in the cleanup of the "three kinds of waste" by strengthening the introduction and assimilation of new technologies and new equipment. We continue to enhance our usage of resources, reduce waste, and minimize the production of pollutants, thus striving to protect our environments. With regards to the products or technological processes that generate considerable amounts of pollution, we aim to identify the causes so as to improve our technological or operational processes, we adopt the clean production processes available, reduce and prevent the generation of pollutants, and try our best to make use of any waste generated. We strengthen our environmental protection by minimising the impact on neighboring residents and proactively taking up our corresponding social responsibilities.

The Group adopts equipment and production processes that use resources efficiently and emit low amounts of pollutants as much as possible. We also use reasonable and economical technologies to make use of wastes and handle pollutants.

Wastewater

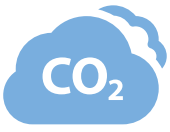
20,908 Tonne

We use the following measures to reduce waste water discharge: we promote the rational use of water resources to achieve seperation of clean and dirty water discharge, rain and dirty water discharge, and repetition use of the water. We have built a specific collection system for industrial wastewater according to the degree of pollution and characteristics of the pollutants, and the wastewater would be treated by the combination of physical chemistry method or activated sludge method accordingly. Residential wastewater, after collection, will be pumped directly into the biochemical wastewater treatment system by using a 24-meter enhanced pump and then treated by precipitation, oxygen, acid hydrolysis, anaerobic, aerobic and other sewage treatment process. We adopt new energy-efficient and low-cost treatment procedures to handle wastewater that is difficult to treat to reduce the cost of treatment.



Exhaust gas

1,243 Standard cubic meters



10,642.25 Tonne

We use specific exhaust gas treatment facilities to treat exhaust gas, the emission of gas or particles that contain chemicals, sulfur dioxide, nitrogen oxides, as well as malodorous gases smoke and gas emitted by boilers that pollute the environment, gas emitted by pharmaceutical equipment and other production facilities, and by the storage, use, recycle and gas emission of volatile chemicals such as acids, alkalis or solvents, the industrial gas emission from wastewater treatment. Currently, exhaust gas enters into the alkaline liquid washing tower for neutralization, absorption and treatment after condensation and recovery in the two-stage condenser, and then goes through a combination of methods such as ozone oxidation and incineration before discharging into the air at high altitude. The main treatment to the exhaust gas that has been treated to standard but would still affect the environment and neighboring residents is to decrease production to the greatest extent.

Solid Wastes

Solid Wastes (hazardous)

0 Tonne

Solid Wastes (non-hazardous)

12.75 Tonne

For treatment of solid wastes, our major measures include the following: we recycle reusable items such as papers, plastics, metals and glass. We have built permeation-proof and rainproof storage areas for household waste and commissioned the sanitation department to collect and dispose of the garbage in landfills. Solid garbage meeting the standards for incineration would be handled by the Group's incinerators. For sludge that could be taken by the sanitation department to landfills, we use reliable preservation methods and ensure it will not leak or cause odoriferous pollution. Anything that could be used as organic fertilizer materials, such as ammonium sulfate and ammonium phosphate will be transferred to a qualified fertilizer manufacturer, subject to the issue of usage or trial reports by the agriculture departments, environmental protection departments and other departments. We would continue to monitor the sludge's long-term impact on the soil to prevent any potential environmental pollution.

There may be cases where harmful wastes are produced in the production process of the Group, though in 2016 the Company has not produced hazardous waste. During our production and operation, if there are hazardous wastes on the National Hazardous Waste List (國家危險廢物名錄), such as distillation residues, activated carbon slag, waste resin or chroma-tographic filler, wasted lubricating oil, slag or solvents containing heavy metals, expired or obsolete chemicals or medicines, as well as waste packaging materials associated with hazardous waste and chemicals, such hazardous waste would all be treated by qualified entities, subject to the completion of appropriate reporting and approval procedures when transferring the waste. For hazardous wastes, we have built special collection areas that are waterproof, permeation proof and wind-proof. We have also established a collection, storage, transfer and accounting procedure with proper archiving. We prohibited any unauthorized incineration, filling or transfer of hazardous waste.

USE OF RESOURCES

As an enterprise in the manufacturing industry, the Group is guided by the principle of building a cost-saving oriented society and enhancing its sustainable development capability. We have built a comprehensive system for managing and implementing environment protection, accelerating the adoption of energy efficient and environmental friendly technologies. We proactively promote the equipment upgrade and technological improvement that focus on energy saving and emission reduction. By adopting new equipment, new production process and new technologies that help save energy and protect environment, we minimize our resource consumption environmental usage, therefore maximize our economic and social benefits.

Use of Electricity

17,020,315KWh

During the reporting period, we have continued to invest in energy-saving measures, including the use of integrated chillers units which are placed in the surface to greatly reduce power consumption in transmission of recycled water in the cooling tower; air pressure system piping in series to reduce the number of booting the units; timely turn off the power source of lighting according to light conditions. Only when outdoor temperature reaches 32 ℃ or above can the air conditioner be turned on in non-production areas, while the temperature setting cannot be lower than 26 ℃. In winter only when the room temperature is lower than 17 ℃ can the air conditioner be turned on. All electrical equipment must be shut down at the close of work.

