



## Luye Pharma Group Ltd.

*(incorporated in Bermuda with limited liability)*

Stock Code: 2186



Environmental, Social and Governance Report

# 2016

# Environmental, Social and Governance Report

## Environmental, Social and Governance Report

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# Environmental, Social and Governance Report

## About this Report

### Scope and Reporting Period of the Report

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and covers a period from 1 January 2016 to 31 December 2016, and part of this report can be retrospectively to the past years, as the case may be.

### Endorsement and Approval

The Company's board of directors is responsible for its environmental, social and governance ("ESG") strategies and reporting, including the assessment and identification of ESG risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

### Access to the Report

The electronic version of this report is available on the official website of the Company at [www.luye.cn](http://www.luye.cn) and the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk).

# Environmental, Social and Governance Report (Continued)

## 1. Business Ethics and Compliance

### Core Values

Integrity, cooperation, innovation and excellence are the basics of the Luye Pharma Group (hereinafter referred to as Luye) business philosophy, and has been rooted in Luye's business activities for many years. These principles guide us in complying with strict environmental, safety, health and social laws, regulations and guidelines during our operation.

### Business Ethics

Luye supports the economic development and improves the quality of living in tens of thousands of people through providing safe drugs. Our business activities also create jobs, investments, infrastructure and we pay taxes to local government as well as contributing to our communities in various aspects.

As a responsible enterprise, putting a code of conduct in place is a key to maintain the sustainable development of an enterprise. All along, Luye expects its employees and contractors to comply with the code of conduct. At the same time, Luye also encourages its suppliers and business partners to comply with the corresponding principles.

Luye encourages its employees and contractors to consult and report on potential operational irregularities. We will investigate into the information of the report. If the evidence is conclusive, we will take corresponding measures, such as dissuasion or termination of contract.

In addition, we aim to strictly maintain the confidentiality of the whistleblower, in order to uphold the effectiveness of our whistleblowing policy.

### Anti-commercial Bribery and Corruption

The consequences of commercial bribery and corruption can be profound and disruptive. It distorts the mechanism propagation of information through price and the competition of the market. The code of conduct of Luye stated clearly: employees are prohibited to provide, give, obtain or accept any type of improper payments, gifts or inducement directly or indirectly, abusing their authority to extort or rebate to/from anybody or any organization. So far as Luye is aware, Luye complied with applicable laws and regulations relating to bribery, extortion, fraud and money laundering that have a significant impact on Luye in material respects during the year under review.

### Anti-trust

Luye aims at operating in an environment that is fair and upholds business ethics, complies, promotes and protects fair competition and other relevant laws. Through activities such as education, training, consulting, auditing and risk management surveys, we ensure that our behaviors strictly adhere to the anti-trust law (competition law).

### Human Rights

Fully learn from and understand the management experience of some international organizations, companies and social organizations. Luye adheres to the principles of "respecting human rights, prohibiting discrimination and sexual harassment", and embraces the diversity of the backgrounds of employees. On these grounds, Luye carries out all sorts of activities such as personnel training to build an all-rounded personnel system, and improve the working conditions of the employees.

### Child Labour and Labour

We are committed to implement strict policies on the prevention of forced labor and the exploitation of children. Luye complied with applicable laws and regulations that have significant impact on it relating to the prevention of child and forced labour during the year under review. At the same time, we also encourage the contractors and suppliers to comply with relevant laws and regulations in terms of employment standards, working hours, wage standards and benefits.

## Environmental, Social and Governance Report (Continued)

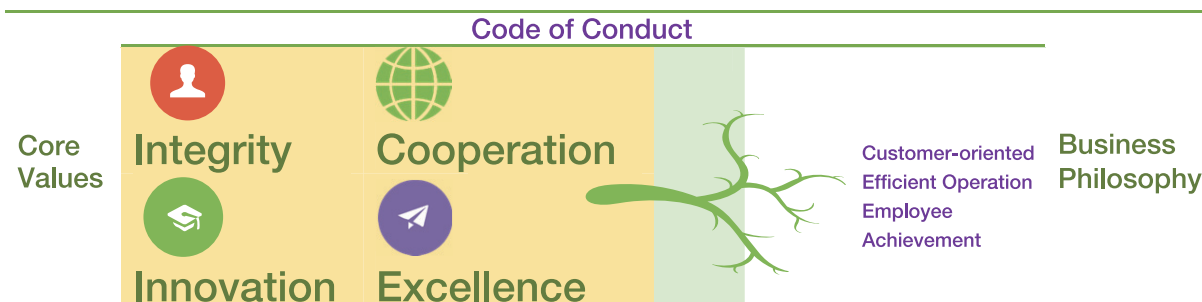
### Supply Chain

The risks arose from the supply chain such as issues of environment and human rights have been increasing in the process of globalization of the pharmaceutical business. While Luye and the suppliers are settling and agreeing on the procurement policy, we continue to carry out review on suppliers in order to reduce procurement-related risks.

#### • Outlook of Operational Compliance

In order to further establish and improve the legal risk prevention and control system with a view to maintain our standards of compliance, we plan to establish a mechanism to strengthen our compliance system in future business operations.

- To establish sound operation mechanism for our compliance system. Initiate existing market compliance process through the formation of compliance project task force; build a compliance institution according to prevailing laws, regulations and enforcement trends; fully learn from the experience of multinational companies, to improve compliance awareness, strengthening compliance's operating standard, thus controlling and preventing operational risk from the sources.
- To further improve the Group's information security management system; implement rules and regulations for information security; minimize the impact of information security incidents; and ensure the Group's business can continue to operate safely. At the same time, actively prevent information security incidents and raise the competitiveness of the Group through internal training to improve the Group's employees' awareness of information security and also through implementation of information security policy and the control measures.
- To carry out self-compliance review of drugs promotion activities. Once non-compliance drug promotion activity is found, the Group will take reasonable measures to rectify such. In order to strengthen the awareness of legal compliance, we strengthen our employees' education, training and implementation of provisions contained in the employee handbook, employees' code of conduct, in order to eliminate bribery and improper manners on promotion and selling activities.
- To strengthen regular assessment of our business partners, the Group will consider the partners' legal and regulatory compliance and business performances each year, focusing on the partners' changes during the year, such as any changes in terms of trading names, ownership structure, cooperation mode and payment conditions, etc. Once any changes occur, the Group will take measures to optimize our cooperation with business partners. For high-risk partners, the Group will adjust the cooperation plan carefully to avoid any risks.
- To establish an internal complaints and reporting mechanism, set up of a report e-mail or hotline, and provide professional training to the responsible personnel, for obtaining maximum amount of comprehensive and complete information. At the same time, the Group will ensure the confidentiality of identity of the informant, to create confidence for potential whistleblowers that the Group is determined to eliminate any fraud and illegal conducts; to encourage employees to report problems discovered through their own observations; and environment with trust.



## Environmental, Social and Governance Report (Continued)

### 2. Environment

The earth environment has been changing constantly. Some of these changes are the result of natural evolution, but much more are caused by human. As the pollution caused by human activities is constantly changing the earth, our planet is facing a serious challenge globally.

