

KINGWORLD MEDICINES GROUP LIMITED
金活醫藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 01110



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2017

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INTRODUCTION

This document is the Environmental, Social and Governance (the “ESG”) Report prepared by the Group in accordance with the requirements of Appendix 27 Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) to the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited. This ESG Report covers the period from 1 January 2017 to 31 December 2017 and is intended to provide an insight into the approach adopted and actions taken by the Group regarding its operations and sustainability that have implications for itself and the interests of stakeholders. The terms used in this ESG report have the same definitions as those in the Group’s 2017 Annual Report, unless otherwise defined.

The ESG report of the Group has been presented in two subject areas. The environmental and social and each subject area will disclose various aspects regarding the relevant policies and the status of its compliance with relevant laws and regulations as addressed by the ESG Reporting Guide.

The Group understands the importance of the ESG report and is committed to making continuous improvements in fulfilling our corporate social responsibility in our business in order to better meet the changing needs of an advancing society. The ESG report of the Group presents general disclosure of required aspects in policies, initiatives, performance and compliance. The Group will continue to optimise and improve the disclosure requirements.



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PROFILE OF THE GROUP

Kingworld Medicines Group Limited (the “Company”) and its subsidiaries (together, the “Group” or “Kingworld”) is a globally leading and renowned great health service provider in China. The Group’s operations in the greater health services industry include: agency and distribution of overseas quality and well-known pharmaceutical and healthcare products in the Greater China Region. For six consecutive years from 2009 to 2014, it was among China’s Top 100 Importers of Pharmaceutical and Healthcare Products and, in 2013, it was one of the Top 5 Sales Enterprises of Chinese Patent Medicines. The Group is a distributor and agent of more than 60 products, including such star products as the Nin Jiom (京都念慈菴) product series, Taiko Seirogan (喇叭牌正露丸), Flying Eagle Wood Lok Medicated Oil (飛鷹活絡油), Kingworld Imada Red Flower Oil (金活依馬打正紅花油), Mentholatum Ointment (曼秀雷敦薄荷膏), Culturelle (康萃樂) probiotics product series, Lifeline Care maternal and infant fish oil product series and the “Global Slimming” product series. Shenzhen Dong Di Xin Technology Company Limited (Dong Di Xin) under the Group’s medical device segment is mainly engaged in the research and development, manufacturing and production of medical device.

After more than 20 years of constant dedication, the Group has established its omni-channel online and offline distribution network nationwide. Some 24 subsidiaries and 17 branch offices have been set up in 34 provincial level administrative divisions across China (including Hong Kong and Macau), offering distribution coverage of more than 341 cities.

Kingworld operates its business with integrity, heart and diligence, and actively gives back to society by embracing its social responsibility. In addition to caring about people’s health, the Group also firmly believes having an environment, a community and employees which and who are healthy are equally important.

The core belief of Kingworld is “everything is possible with the spirit”. It adheres to its “people-oriented” management philosophy and places emphasis on personnel training. Sustainable development is not only the fruit of past exertion, but is also the foundation on which future development can be achieved. During the reporting period, the Group has actively improved the working environment for its employees and their benefits, promoted environmental protection measures and corporate governance policies, as well as participated in social and charitable activities to share the fruit of its hard work with the community.



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ENVIRONMENTAL PROTECTION

Emission Reduction

The Group attaches great importance to environmental protection, and has strictly abided by relevant national laws and regulations on environmental protection and accordingly formulated the internal Environmental and Resource Control Procedures, which specified that all our businesses shall comply with relevant provisions. In addition, we have applied for the Pollutant Discharge Permit of Guangdong Province, which is currently pending approval by the authority.

There is no discharge of greenhouse gases in our production. Instead, production processes such as soldering, reflowing, screen printing and injection moulding produce approximately 3,000 m³ of other types of emission per hour. Hence, we have installed appropriate emission reduction devices and have seen some progress in this direction.