In 2016, we continued to carry out renovation on the re-frigeration station, which lifted the major security risks while achieving energy efficiency. At present, the refrigeration station renovation project has been completed, with annual energy savings of 106,240 KWh.

Packaging Materials

Use of packaging materials

1,901Tonne

The packaging materials used by the Group mainly include paper, polyethylene and aluminum foil. Our requirements for raw material suppliers are those among the top three in the industry. For the procurement of product packaging materials, the Group has developed a group-level procurement management plan. Meanwhile, the Group has also developed a supplier evaluation and control plan which are applied for regulating and controlling the implementation of supplier evaluation processes and procurement operations. The Group's paper packaging materials are all purchased from FSC certified manufacturers.

Use of Water

Total water consumption

292,131Tonne

Use of recyled water

720,714Tonne

Meanwhile, as water is one of the major resources that are vital to the pharmaceutical industry, we reduce water consumption and improve the efficiency of all factories through implementing a number of measures, including: improve the utilization efficiency of industrial production water system, change the way of using water in production (such as changing current use of water to recycled use of water), increase the recycled utilization rate and reuse rate of water. Through implementing clean production strategies to change the production process, or use water-saving and even no water production process, and reasonably carrying out industrial or production layout to reduce the demand for water by industrial production, we improve the utilization rate of water. We also carry out water balance test to calculate the amount of water required by each production unit and then set up inspection measures to control water consumption. We try to shorten hot water pipes and migrate cold water pipes away from steam pipes and other places that release heat to minimize water pressure. We regularly inspect hidden water pipes to prevent leakage, check internal water supply system, repair default water tanks, faucets and other water supply facilities. We try to use recycled water, promote water-saving technologies including reuse of condensed steam, recycled use of indirect condensed water and reuse of treated sewage. For public buildings, we vigorously promote water-saving sanitary ware and water reuse technologies to improve water reuse rate.

ENVIRONMENT AND NATURAL RESOURCES

We have described in detail in the above contents our policies and measures relating to protection of the environment and natural resources.

REDUCING EXPERIMENTS WITH ANIMALS

Although from the view of scientific and legal, research with animals is an indispensable part of assessing the safety and effectiveness of our products, we still encourage the use of the "3R (Reduction, Replacement, Refinement[Note 1]) approach to replace, reduce and improve our research by experiment with animals during our production.

STATEMENT OF COMPLIANCE

Relevant laws and regulations of the PRC mainly include but not limited to:

- Environmental Protection Law of the People's Republic of China (中華人民共和國環境保護法)
- Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法)
- Water Pollution Prevention and Control Law of the People's Republic of China (中華人民共和國水污染防治法)
- Standard for Pollution Control on Hazardous Waste Storage (危險廢物貯存污染控制標準)
- Policy on Hazardous Waste Pollution Control Technologies (危險廢物污染防治技術政策)
- Measures on the Management of Hazardous Waste Transfer Manifests (危險廢物轉移聯單管理辦法)
- Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (Amendment dated 24 April 2015) (中華人民共和國固體廢物污染環境防治法 (2015年4月24日修正版))
- Municipal Solid Waste Management Practices (Order No. 157 of the Ministry of Construction) (城市生活垃圾管理辦法 (建設部令157號))
- Good Supply Practice for Pharmaceutical Products (藥品經營品質管制規範)
- Good Practice for Quality Control of Pharmaceutical Production《藥品生產品質管制規範》

The Group has strictly complied with the PRC laws and regulations for environmental protection. During the reporting period, no irregularities and noncompliance event has occurred.

Note 1:

1. Reduction refers to scientific methods by which smaller number of animals are used to obtain the same amount of test data, or a fixed number of animals are used to obtain more experimental data.
2. Replacement refers tests or other research topics using other methods instead of animals to achieve a certain test purpose, or scientific methods by using unconscious test materials instead of conscious vertebrates for testing purpose as in the past.
3. Refinement, on the basis of scientific principles, refers to kind treatment to animals and enhancement of animals' welfare through improving the conditions; or scientific methods that can avoid or elevate pains and tensions unrelated to experimental purposes caused to animals by refining procedures and improving techniques of experiments.