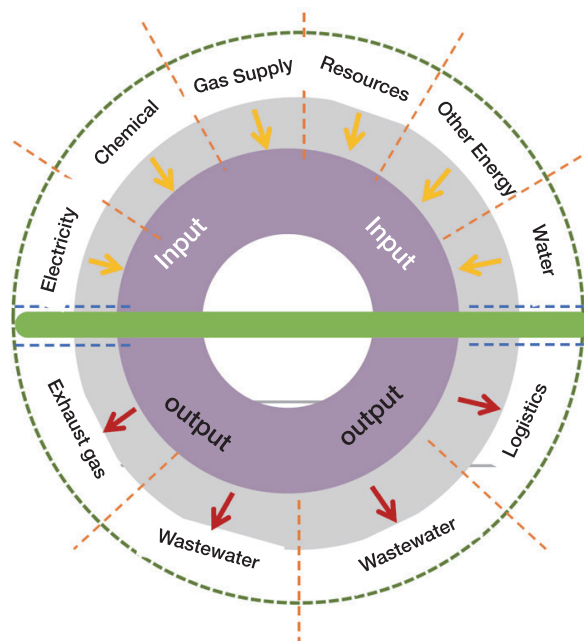
As a pharmaceutical company, Luye always uphold the responsibility of drug safety and is committed to environmental protection. In the operation of the enterprise, we will identify, assess and plan for environmental challenges such as natural resource constraints, climate change and water scarcity, and their impact on human health.

We promote green life style and healthy working habits, encourage employees and contractors to participate in protecting our green living environment, we also encourage suppliers to join us, with insistence and perseverance, making our earth more green and livable. In respect of laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, Luye complied with the applicable laws and regulations that have a significant impact on it in material respects during the year under review.

#### Environmental Policy

We are committed to persistently reduce the environmental and social impact caused by our business and related activities through the following ways:

- at least, comply with China's environmental laws, regulations and industry best practice;
- diligently consider the potential environmental impacts caused by business activities and the effects on local communities during project implementation;
- prioritize adopting technologies, equipments and processes that are environmentally friendly, energy-saving and economically applicable;
- advocate the reduction, recycling, and detoxicating of the Three Wastes, such that the impact on soil, water and atmosphere could be reduced; and
- encourage employees' participation and discussion on environmental affairs, and provide recognition to employees contributing to environmental protection.



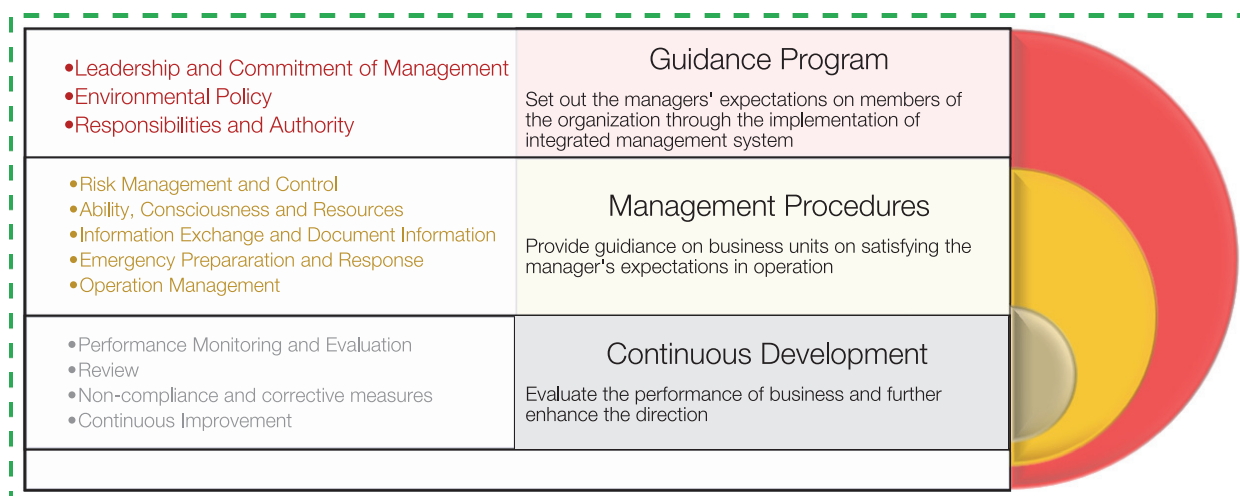


## Environmental, Social and Governance Report (Continued)

### 2.1 Environmental Management

Formulating environmental policy is conducive to providing guidance on business operation management. This requires the Luye Manufacturing Base to build an environmental management system to achieve effective management of key environmental areas such as gas emissions, energy use, water resources and waste, etc. thereby avoiding, reducing or eliminating the environmental impact of operational activities.

#### • Environmental Management System



#### • Education and Awareness Training

Considering the environmental impact of population growth, rapid development of modern technology and modern productivity, we aim to enhance the environmental awareness of employees through promotion and education, to popularize environmental protection knowledge and skills, and to participate in environmental protection activities.

In the operation of the enterprise, Luye called for a conscious commitment to environmental concerns into every business activity in order to achieve the purpose of sustainable development.



## Environmental, Social and Governance Report (Continued)

### • Education and Training

Each year, we identify environmental risks and assess the impact of operational activities on the environment. We develop management programs and action plans for major environmental factors, and include environmental protection issues such as environmental laws and regulations, energy conservation and resource protection, into the annual staff training program.

We are also actively involved in training programs on environmental operation management with social organizations.

### • Environmental Awareness

We launched the “Green Around Me” essay competition in the Luye Magazine with themes such as “Environmental Protection Around Us”, “The Pursuit of Green Fashion and Embrace Green Life”, “Memories of Green Mountains and Green Water”, “Green and Glorious” and “Environmentalism and Environmental Protection”, etc.

The top management would organize the middle management to audit the results, the completion of the target indicators, and to assess the possible needs of Environmental Management System (EMS) improvements.



### • International Certification of Environmental Management System

We actively promote the implementation of EMS in our business; evaluate the environmental factor of each product's life cycle, design research and development, production, use and disposal process; and analyze the measures to improve the utilization of resources and energy from the “cradle to grave” production cycle.

We conduct annual EMS internal audit, for auditing the degree of supervision of management review and our partners to ensure the integrity and consistency of the EMS and compliance with ISO14001.

#### Relevant certificates held by Luye

Business Unit	Certificates Availability	Issuing Authority
Shandong	✓	Gardian Independent Certification Ltd. (GIC)
Nanjing	✓	Beijing Daluhandxing Quality Certification Center Co. (HXQC)
Beijing	✓	SGS United Kingdom Ltd Systems & Services Certification (SGS)
Sichuan	✓	HXC (Beijing) Certification Center Co., Ltd (HXC)



## Environmental, Social and Governance Report (Continued)

### • Emergency Response

We adhere to the principles of prevention, immediate control and subsequent governance to formulate the expert group-reviewed contingency plans. We would re-evaluate the contingency plan every three years to ensure compliance, and timeliness.

To minimize pollution to the environment, we are equipped with emergency rescue teams and emergency equipment. At the same time, we increased the investment on hardware facilities.

- ✓ Online monitoring system management. We installed online sewage monitoring system and associated warning devices, notification device, which can not only detect the abnormal state during water infusion, but also provide timely effective detection of pollutant leakages or emissions.
- ✓ Implementation of seepage and leakage prevention on production plants, raw materials and product storage areas, wastewater pipelines and wastewater treatment system.
- ✓ Establishment of the incident pool. All wastewater will be collected at the incident pool when the sewage treatment facilities cannot operate normally.
- ✓ Implementation of emergency drills. We organize the equipment operators to carry out emergency rescue drill every year, enabling them to familiarize with the rescue plan and to exercise a variety of disposal capacity. It is also conducive to the Group to discover the problems in the plan, constantly revising it for improvement lest it become impractical, and ensuring its adherence to normative, systematic, scientific, and operational principles.