SOCIETY

SOCIETY-RELATED POLICIES

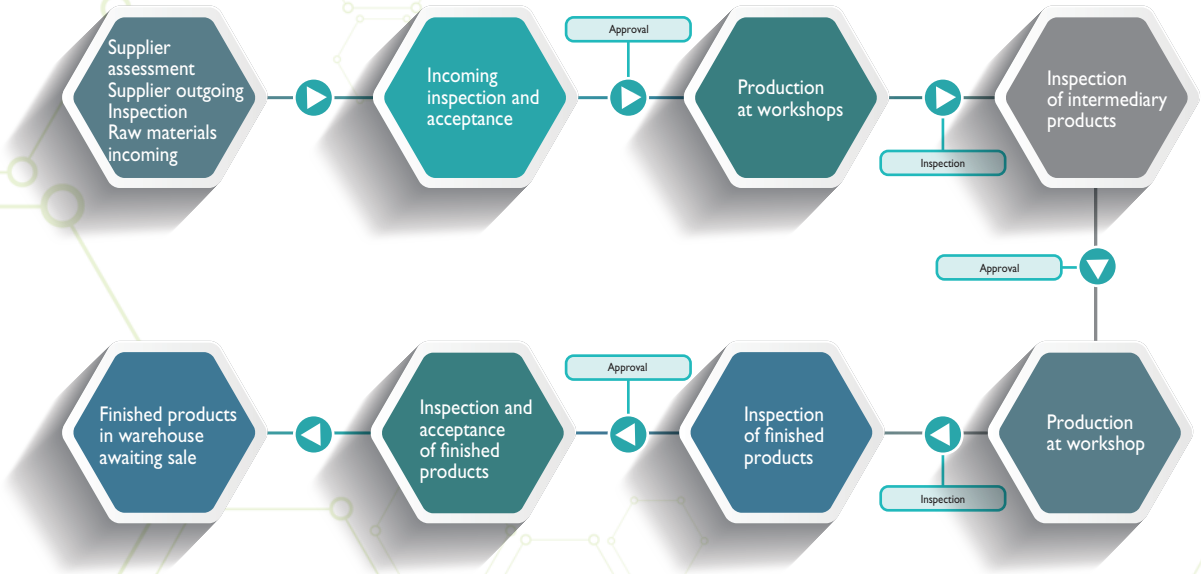
The Group always considers that the ultimate goal for existence of an enterprise is not just for making profits, instead it should shoulder the social responsibilities for its clients, employees, society and the environment. We are committed to pursuing corporate social responsibility and calling for all employees to strictly comply with the relevant policies. The Group's policy for corporate social responsibilities covers the aspects as below.

PRODUCT LIABILITY

The Group has established formal management policies on the health and safety regarding products and services. The Group treasures customer feedback and effectively collects, analyses and uses customer-related information. We develop and strictly implement procedures, such as Services for Customers, Customers Complaints Handling, Product Return Management and Drug Recall. In strict compliance with the provisions of the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》) relating to situations where supplmentary application shall be submitted for drugs and the corresponding reporting requirements, we promptly submit supplementary applications to the state drug regulation authority (the CFDA and provincial or municipal bureaus of Food and Drug Administration). In strict compliance with the provision in the Measures for the Reporting and Monitoring of Adverse Drug Reactions (《藥品不良反應報告和監測管理辦法》) of the PRC relating to reporting requirement on adverse drug reactions, we promptly report to the National Center for Adverse Drug Reactions on any adverse drug reactions involving the Group's drugs that have come to our knowledge to ensure the safe use of our drugs and the rights to know of the public about adverse drug reactions. Furthermore, strictly following the provisons and requirements in the Administrative Measures for Drug Recalls (《藥品召回管理辦法》) of the PRC relating to drug recall, we implement recall according to the internal established procedures and promptly report to the relevant drug supervision and management departments for drugs launched to the market for sales which incurred potential safety risks and recall of which are confirmed to be required.

Product Quality

The Group has established a strict quality control process that permeated the entire production process, including the incoming inspection of raw materials, control of production process, and quality control measures of intermediate and end product. The basic procedure is as below:



The Group strictly abides by the relevant laws and regulations of the PRC concerning drug safety, advertising, labeling and other aspects. Relevant laws and regulations include: the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》), the Regulations for the Implementation of the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法實施條例》), the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) of the PRC, the Provisions on the Administration of Pharmaceutical Directions and Labels (《藥品說明書和標籤管理規定》) of the PRC, the Good Manufacture Practice of Medical Products (《藥品生產質量管理規範》) of the PRC, the Measures for the Reporting and Monitoring of Adverse Drug Reactions (《藥品不良反應報告和監測管理辦法》) of the PRC, and the Administrative Measures for Drug Recalls (《藥品召回管理辦法》) of the PRC. The Group has a "regular GMP self-inspection" system for quality control and strictly implements such system. We take the initiative to prevent occurrence of quality risks through self-inspection to identify defects and hidden dangers and avoid the occurrence and development of irregularities, so as to ensure stable and reliable product quality and good operation of the quality control system.

As of 31 December 2016, there were a total of four production lines in the Group's production workshops, all of which have passed GMP certification, and nine aspart drug substances of the Group's production have passed GMP certification.

Product Promotion

The Group carries out corresponding product promotion and brand operation mainly through professional academic promotion.

Through building medical communication platforms, the Group vigorously runs academic conferences to promote rational diagnosis and management of diseases. The Group's self-organized meetings include the forum for influenza, influenza expressways and medical record sharing sessions, etc. Meanwhile, the Group also cooperates with medical organizations, such as the Chinese Medical Association (中華醫學會) to organize meetings such as the Pediatric Annual Meeting by the Chinese Medical Association. Through such professional academic meetings, the target doctor groups are able to understand and get familiarized with information such as the application and treatment advantage of the Group's relevant products.

For the Group's brand operation, the Group releases results of new clinical trials or therapeutic concepts on the media platforms, such as China Medical Tribune and Chinese Journal of Pediatrics. In the meantime, we leverage the advantage of new media to deliver academic articles or conference objectives to the target doctor groups.