### • Risk Management

Examining our management on important issues, such as climate changes, water, community participation and human rights etc., will help us to examine new risks and develop mitigation measures. We are constantly looking for improvements for our measures with timely resolution.

Under the environmental management system, requirements and guidance have been shown to identify, assess and manage the environmental factors.

Luye realizes the importance of environment risk management, and permeate the idea into projects throughout their life cycle, starting from the initial construction, operation, and even subsequent changes and expansion of the project.

### • Construction Planning

Starting the screening mechanism. Prior to the commencement of the project, we identify potential environmental and ecological risks according to the location, surrounding natural environment conditions, existing pollutants, ecological conditions and environment capacity, such as the factors and degrees on the overall impact of the ecological environment, the watershed and regional environment and ecology. Finally, we analyze and demonstrate the feasibility of the governance plan and its effect.

Thereafter, we implement the environmental impact assessment and identify risk control measures. In addition, environmental protection facilities and the core structures of the project will be constructed and put into operation simultaneously.

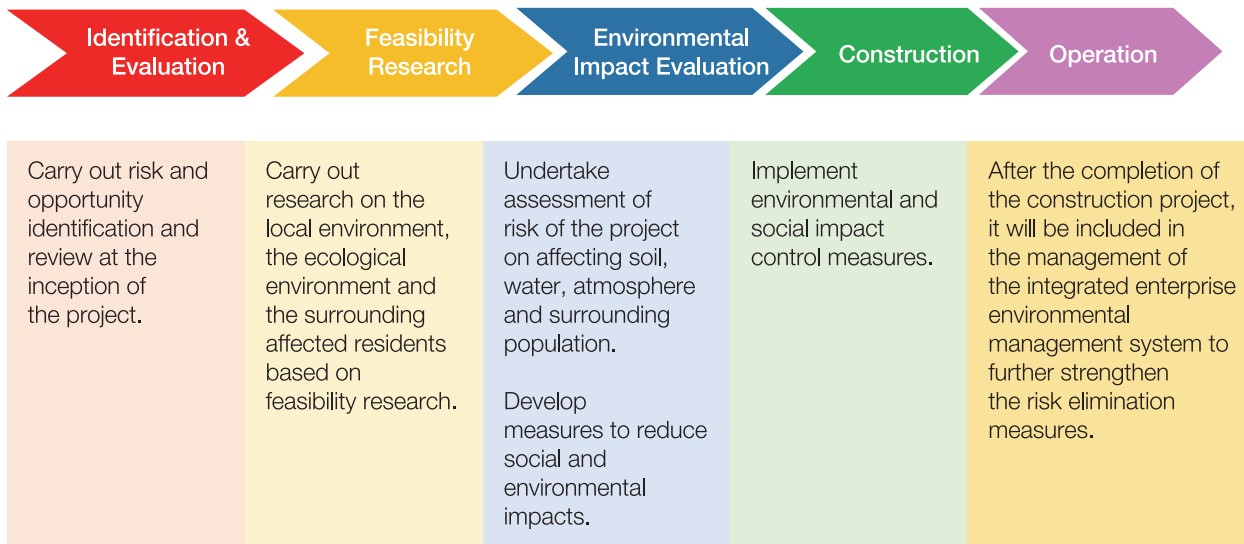
## Environmental, Social and Governance Report (Continued)

### • Commissioning of Construction Projects

We reviewed the environmental performance annually and set next year's performance goal for improvement. This usually includes such potential pollutant as greenhouse gases, wastewater, waste and noise, depending on the geographical location and operational nature of the business unit. The environmental impact to the surrounding neighborhood is also one of the considerations for our operations. Through the establishment of mutual communication mechanism, sensitive environmental factors are taken as the focus of corporate governance, and management plans would be developed accordingly to eliminate the impact of such factors.

### • File Management

Risk assessment helps us to manage and reduce environmental impacts. The assessment result would be maintained in our archive, as it will assist us to monitor and review various aspects of the project from time to time throughout its life cycle.



## Environmental, Social and Governance Report (Continued)

### 2.2 Climate

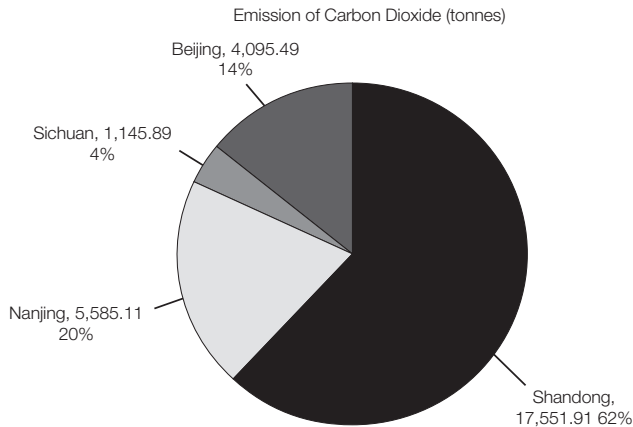
Climate change is a global problem that requires governments, enterprises, consumers and shareholders to solve together. We believe that taking a proactive approach to climate change and transformation to a green low-carbon economy is being responsible for our next generation and it is the right choice for promoting the sustainable development of the enterprises and society.

Compliance with local environmental laws and regulations is the first step in compliance, and we may even be implementing more stringent measure on ourselves than those required by laws. We explore opportunities to reduce emissions during operation. In the continuous explorations and reflections, we believe that market-oriented and innovative technology is the basic conditions to mitigate climate change risk, and also to create value for shareholders.

#### • Greenhouse Gas

Nitrogen oxides, sulfides and volatile organic compounds emitted during the production process can affect air quality. Air pollution mainly comes from the boiler combustion, refrigeration, air conditioning equipment and the use of motor vehicles in our production facilities and our administrative offices during the production process.

#### • Equipment and Facilities Upgrading



- ✓ Boiler facilities upgrade. By replacing raw coal with natural gas, the total amount of carbon emission will be reduced by approximately two hundred tons and the total amount of nitrogen oxides emission will be reduced by about one ton.
- ✓ Workshop exhaust gas collection duct. In the process, advanced gas hood should be used to improve ventilation efficiency and reduce emissions to the atmosphere.
- ✓ Installation of fume purifiers in canteens.

## Environmental, Social and Governance Report (Continued)

### • Optimization of Production Process

- ✓ Energy-saving production process is employed on priority. After being processed in water spray and active charcoal device, part of the exhaust gas containing acid gas will be absorbed by alkaline liquid in order to achieve more than 95% of the exhaust gas capture rate.
- ✓ In the process of freeze-drying, the use of condensation and absorption processes for volatile organic compounds can reduce volatile organic compound (VOC) emissions.
- ✓ Central air conditioning and other industrial refrigeration systems are equipped with high-quality refrigerant R-410A, effectively reducing greenhouse gas emissions.

### Green Travelling

#### • Green Business

- ✓ Green traffic: Cooperated with new energy automobile company for leasing of their vehicles for short-distance travel. Encourage our employees to first consider taking high speed railway (Gaotie), city railway or other transportation when travelling in short to medium distances (800km or less) and reduce travel by aircraft.
- ✓ Green Route: We advise our employees to carry only necessities for lighter travel. According to statistics, approximately 34,000 liters of fuel can be saved per plane annually when the aircraft is reduced by 1 kg on average.
- ✓ Holding some of the Company's internal meetings through video conferencing system. Video conferences can be carried out at anytime and anywhere with fixed-line telephones, mobile phones, laptops or other devices, without any disadvantage. The result of the practice is comparable to physical meetings, and this greatly saves time and cost.