Relevant Certifications

As a pharmaceutical manufacturer, the Group has always regarded the assurance of our product quality and safety and the safeguard of the patients' health as the core value of our operation and development. The Group adhere to ISO9001:2008 idt GB/T 19001-2008 Quality Management System Requirements, Good Manufacturing Practice of Drugs (revised 2010), ICHQ10 Pharmaceutical Quality System and relevant state laws, regulations and decrees, and have established a quality management system that suites the full processes of our pharmaceutical production, sales and service. We ensure the Group can provide products that steadily meet the needs of patients and the requirements of applicable laws and regulations.

Intellectual Property Rights

The Group has always attached importance to the safeguard and protection of our intellectual property rights. We have established a strict internal control system to manage our intellectual properties, including the administration of trademarks and patents, the management of proprietary technology and confidentiality, and the management of intelligence and information gathering. We have also set up an independent department to ensure unified management. The specific management requirements includes but not limited to the following: the Group requires the trademark to be registered at the same time when it applies to producing a new drug or a generic drug. We require the design of detailed strategies to protect our core patents. We propose to conduct our own research and development ("R&D") with full control and ownership of the relevant intellectual property rights. If we were to work with or commission other individuals or entities on R&D, we would sign technology cooperation and commission agreements with precise specification on the application and ownership of the patents resulting from the R&D at the instruction stage. We conduct an asset valuation of our patents and include them in our financial management system when we need to transfer, license or pledge the patents, to use patents as equity contribution in kind, or to use patents in joint ventures or co-operations. We'd take appropriate legal measures on a timely basis in the case of any patents or patent applications by third parties that might harm the Group's interest. We would sign a confidentiality agreement with our employees at the time of their signing of employment contract, with detailed specifications on the employee's scope, obligations and responsibilities with regards to confidentiality, as well as the relevant cease-of-employment arrangements. The Group has established a confidentiality system and an archive management system with clear specification of employee's confidentiality obligations in relation to patentable technology or products and exclusive technologies. We also require the analysis of domestic and overseas patent information before conducting the R&D of new technologies and products so as to avoid repeated work or avoid third-party patent barriers in accordance with the patent regulations.

The Group also encourages the application for new patents within the Group in order to improve the core competitiveness of the Group. In 2016, the Group had five newly granted patents including three invention patents and two utility model patents, with one patent under application process. Meanwhile, the Group has also applied for two patents jointly with Sunshine Lake Pharma.

Management of Product Recall

When a product launched in market by the Group incurred potential safety risks, we would recall the product according to an established procedure to ensure the safety of patients. Specific procedures for product recall are as follows:

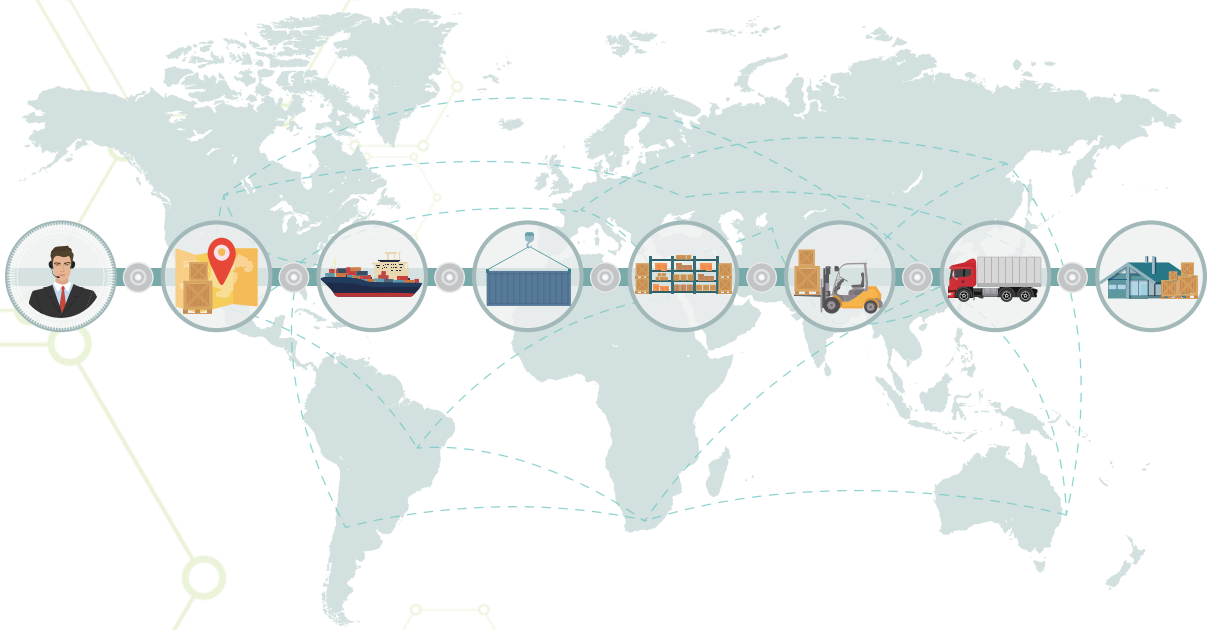
After-sales Service

Our sales department is responsible for after-sales service, collecting customer satisfaction and other relevant information and informing the quality control department. The quality control department is responsible for handling related issues (including user complaints, user service information, etc.), encouraging the adoption of opinions provided by customers which are beneficial for improving the management system of the Group, and organizing returned or recovered products for processing.