#### • Staff Commute

To promote low-carbon travel, we provide free transportation to our staff in order to reduce the exhaust gas emission brought by private cars.

## Environmental, Social and Governance Report (Continued)

### • Energy

#### • Clean Production

Saving energy and reducing energy consumption are conducive to reduce the generation of pollutants from the sources. It also reduces the burden of processing. Adopting clean production is our commitment to the environment and society. We have implemented 14 programs, such as installation of acoustic board to the cooling tower, boiler burner reconfiguration, steam trap reconfiguration, toilet flush valve reconfiguration, waste separation, recycling, etc.

Improved Items	Efficiency	Reduction
Reduced water use	8,850 tons	10.24%
Reduced Electricity	175.2 thousand KWh/a	6.3%
Reduced natural gas	137.4 thousand m <sup>3</sup> /a	18.2%
Reduced wastewater	7,965 m <sup>3</sup> /a	12.3%

#### • Clean Energy

- ✓ Power source of street lighting changes from electric power to solar power.
- ✓ For the new projects, we replace natural gas with industrial steam which greatly reduces the energy consumption.

#### • Green Architecture

- ✓ Using new design for new plants effectively increases the indoor transmission and insulation effect, and reduce energy consumption.
- ✓ Building several sound barriers around the new plants, and planting a certain number of arbors and shrubs.

#### • Transformation of Energy Saving Project

- ✓ Replacing the incandescent lamps with 7,724 LED lights for factory and office areas, saving RMB450,000 of energy cost annually.
- ✓ Introducing electric heating facilities, which can greatly save the energy consumption.
- ✓ Installing noise enclosures on the compressed air pump house.

## Environmental, Social and Governance Report (Continued)

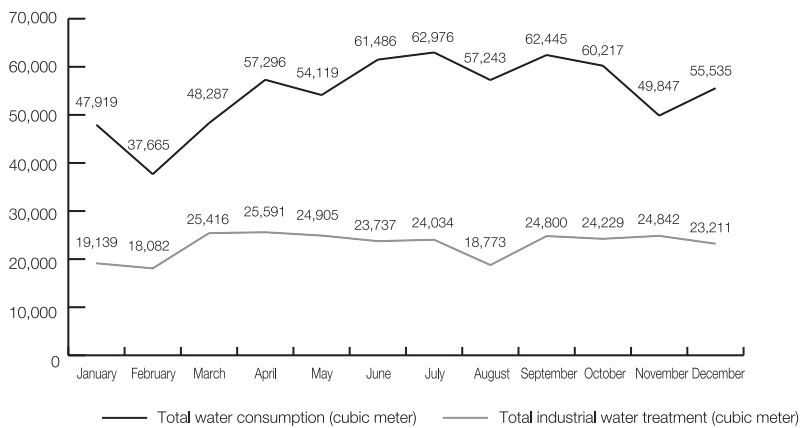
### 2.3 Water

The shortage of water resources has been a global issue. Luye is aware of the importance of water resources and wastewater management in order to conserve water resources.

#### Water Resources Management

Luye mainly uses industrial water during pharmaceutical production, auxiliary equipment, and domestic water for cleaning and cooking.

Seasonality for total water consumption and total industrial wastewater treatment



Seasonality for total water consumption and total industrial wastewater treatment (above)

According to Luye's internal statistics, the total water consumption for the past year was 655,035 tons. The monthly water consumption increased from 47,919 cubic meters in January 2016 to 55,535 cubic meters in December 2016, of which the water consumption in April to October of 2016 was higher than the other months of the year. While the monthly industrial wastewater treatment capacity varies little, ranging from 18,000 cubic meters to 25,000 cubic meters, its total amount was 276,760.1 tons in the past year.

In order to fully utilize used water and the wastewater disposal system, we evaluate various technical methods such as condensing gas from the pipeline of the boiler and recycle it as bath water. It is expected to save approximately 900 tons of steam and approximately 2,300 cubic meters of water for daily usage.



## Environmental, Social and Governance Report (Continued)

Improving water efficiency, reducing usage of water and reusing wastewater are crucial ways to conserve the environment. Through collecting the latest legal information regarding water treatment, and focusing on the process and application of technology, we achieved the following results:

### • Recycling Water and Reusing Treated Wastewater

- Transforming tap water to cooling water from cooling tower for rotary evaporator, saving tap waters 2,000 tons annually.
- Equipment cleaning water, steam condensate and other high temperature wastewater are recovered and used as boiler feed water, saving tap water 5,000 tons per year.
- Recycling industrial condensed steam, using it as bath water for employees and tap water heating for purified water machine. This conserves 5,000 tons of water per year.



Condensate Recovery System — Lift Pump



Condensate Recovery System — Water Treatment Tank

## Environmental, Social and Governance Report (Continued)

### • Used water, recycled water and other irregular water resources

We introduce a water reuse device to collect used water from restaurants and dormitories, and use it as toilet flushing purpose. We also recycle the water used in the integrated building for the production process and use it to water the plants.

### • Water Saving and Technological Transformation

- Transformation of water purification machine: water purification machine changed from 24-hour continuous operation to automatic control mode, in which machine operated for certain time within a day and is based on demand of water. As a result, it reduces the water consumption and wastewater generation for a total of 30,000 tons, around 40% of saving.
- Posting logos about water conservation at water consumption terminals, such as toilets and washrooms.
- The cleaning cycle for the freeze-drying machine changed from once per batch to once per 12 batches, saving 2,600 tons of water annually.

## 2.4 Waste

The population increases due to social and economic development, leading to solid waste pollution and the emergence of environmental problems. This affects human health and damages the ecological environment. We notice that proper disposal of solid waste is crucial to guard against environmental risks and protect human health.

### Solid Waste Policy

As an important part of pollution prevention and reduction, it is closely related to and inseparable from the prevention of the atmosphere, water and soil. We aim at reducing waste, reusing waste and decontamination throughout the whole process of solid waste generation, collection, storage, transportation, use and disposal.

### • Solid Waste Generation

#### Solid Waste Environmental Management

Solid waste mainly includes hazardous waste and harmless waste. Among them, hazardous waste mainly involves medical waste, organic waste liquid, organic resin waste and waste activated carbon etc., resulting in an annual output of 516 tons. General industrial wastes mainly include domestic wastes and recyclable wastes, such as Chinese medicine dregs, waste packaging materials, packing belt, waste paper boxes and other paper waste, resulting in a total output of 1,418 tons per year.

#### Green Office

Every business unit is actively taking measures to reduce the amount of paper usage, such as compulsory double-sided printing, waste paper reuse and recycling, using office automation (OA) system for approximately 10,000 processes, in order to achieve paperless office. In 2016, the total amount of paper used was approximately 21,528 kg.

## Environmental, Social and Governance Report (Continued)

### • Waste Collection and Storage

- ✓ Waste classification: we regularly review the relevant laws and regulations on solid waste, and provide timely update on the list of corporate waste. On 1 August 2016, the new version of the List of National Hazardous Wastes was formally implemented. According to the law, we plan ahead to prepare forms, adjust temporary storage site, and guide the staffs to classify the waste.
- ✓ Standardizing the construction of hazardous waste temporary storage sites: we list clearly the nature of each dangerous solid waste and their corresponding dangerous characteristics. Hazardous waste warehouses use hollow cofferdam to prevent the risk of solid waste leakage outside warehouse and environmental pollution. For flammable hazardous waste warehouses, we install explosion-proof facilities, such as lamps, electrical switches, combustible gas detectors and ventilation facilities, etc.
- ✓ Establishment of contingency disposal plan for hazardous waste: enhance the operator's ability to deal with leakage incident and reduce the detrimental impact to the environment.