During the reporting period, there was no violation of laws and regulations in relation to product liability within the Group.

In 2015, the Group experienced a total of one case of customer's complaint for which comprehensive investigation had been carried out in accordance with the established procedures of the Group. The findings showed that the complaint has nothing to do with the quality of the Group's drugs. In 2016, the Company has not received any complaint about drug quality.

SUPPLY CHAIN



The Group always adheres to the high standard of quality control system to ensure the safety and compliance regarding the quality of aspart drug substances subject to the relevant laws of the PRC, so as to further guarantee the high standard of the Company's product quality. Due to the importance of supply chain management in the overall product quality assurance, the Company has established a stringent management system for the management of suppliers and the management of drugs' raw materials, so as to ensure that the quality of raw materials is safe and reliable and risks of the supply side are under control.

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

The Group has established and published the relevant policies on managing environmental and social risks of the supply chain, pursuant to which suppliers shall be fully licensed, comply with relevant laws and regulations of the PRC, and provide the Investigation Form for Suppliers. For suppliers of pharmaceutical companies, our main concern is whether they have obtained certifications such as GMP certification or United States or European Union quality certification.

All our raw materials are sourced from the Group's list of qualified suppliers. Admission to the list of qualified suppliers must follow strict standards. After a preliminary screening, potential suppliers would be subject to an on-site audit entailing a comprehensive assessment of the supplier's quality management level, capability of ensuring a stable supply and inspection of its safety and environmental management, employee health and social responsibility, corporate culture and business reputation. The list of qualified suppliers is managed dynamically with regular assessment that eliminates the unfit suppliers. As of 31 December 2016, there were 573 suppliers on our qualified supplier list, all of which were located within Mainland China. Our imported raw materials are purchased from domestic agents in the PRC.

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

EMPLOYMENT AND LABOUR

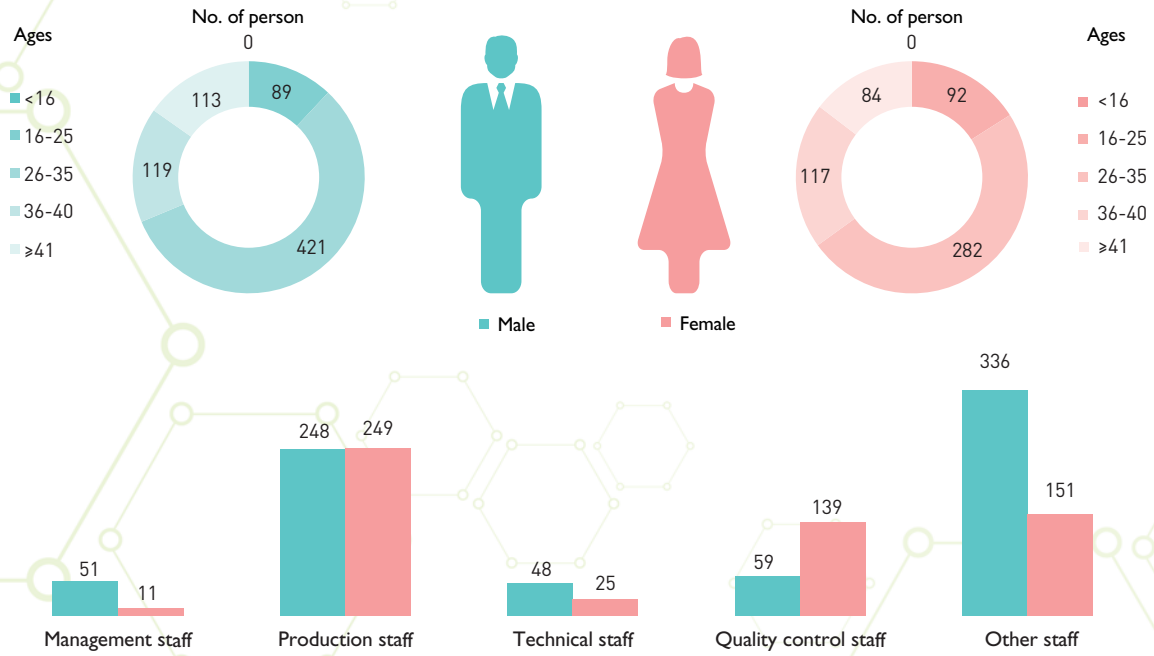
Employment

The Group has established personnel policies on benefit and dismissal, recruitment and promotion, working hours, holidays, equal opportunity, diversity, anti-discrimination and other benefits and welfare. The remuneration provided by the Group is about 5% -10% higher than that of local and surrounding peer business. Our personnel management principles include performance incentives as well as equality and fairness. Employees can raise opinions and questions to the management by ways of meetings and emails. During the reporting period, the Group has strictly complied with the relevant laws and regulations, such as the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) and the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), there was no breach of relevant laws and regulations.

The Group recruites talents on the principle of openness, equality, competition and merits. Every employee must sign an employment contract and, if appropriate, other important supplementary contracts such as a confidentiality and non-competition agreement or a training service agreement. We adopted a 40 working hours per week system. In addition to the statutory holidays, our employees also enjoy paid annual leaves, wedding leaves and maternity leaves. For the year of 2016, our employees' turnover ratio was 6.5%.

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

During the reporting period, there has been no act within the Group which is in breach of any laws or regulations on benefit and dismissal, recruitment and promotion, working hours, holidays, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.



Health and Safety

Work safety is one of the segments at work which the Company pays great attention. The Group adheres to the human-oriented and life-paramount concept, and regards staff health and safety as the key focus of all importance in daily work. To safeguard staff's safety and health during production, we have prepared the "SR01-01 Safe Production System", which emphasizes "strengthening labour protection, improving work conditions, and protecting the safety and health of workers in the production process of the Company's production", and have strengthened the awareness of safe production in all departments of the Company through the establishment of designated organization and personnel.

The Group's main policies for employees' health and safety include the following: We participate in social security for occupational injuries to protect the legal rights of our employees. We have also proactively adopted effective preventive technologies, processes and materials against occupational diseases. We have limited or eliminated the use of technologies, processes, materials that pose serious occupational hazards. We have improved our working conditions by adopting effective safety skills and providing professional as well as personal protective equipment that meet the requirements of occupational hazards.

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

1. Dust prevention: we use advanced production technology to control the amount of dust produced as much as practicable, and install dust-cleaning devices at each of our production workshops. We allot our employees with dust masks and regularly replace them. We have installed air-conditioning system with high efficiency dust filters in our clean rooms.

2. Toxic prevention: we principally rely on methods of anti-toxic, disinfection, attenuation, toxic control and detoxification. We use non-toxic or low-toxic materials and processes as much as practicable instead of toxic materials and technology. We also enclose, mechanize and put the toxic materials in pipes from any production equipment and products. We provide our employees with personal protective equipment, increase ventilation facilities at locations that generate toxin gases, and strictly followed the proper work procedures in order to prevent any leakage. We have also established an emergency rescue system.

3. Noise and vibration reduction: noise from our production process is mainly generated by production equipment. The Group have eliminated, reduced and controlled noise and vibration through the use of low-noise equipment, sound absorption technology, and acoustic silencers. Following a long running environmental monitoring, we have demonstrated that our noise level is complied with class four standard, namely 70dB during daytime and 55dB at night on both sides of a trunk route. [Note 2]

4. Radiation prevention: the Group does not use radioactive hazardous chemicals and therefore there is no need for any radiation protection measures. If we were to use any radioactive hazardous chemicals, we would adopt protection measures according to the relevant regulations.

5. Heat prevention: we have designed and located our heat sources rationally according to the Hygiene Standards for the Design of Industrial Enterprises (《工業企業設計衛生標準》) of the PRC. We have adopted advanced production technology to reduce the heat source, insulated any heated surface, and installed ventilation and cooling facilities. We also conduct regular health checks on our employees, provide them with cold drinks and appropriate protective gears, distribute anti-heatstroke drugs and offer them special allowances.

Note 2: GB3096-1993 Environmental Noise Standard for Urban Areas (dB (A))

Category	Area	Day	Night
0	Quiet resort areas, high-class villa areas, high-class guesthouse areas etc. where tranquility is particularly required. In such kinds of areas in suburbs and villages the 0 class standard of 5dB is strictly implemented.	50	40
I	Areas mainly for residential, cultural and educational institution purposes. For rural residential environment such kind of standards can be referred to and implemented.	55	45
II	Residential, commercial, industrial mixed areas.	60	50
III	Industrial area.	65	55
IV	Areas on both sides of trunk roads for road transport in cities, and areas on both sides of inland waterway flowing through cities. Such kind of standards are also implemented for thresholds of background noise (meaning noise level when no train is passing) for areas on both sides of main and secondary railway lines passing through cities.	70	55

6. Cold and damp prevention: we have installed heaters in our workshops, which strengthens winter insulation. We have also installed air conditioners in the labouratory, operating room and offices.

In 2016, the Group did not experience any work-related death or injuries whether minor or serious, and the number of working days lost due to work-related injuries was zero. In 2016, the Group has provided free medical check welfare to employees. We have protected the legal rights of our employees by participating in social security for occupational injuries. Meanwhile, we have effectively prevented potential health and safety issues of employees that may be brought about by work environment through optimization of the workplace and adopting effective preventive measures.

The Group has strictly complied with laws and regulations such as the Safe Production Law of the People's Republic of China (《中華人民共和國安全生產法》) and the Law on the Prevention and Treatment of Occupational Diseases of the People's Republic of China (《中華人民共和國職業病防治法》) to ensure the safety and health of our employees in the production process. During the reporting period, the Group did not experience any violation of any relevant laws and regulations.

Employee Development and Training

We consider providing our employees with the opportunities and space for sustainable development as our own responsibilities. Apart from receiving salary and enjoying benefits, employees can also engage in the training and development opportunities provided by the Group in due course. The development and training for employees not only assure completion of operation objectives, enhancing performance and achieving sustainable development, but also the means for employees to achieve competency of duties, improve themselves and develop their potentials.