### • Transportation and Disposal

- ✓ Internal transfer: use suitable packaging containers to prevent leakage, spillage, or volatilization during loading, moving or transport. Well-trained operators will transport the waste to the temporary storage point by using closed dump trucks.
- ✓ For hazardous waste, we commissioned nationally-recognized third party for handling disposal. For example, Shandong commissioned Xin Guang Lvhuan Recycling Resource Co., Ltd. for handling disposal. For transporting disposal, we find enterprises which have official permits for transporting hazardous waste.
- ✓ For harmless waste, we have signed an agreement with the local environmental department that we will transport the waste every day to prevent excessive storage and reduce environmental pollution. We also recycle general harmless waste such as package and obsolete equipment, etc.

### • Promotion and Education

Integrating traditional and new social media to build multi-level and multi-directional information channels, we keep promoting waste management's policies and the corresponding effectiveness, which is contributive in building the waste management atmosphere.

We lead all employees to establish the concept of waste reduction and waste management. We aim to strengthen our day-to-day staff education to increase every staff's awareness of waste classification and resource conservation. Through various promotion methods, we advocate green and healthy lifestyle. In particular, we host painting exhibition in canteen with the theme "Save, Cherish Food", and posting the sign advocating "Take less each, multiple rounds" on dining benches.

**By constructing an alcohol recycling pool, the wasted alcohol reagents, which have been disposed directly to the sewage treatment station originally, is now given to enterprises with integrative use of alcohol. As such, we reduce operating cost, achieve resources reuse, lower the detrimental impact to the environment, and achieve the synergistic effect between business development and the environment.**

## Environmental, Social and Governance Report (Continued)



Temporary storage area for waste collection



“Reducing waste” saloon



Alcohol recycling pool

## Environmental, Social and Governance Report (Continued)

### 2.5 Chemicals Management

Chemicals management is the key for economic and social sustainable development. Environmental management for chemicals has become an urgent task for economic development and social progress. We advocate to prevent and control detrimental impact of industrial chemicals on human health and environment.

There are about 45,000 types of chemicals that are produced and sold in China. Chemical is an indispensable raw material as well as consumer good, and is being widely used in different medical areas in modern society.

We are committed to manage chemicals from the safety and environmental aspects, in order to protect the environment and human health. The chemical environmental management focuses on chemical selection, usage, prevention of leakage, and disposal in the production process.

#### • Chemical Environmental Management System

With the risk assessment and risk management of chemicals as the basic framework, we have established a number of basic environmental management systems for chemicals, such as environmental pollution control of chemicals, prevention and contingency plans for pollution accident, control of harmful chemicals detrimental impact on environment and human health, etc.

#### • Preventive Principle

Considering economic development, human health and environmental protection comprehensively, we carry out precautionary principle while satisfying demand. In selecting raw materials, we replace toxic reagents with non-toxic and environmental-friendly ones. In selecting suppliers, we check carefully the qualifications of suppliers, such as dangerous chemical safety production license, business license, safety registration system road and transport permits, etc. We also conduct risk assessment and invest capital for fire and explosion precaution and anti-pollution.

#### • Process Intervention Principle

The safety instructions (MSDS/SDS) of the chemicals that we are currently using are provided by suppliers, and are displayed prominently in storage location. For newly introduced chemicals, we follow strictly to the precaution policy. We implement registration books for toxic reagents. The keys of which are guarded by two of our personnel persons with the use of two locks.

For sudden environmental pollution accident, we have developed contingency plan, equipped with emergency rescue equipment and facilities. We organize regular trainings for employees with simulation exercises.

#### Research Report

One of the World Health Organization's (WHO) studies shows that worldwide incidence of cancer has increased rapidly in the past century. The number of death due to cancers was around 4 to 5 millions annually, accounting 12% to 25% of the total number of deaths, of which 80% is caused by chemical factors. Therefore, chemical environmental management becomes the focus all around the world.

## Environmental, Social and Governance Report (Continued)

### 3. Personnel

#### 3.1 Personnel Management

**We treat staff as the most valuable asset of the Company and the driving force of our corporate sustainable development. Talent development is one of the keys for sustainable development and economic growth.**

“Customer-oriented, Efficient Operation, Staff Achievement” is our business philosophy. We focus on the physical and mental health of employees and their living security by promoting healthy lifestyle and happy work. Luye Group strictly abides by relevant laws and regulations, such as the “Labor Law of the People’s Republic of China”, “Law of the People’s Republic of China on Employment Contracts”, “Employment Promotion Law of People’s Republic of China”, and “Law of the People’s Republic of China on the Prevention and Treatment of Occupational Diseases”, with an aim to establish an all-rounded human resources system in order to ensure that employees enjoy our working environment with welfare allowance and reasonable working hours. Furthermore, Luye would provide notice and compensation to staff for termination of labour contract, in accordance with the applicable laws and regulations.

##### • Attract, Develop and Retain Talents

In order to maintain a smooth talent development, we established multi-channel career development path such as research and development, professional technique and management. We encourage employees to choose their own way, to realize their potential and to achieve the sustainable development of the staff and the enterprise.

We also set up the Luye Evergreen College to execute 3 talent development plans: Set Sail, Navigate and Pilot Projects. We aim at cultivating enterprise grassroots, middle and senior talents in order to cope with the rapid development and achieve the strategic objectives.

We actively participate in the annual salary survey for domestic pharmaceutical market organized by the world well-known salary research companies in order to understand the salary level and trend of pharmaceutical industry. With integrating our development strategies, we develop a sound remuneration strategy to ensure attracting, encouraging and retaining good talents.

Luye was named “Excellent Employer” by “Fortune” and Global Advisory Services Company Towers Perrin in 2011.

##### • Staff’s Ability Enhancement

Job skills training: Invite experienced and skillful experts to share their experience and technique. At the same time, we provide training courses or invite lecturers to offer workshops in order to enhance the professional skills of our employees.

General quality training: establish E-learning system and offer training courses for developing corporate culture, professional quality, effective communication and emotional management.

Leadership skills training: from three perspectives (leading oneself, leading teams and leading business), we design leadership enhancement projects to enhance managers’ leadership skills, stimulate the teams’ vitality and create excellent performance.

##### • Diversity and Tolerance

We strive for creating a tolerant corporate culture. As a result, employees can realize their potential and show their talents, and enterprise can achieve outstanding performance and return to the shareholders, society and employees.

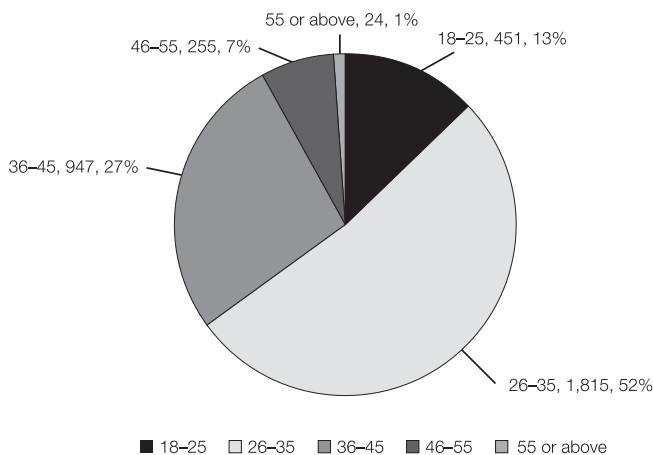


## Environmental, Social and Governance Report (Continued)

In staff recruitment, career development, promotion, training and rewards, we aim at providing equal employment opportunity irrespective of their color, nationality, race, age, sex, religious beliefs or physical defects. We hope that our staff can work in an atmosphere full of respect and without any sense of discrimination.