We provide learning and promotion opportunities for our employees. Based on their performance appraisal and individual ability, we promote our employees or appoint our employees to managerial positions when see fit with priorities being given to internal promotions. We have established an effective training management system capable of designing annual tailor-made training programs according to the nature of work and requirements of each employee (with additional training depending on need) and have ensured the implementation of training. This helps give full play to the positive role of training for the Company, promote the personal development of the employees, and enable them to progress and grow. Our training programs consist of factory training, pre-job training, continuous education and training (comprising planned training and ad hoc training), and outsourced training. Our training methods include intensive classes, discussions, audio-visual, practical training and self-study. Evaluation of the effectiveness of our training comprises: written examinations (open-book and closed book), practical tests and instant tests. The detail of training provided is as follows:

Management staff
25 hours in average

Production staff
30 hours in average

Quality control staff
40 hours in average

Technical staff
20 hours in average

Other staff
25 hours in average

First of all, thanks to our Company and our heads for their trust and support to my work. As a new employee, I have received a lot of guidance and help from them in life and at work during 2016. They have taught me skills of communication, the way and methods of thinking, and the principles of behavior. Through teamwork, I have improved and grown a lot in all aspects. Thanks to HEC Pharm.

Employee of the month Technical Division:
Wu Chunhua

HEC Pharm gives me the feeling like being in a warm family. I can feel that everyone are working hard for the bright future of this family.

I like my job and I believe that everyone should be feeling like me. Although our jobs are different, our goals are the same, that is, to make our Company more beautiful so that it will become the world's leading pharmaceutical company. This is also for ourselves, because we understand the future of this family will also directly relate to the future of our lives. We will continue to work hard together with HEC Pharm for creating a better life.

Employee of the month Quality Division:
Liu Yilian

The relaxing and harmonic working atmosphere, and the united and aggressive corporate culture of HEC Pharm have been always driven me to get my work done with full of passion and enthusiasm. In HEC Pharm, I deeply feel the management's open mind and united colleagues with harmonic family atmosphere. Every confidence from management and each caring of the Company both enable me to establish the confidence in job and firm my passion to job. I appreciate that HEC Pharm gives me a platform to show myself, which fully realizing my value.

Employee of the month Equipment Division
Cao Lei

Note: detailed training of the Company as follows:

Department	Planned Training (times)	Temporary training (times)	Total (times)	Pre-job training (times)	Training results
Company level	3	12	15	0	Passed
Technical Division	10	0	10	10	Passed
Equipment Division	12	33	45	9	Passed
Purchasing Division	6	0	6	0	Passed
Office	5	0	5	0	Passed
Quality Division QA	13	15	28	8	Passed
Quality Division QC	12	64	76	18	Passed
Warehouse Division	9	0	9	0	Passed
Yophilized powder for injection workshop	16	13	29	2	Passed
Oral solid dosage workshop	13	42	55	85	Passed
Partime document staff	2	0	2	0	Passed
Total	101	179	280	132	—

Main contents of training: good manufacture practice of medical products, drug administration laws, key standard operating procedure of all positions, actual operation of relevant positions

Labour Standards

The Group already has a sound human resources system encompassing recruitment, training, resignation and benefits. Our recruitment and hiring principles including the follows: people who do not meet legal requirements could not be hired. Depending on the requirements of the position or the department making the hire, the human resources department would conduct background checks based on the information provided by the applicant. Candidates who provide false information would not be hired.

The Group adheres strictly to national and local regulations for recruiting and hiring, such as Provision on Prohibition of Child Labour (《禁止使用童工規定》). During the reporting period, there was no act which violated laws and regulations relating to child labour or forced labour within our Group.

ANTI-CORRUPTION

The Group has established relevant management policies to prevent bribery, blackmail, fraud and money laundering. The Group promotes the corporate culture of integrity and compliance and creates the environment of anti-fraud corporate culture. The Group conducts effective communication or training for employees within the Group in various forms (including employee manuals, company rules and regulations, etc.) to ensure that all employees receive training in relevant laws and regulations and professional ethics so that they know the code of conduct. We help employees distinguish between lawful and illegal, honest and non-honest behaviors. We encourage employees to comply with laws and order and adhere to the bottom line of honesty in their daily work and life. We teach employees how to correctly handle with conflicts of interest occurred at work and in life, and how to resist temptation of improper interests. We also properly inform all employees and parties of the society who have direct or indirect relationship with the Company about the corporate culture and core value of law compliance and honesty which are advocated by the Group.

The Group has established an anti-money laundering team which is a leading authority for the Group's anti-money laundering, and responsible for the organization, coordination and decision-making of the Group's anti-money laundering, and for supervision and inspection of large transactions and suspicious transactions of the Group. The board of directors of the Group is the leading authority for anti-fraud work, and responsible for establishing and improving the relevant prevention and control system as well as reviewing and approving the relevant management system. The Audit Committee of the Group is the body in charge of anti-fraud work, and responsible for conducting as well as continuous monitoring and supervising anti-fraud work of the Company. The Internal Audit Division of the Group is a permanent authority for anti-fraud work, and responsible for continuous supervision of groupwide anti-fraud work under the leadership of the person- in-charge of internal auditing. Meanwhile, the Group has implemented a system of undertaking prevention of commercial bribery in key segments for key personnel. Employees of important positions are required to sign an Undertaking of Probity and Self-discipline. Furthermore, all customers, suppliers, services providers and contractors who have business dealings with the Group are also required to sign an Agreement of Anti-commercial Bribery.