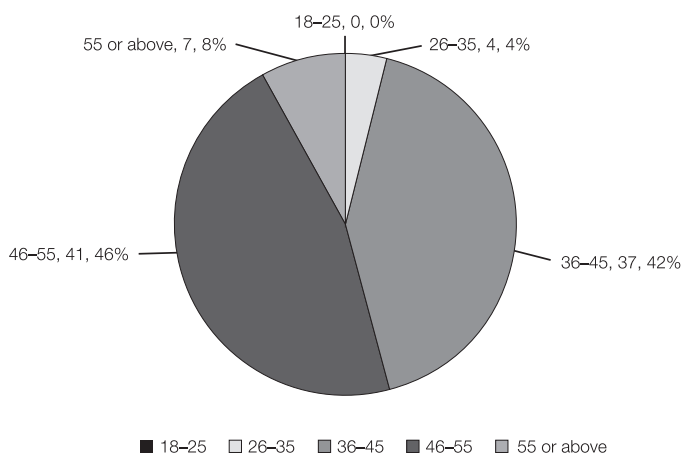
Our employees come from different age groups, of which the largest age group is “26–35”, accounting for 52% of the total employees; followed by the age group of “36–45” which accounts for 27% of the total employees.

Age distribution of total employees

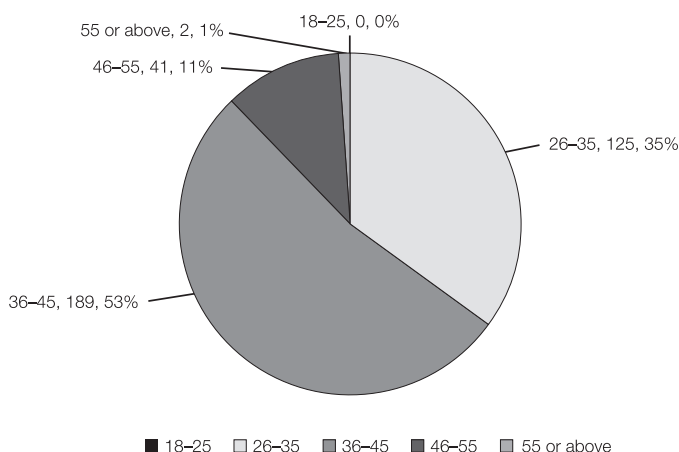


Age distribution of different rankings:

Director or above

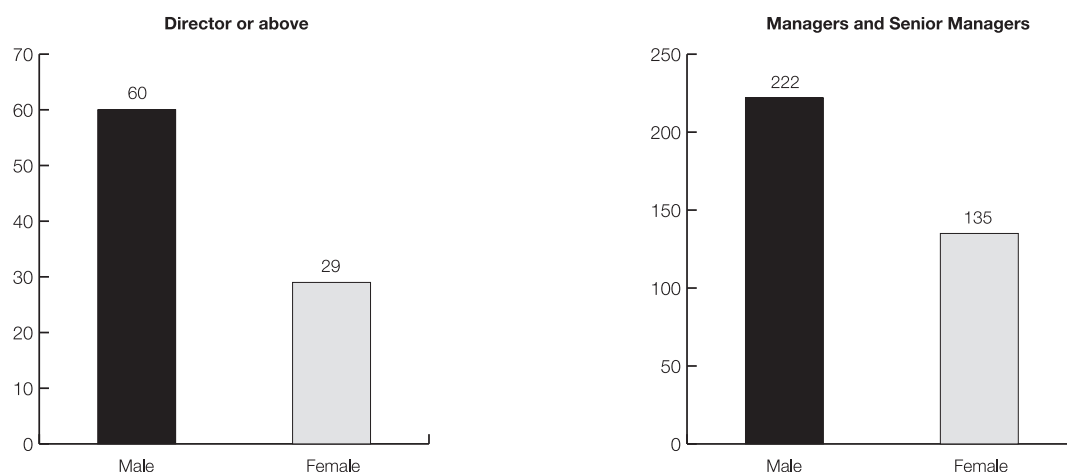


Managers and Senior Managers



## Environmental, Social and Governance Report (Continued)

We always take a fair attitude towards our employees. We emphasize on the equality between men and women, and have been committed to maintaining equal proportions for both men and women. In the end of 2016, the Group has a total of 3,492 employees, of which male to female ratio is about 4.9:5.1, the proportion of men and women at different ranks is as follows.



### • Incentive and Assessment

We design the remuneration by looking into three areas: industry average salary level, job responsibility and employees' performance.

We organize awarding ceremony annually at group and company levels, rewarding outstanding employees and teams. In addition, we award "Golden Leaf Medal" to the employees who have served our Group for 10 years.



## Environmental, Social and Governance Report (Continued)

### • Employees' Benefits

Employees are the most valuable asset of our Group. We make great efforts on enhancing employees' benefits in order to establish a healthy lifestyle and a happy working atmosphere.

We purchase medical insurance for every employee and provide health checkup to them every year in order to maintain their health. At the same time, we set up an internal protection fund so that when employees or their families suffer from great difficulties or medical problems, they can get timely financial support.

We build up staff restaurant to provide employees with free healthy and nutritious meals.

We provide dormitories to our employees, with air conditioning, optic fiber, and a variety of cultural and sports facilities. Such facilities and equipment is aimed at improving the living environment of the employees.

We establish a variety of staff clubs and carry out a variety of staff activities in order to enhance their physical and mental health. Additionally, our aim is to create a good working and living environment.

Besides public holidays, our Group has a variety of holidays with salary paid, such as paid annual leave, marriage leave, maternity leave, sick leave, etc., in order to help employees to strive a work-life balance.

Meanwhile, we reward the employees who have excellent performances in the areas of work and environmental protection.



Employees Care-Infant Room



Athletic Meet

In respect of applicable laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare, Luye complied with the applicable laws and regulations that have a significant impact on it in material respects during the period under review.

## Environmental, Social and Governance Report (Continued)

### 3.2 Occupational Safety and Health

**As economic development become more diverse, we realize that employees' occupational safety and health is key to corporate development and it is a long-term task.**

In our business development and operation, we prevent any harmful incident happening to our employees, contractors and nearby residents. This is one of the missions as we always strive for excellence in serving the health of mankind.

**The safety goal of Luye is to achieve zero damage, zero fire hazards and zero explosions in our operation.**

Our shared value of safety is to eliminate the occurrence of accidents and injuries at work. We guarantee the safety of our operations through personnel and production process safety management. In 2016, we have achieved the goal of no lost time injury (LTI).

All Luye's contractors, sub-contractors and joint venture personnel should strictly follow our safety rules and regulations, intervene in any unsafe behavior and condition, which is a right given to each employee in Luye.

#### • Personal Safety

In order to achieve this goal, we believe that it is important to shape the safety culture, so that employees can understand their responsibilities at work, especially managers, as they are the role model and leader to demonstrate safety precautions. The Safety Management Committee will hold meeting every quarter to share experiences, exchange the best practices and discuss the way to enhance safety performance.

Safety is everyone's responsibility. Besides the management, we also have a grass-root safety officer for each business unit. We share safety solutions through our well-established communication system through the internet, so that every grass-root safety officer can communicate, share and find solutions to problems.