The Audit Division of the Group is responsible for establishing and managing channels for reporting corruption behaviors. The Group has set up the Anti-bribery and Anti-Corruption Department with hotlines and e-mail address for reporting anti-fraud complaints. The General Manager is the head of the Anti-bribery and Anti-Corruption Department, and the head of the Audit Department is the contact person for reporting to the Anti-bribery and Anti-Corruption Department.

The Group complies strictly with laws and regulations, such as the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Law Against Unfair Competition of the People's Republic of China (《中華人民共和國反不正當競爭法》), and the Interim Provisions on Prohibiting Commercial Bribery (《禁止商業賄賂行為暫行規定》). During the reporting period, the Group has not been involved in any event in regarding with the prevention of bribery, extortion, fraud or money laundering.

COMMUNITY INVESTMENT

During the reporting period, the Group has actively participated in social welfare undertakings, aiming to generously contribute to the society and promote social harmony. On 13 June 2016, the Group donated RMB2.0 million to the Government of Yidu in Hubei Province of the PRC ("Yidu City") to support education and health development in Yidu City. According to statistics, in the past 10 years, Yidu HEC[Note 3] has contributed a total of more than RMB31 million to support local construction and various donations of more than RMB8 million in total, such as for Wenchuan earthquake, point-to-point help middle school students and charity foundations.

The Group's labour union has set up the Charity Foundation to help and support staff and families who live in hardship. The Charity Foundation has given financial assistance amounting to RMB20,000 to colleagues in hardship in 2016, which demonstrated our sense of corporate responsibilities and concerns on well-being of our employees. Furthermore, since 2012, the directors, supervisors and senior management of the Group have unanimously agreed to give specific and continuous assistance to six high school students who are good both in character and at studies, from poor families donating an annual scholarship of RMB18,000 to them until their high school graduation as well as giving great support to other poverty-stricken high school students in their daily lives and studies.

Note 3: It refers to HEC Pharm Co., Ltd and YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

HONG KONG STOCK EXCHANGE "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" INDEX

ESG Indicator	Key Performance	Description	Section	Note
	Environment			
A1	Emissions	Policies on air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes; and information about compliance with relevant laws and regulations that have a significant impact on the issuer.	Environment – Emissions	I
A2	Use of Resources	Policies on efficient use of resources including energy, water, and other raw materials.	Environment – Use of Resources	
A3	Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environment – Environment and Natural Resources	
	Society			
B1	Employment	Policies on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare; and information about compliance with relevant laws and regulations that have a significant impact on the issuer.	Society – Employment and Labour	
B2	Health and Safety	Policies on providing a safe working environment and protecting employees from occupational hazards; and information about compliance with relevant laws and regulations that have a significant impact on the issuer.	Society – Employment and Labour	
B3	Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Society – Employment and Labour	
B4	Labour Standards	Policies on prevention of child or forced labour; and compliance with relevant laws and information about regulations that have a significant impact on the issuer.	Society – Employment and Labour	
B5	Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	Society – Supply Chain	
B6	Product Liability	Policies on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress; and information about compliance with relevant laws and regulations that have a significant impact on the issuer.	Society – Product Liability	

HONG KONG STOCK EXCHANGE "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" INDEX

ESG Indicator	Key Performance	Description	Section	Note
B7	Anti-corruption	Policies on prevention from bribery, extortion, fraud and money laundering; and information about compliance with relevant laws and regulations that have a significant impact on the issuer.	Society – Anti-corruption	
B8	Community Investment	Policies on community engagement to understand the needs of the community where it operates and to ensure that its activities have taken into consideration the communities' interests.	Society – Community Investment	

Note 1: Regarding emissions, as the Group's operation does not involve heavy industry production or direct use of fossil fuels and we do not own logistics fleets, exhaust gas emission is not significant for the Group. Although the Group's operation involves greenhouse gas emissions, it is currently not included in the areas of the Group's key concerns due to the above reasons. Meanwhile, the Group will further focus on the changes in significance at the emissions level.

In addition, as electricity consumption is the major factor contributing to the Group's greenhouse gas emissions, we will continue to monitor and take practical measures to reduce electricity consumption, so as to reduce greenhouse gas emissions due to use of electricity.

FEEDBACK

Dear Reader:

Thank you for reading the Report! We would be very appreciated if you could appraise the Report and give us your sincere comments so to help us to continuously improve the Report.

2016 ESG Report of YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

Feedback form

Name:_____

Company:_____

Position:_____

Telephone No:_____

Email address:_____

Feedback survey:

1 Have you obtained the information you need from the Report?

2 Do you think the Report has fully reflected the economic responsibilities that YiChang HEC ChangJiang Pharmaceutical Co., Ltd. has beared?

3 Do you think the Report has fully reflected the environmental, health and safety responsibilities YiChang HEC ChangJiang Pharmaceutical Co., Ltd. has beared?

4 Do you think the Report has fully reflected the social responsibilities YiChang HEC ChangJiang Pharmaceutical Co., Ltd. has beared?

5 Do you think the Report has fully reflected the products and services responsibilities YiChang HEC ChangJiang Pharmaceutical Co., Ltd. has beared?

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东陽光药

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