In Luye, the safety policies and precautions are well set up and fully cover all business units in order to achieve our safety goal.

#### Mental Health

**Luye sets up mental advisory committee which will privately communicate with staff and ease their mental pressure. Meanwhile, we reasonably arrange the work schedule to ensure employees to have enough time to rest. We also organize different employee activities and competitive benefits, to ease the mental pressure of the employees.**

In respect of applicable laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards, Luye complied with the applicable laws and regulations that have a significant impact on it in material respects during the period under review.

### 3.3 Risk Management

**Conducting risk assessment and setting up precautions system in business operation are core ideas for Operation Integrity Management System (OIMS), especially for product design, research and development, construction and operation.**

To keep providing medicines safely to patients around the world, we must be able to identify and manage every operating risk. Our risk management system is able to identify and evaluate the risk, and reduce it to a certain level.

## Environmental, Social and Governance Report (Continued)

We first consider the safety and reliability of the operating process to ensure the safety of our staff and nearby residents, and to protect the environment.

For “Environment”, “Occupational safety and Health”, “Society” and “Operating Reliability”, we formulate internal policies which meet the international standard (ISO), Occupational Health & Safety Assessment Series (OHSAS), all related China law and industry technical standard and requirement. We also include maintenance, contractor management, supply chain management, etc. in our risk management system, so as to ensure our systems operate in a guided, relevant and controllable manner. We aim at controlling the risks effectively through our applicable risk management requirements.

Timely changing management method will be beneficial for coping with all kinds of external and internal changes. Through regular evaluation, we revise the documents to accommodate any changes.

### • Three Layers for Risk Management

#### First Layer: Corporate Risk Management

Every year we conduct risk assessment for our daily operations and services with relevant parties, to identify the risk, evaluate the risk level, and set up measures to eliminate or alleviate risks to a reasonable control level.

#### Second Layer: Key Tasks Risk Management

The key task is the task involved in the operation control, such as listing lock (LOTO), thermal work, limited space operations, etc. We analyze the risk accurately for the key tasks and manage it.

#### Third Layer: Job Risk Management

Focus on general job tasks, team leaders hold meeting before work at work place to discuss the risk involved to a specific job.



## Environmental, Social and Governance Report (Continued)

### 3.4 Emergency Management

We are committed to improve contingency plans, optimize management process and provide trainings to improve the preparation for business emergency to prevent and control major safety incidents and environmental pollution accidents.

- Contingency Plan

Emergency response capability is critical and it highly depends on the professionalism of the response team. We build rescue teams to master emergency knowledge and abilities through internal and external trainings such as elevator accidents, fire and explosions.

A contingency plan is a pre-established plan or program for possible accidents. It is set to ensure the rapidness and effectiveness of the emergency rescue operation and reduces the loss of accidents.

File Number	Plans
LYG-001	Emergency Plan of Elevator Accident
LYG-002	Pressure Vessel Accident Handling Plan
LYG-003	Alcohol Accident Emergency Treatment Plan
LYG-004	Emergency Preparedness Plan for Fire Safety

Based on (i) the identification and assessment of potential hazards, (ii) the type of accidents, (iii) the likelihood of occurrence, (iv) the occurrence process, (v) the consequences of the accident and (vi) the severity of the impact, we make specific arrangements in advance on aspects such as duties, personnel, technologies, equipment, facilities, materials, rescue operations, command and coordination, etc. for the emergency agencies. We aim to identify the responsible person for each task, the timing for action, and the corresponding strategies and resource preparation before, during, and right after the accident.

We have developed contingency plans for business operation in three major areas which are special equipment, hazardous chemicals and fire accidents. These areas will cause a significant impact on business operations, environment and the surrounding neighborhood. These plans act as guides for our branch companies. We also require subordinate units to develop their own contingency plans according to their own risk sources and environmental factors.



## Environmental, Social and Governance Report (Continued)

### • Design and Management

The specification design of our chemical storage sites strictly follows the national fire, hazardous chemicals storage site requirement. For example, our administrative office and the production workshop are connected to an independent fire water distribution network, smoke sensor, water spray system, emergency lighting, evacuation signs and other systems. In the chemical storage sites, we install gas detectors and ventilation interlock system.

Monitoring system: We will conduct a fire assessment by a qualified third party every three years to meet compliance. We will also invite independent third parties to maintain our fire protection facilities monthly.

We set up micro fire station with the installation of automatic fire alarm system. Meanwhile, guardians are having 24-hour surveillance. They will immediately call the police upon encountering any dangers.



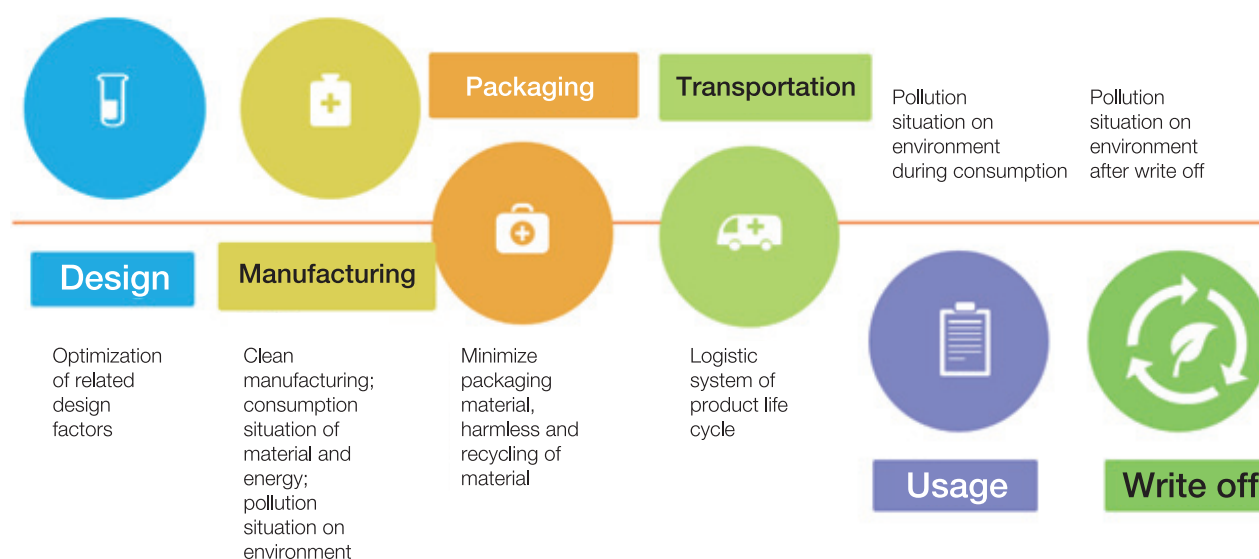
Exercise of Workshop on Emergency Evacuation

## Environmental, Social and Governance Report (Continued)

### 4. Social Responsibility

#### 4.1 Green Manufacturing

Throughout the product life cycle, Luye is committed to strike a balance between economic development and environmental impact and resources synergy through promoting green transformation to minimize environmental impact and improve efficiency of green manufacturing.



In respect of applicable laws and regulations relating to health and safety, advertising, labelling and privacy matters relating to our products, Luye complied with the applicable laws and regulations that have a significant impact on it in material respects, during the period under review.

#### • Supply Chain Management

From a business perspective, we believe that purchase of goods and services from local suppliers can support the development of local suppliers as well as establishing long-term relationship through cooperation. This also helps Luye to gain competitive advantage and optimize the value of the entire value chain.

##### ✓ Choosing Practices

Focus on the qualification of suppliers, business reputation, quality assurance and testing capabilities, process technology, production capacity and management level, occupational safety, health and environmental management, social contribution and other factors, and select suppliers based on the reviews of the supplier.

##### ✓ Monitoring Practices

Quality inspection of incoming products, feedback defects in the production of products, regular discussions with suppliers to develop audit, planned audit and special audit.

##### ✓ Assessment and Evaluation Practices

Assess the supplier's quality and review their information, in accordance with national standards, industry standards or the agreed quality standards annually.

## Environmental, Social and Governance Report (Continued)

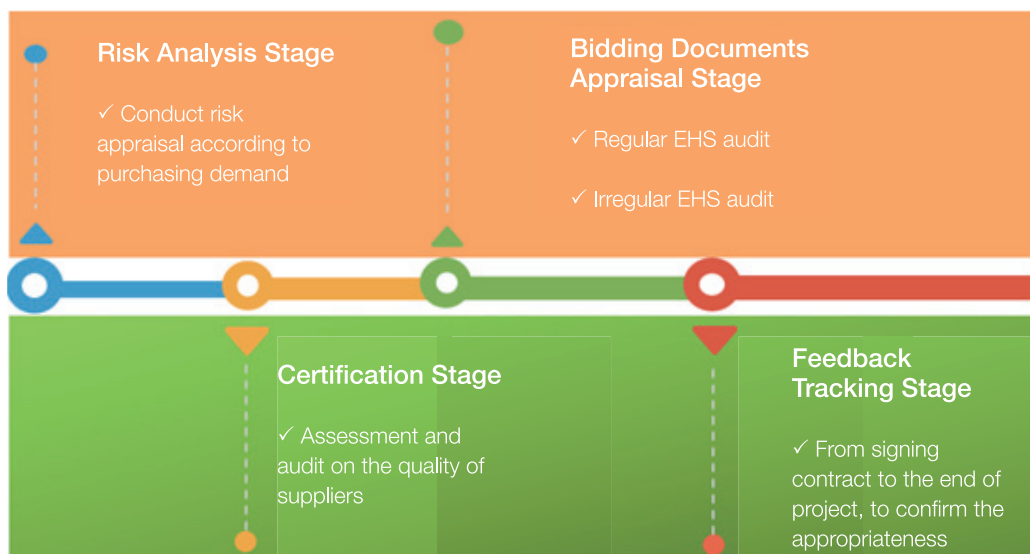
### • Supplier Distribution

In 2016, we had procured from different suppliers, our Beijing subsidiary obtained Xuezhikang capsules, Xuezhikang tablets and Telmisartan capsules from 60 different suppliers; Sichuan subsidiary obtained chemical raw materials, pharmaceutical excipients, Chinese medicinal materials and packaging materials from 45 different suppliers; Nanjing subsidiary obtained cholesterol, anhydrous glucose, mannitol and taxol from 6 different suppliers; Shandong subsidiary obtained raw materials, packaging materials, reagent supplies, assets, labor protection insurance, spare parts and organic materials from 670 different suppliers.

### Green Packaging

We include green elements in the packaging and the materials used:

- Reduce packaging materials;
- Re-use packaging;
- Use of recycled materials or renewable materials for packaging;
- Degradable packaging;
- Implement the packaging design pattern with green and safety warning.



### • Future Development Plan

We are actively developing green environmental plans and management commitments to speed up the promotion of Innovation Change new Values (ICV) project regarding environmental issues such as CO<sub>2</sub> reduction, energy substitution, resource recycling, water reuse and recycling, and the reduction of chemical substances, and to adopt a series of solutions.

We also focus on the development of clean energy for the use in the Group's industrial chains. We are committed to the transition from traditional energy to renewable energy, which helps to replace scarce energy such as the traditional fossil energy.

We encourage and reward employees to learn and apply new environmental technologies, and provide a strong technical support for energy conservation to achieve sustainable development.

## Environmental, Social and Governance Report (Continued)

### 4.2 Charitable Activities

As the economic develops, we take the initiative to undertake the responsibility as a corporate citizen. “Support education, encourage innovation” is the direction Luye upholds to in the aspect of charity, we contribute the community by actively participating in social activities.

“Professional technology serves human health” is the mission of Luye and is also our commitment to the community. Luye loves and cares for the community and light up the future of our society.

As a leading innovative pharmaceutical company, we support innovation and talent training in the field of biomedicine through various forms. Meanwhile, we had also donated to a number of primary schools and helped the orphans and poor university students by funding their tuition fee. Luye was awarded the “China Children Charity Award” from the China Women’s Federation and the China Children and Teenagers Fund.

As a pharmaceutical company, the Group is also actively involved in providing assistance for poor patients. We partnered with the China Cancer Foundation to carry out “Rescue Poor Tumor Patients”, “Rescuing Poor APL Patients” and breast cancer screening for ethnic minorities. We raise relief funds and donate drugs for disaster relief.



Rescuing Poor APL Patients



Luye Pharmaceutical Biomedical Fund For Peking University



Wenchuan Earthquake Donations



Luye Scholarship for Medical Department of Peking University

## Environmental, Social and Governance Report (Continued)

We work with government departments, such as the Ministry of Health to support the education for patients and trainings for doctors, providing trainings and education regarding the knowledge of cardiovascular disease prevention and treatment to thousands of community doctors and more than ten thousands residents.

We also signed a senior hospital management and pharmaceutical practitioners training program with training center of Ministry of Health and the Scottish National Medical Service System Ministry of Education/University of Edinburgh to provide assistance in the development of hospital management and pharmaceutical management in China.

The Group has cooperated with Yantai Laishan government to hold the “Luye Cup” half marathon race for five consecutive years. There are nearly ten thousand people participating in this event each year.

We also combined public welfare with staff training, and we organized various activities for employees, such as visiting hope primary schools, helping poor children, convey greetings to elderly homes, giving science lesson to primary students, etc. These activities are popular among our employees.



Care for the Elderly



Helping the Poor Students and Orphans



## Environmental, Social and Governance Report (Continued)

### 5. Environmental and Social Performance Data Sheet

#### Environmental Performance

##### Compliance with material Environmental Laws and Regulations

Charges made against us	—	Unit of Measurement Number of Charges
Complaints received by us	—	Number of Cases

##### Energy & Resources

Total Consumption of Energy	34,598,471	Kilowatt-Hour
Total Consumption of Natural Gas	2,531,371	Kilowatt-Hour
Total Consumption of Gas	10,465	Kilogram
Total Consumption of Coal	486	Kilogram
Total Consumption of Water	655,035	Cubic Meter

##### Wastes

Total Amount of Hazardous Waste	516	Tons
Total Amount of Harmless Waste	1,418	Tons

##### Wastewater

Total Wastewater Discharge	276,760	Cubic Meter
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#### Social Performance

##### Safety

<b>Death Toll</b>	Employee	—	Number of People
	Subcontractor	—	Number of People
<b>Accidental Work Injuries</b>	Recorded Frequency of Accidents	—	Every 200,000 hours
	Loss of Working Day Frequency	—	Every 200,000 hours
<b>Occupational Disease</b>	Recorded Frequency of Occupational Disease	—	Every 200,000 hours

##### Personnel

<b>Gender</b>	Total Number of People	3,492
	Percentage of Female Employee	51%

##### Rank Distribution

Number of Directors and Above	89
Female Percentage (ibid)	33%
Number of Managers	357
Female Percentage (ibid)	38%
Number of Other Employees	3,046
Female Percentage (ibid)	53%