Wastewater mainly comes from screen printing. Approximately 50 kg of water used in screen washing are discharged every year. We have commissioned a qualified organisation to take charge of wastewater recycling and have achieved remarkable results.

Non-hazardous solid wastes are mainly waste-cardboard and discarded plastic bags used in packaging for finished products. Last year, 5 tons and 0.8 tons of waste-cardboard and abandoned plastic bags were generated respectively. In production processes such as injection moulding, assembling and lathe processing, 20 tons of plastic wastes, such as ABS and PP, and 4.6 tons of waste component pins, waste solder splash and aluminium chips were generated. The Group will collect such non-hazardous wastes for subsequent sale. Meanwhile, waste dry batteries generated in assembly testing totalled approximately 0.426 tons last year. As a kind of hazardous waste, waste dry batteries are all recycled by qualified specialist organisations to ensure appropriate treatment. In addition, there are well-established management regimes for our staff quarters, which require employees to tidy up their rooms and dispose of their domestic waste in a timely manner.

Resource Utilisation

The Environmental and Resource Control Procedures formulated by the Group has clear stipulations on resource utilisation to ensure employees make optimal use of precious resources.

In terms of the Group's production, equipment is produced by Dong Di Xin and 1.4 million kWh of electricity and 1,200 m³ of water are consumed in production annually. Moreover, in our production processes, a total of 300 tons of plastic materials, such as ABS and PP, 22 tons of packaging materials, 2.8 tons of tin wire and 9 tons of aluminium rods were consumed. As packaging and plastic materials are essential for production, the amount of which cannot be reduced. However, we require our suppliers to provide environmentally friendly materials in order to make the best effort to ensure sustainable development of the environment.



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Last year, the Group has proactively implemented the policy concerning the proper use of resources. In order to reduce electricity consumption, air-conditioning temperatures are set at 26 degree Celsius and employees are required to switch off all idle lights and equipment and set the injection moulding machine to standby mode during mealtime. We have also replaced all lights with energy-efficient lighting, which save 67% of power compared with commonly-used white lights. As for water conservation, we have greatly reduced unnecessary water consumption by adjusting water outlet valves and shutting off water when appropriate.

We understand that environmental protection measures can be effectively implemented only through the concerted efforts of all employees. Therefore, our internal guidelines have set out detailed provisions, such as prohibiting employees from eating in the office and reducing the discharge of domestic waste and sewage. In addition, signs are prominently displayed in toilets and pantries to remind employees to save water and paper. There are also similar signs at power switches to remind employees to save electricity.

Regarding the agency and distribution of healthcare products, the Group has actively expanded its sales channels on the Internet and fully leveraged the advantages of e-commerce business to enable both buyers and sellers to conduct business activities through the Internet and reduce the frequency of going out for shopping, and minimize the use of both human resources and natural resources. In addition, the Group is gradually promoting and implementing "Paperless Trade," thereby making a significant contribution to the environment. We have also implemented the Hybris platform in January 2018 to achieve omnichannel management, fully utilise information technology, reduce office expenses, and increase efficiency.

Environment and Natural Resources

While our business does not cause a major effect or risk to the environment or natural resources, the Group has strictly abided by environmental laws and regulations of the PRC and Hong Kong and has made relevant policies to minimise any potential adverse impact. To prevent possible non-compliance, clear guidelines have been provided to all management and employees in our Environmental and Resource Control Procedures.

The Group is committed to complying with all applicable local environmental laws and related requirements on the protection of natural resources, and is dedicated to promoting environmental protection among all employees.



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SOCIETY

Employment and Labour Practice

Employee Benefits

The sustainable profitability, business creativity and growth potential of the Group on providing a more comfortable working environment for every employee. We have formulated sound policies and systems to safeguard their rights and interests and strictly abide by the provisions of relevant local labour laws and labour contract laws.

We offer competitive remuneration packages to our employees. Apart from basic salary, we also provide subsidies, transport and meal allowance, performance bonus, year-end double pay, etc. Also, "Annual Awards" are presented to recognise our outstanding employees for their performance. Moreover, there are insurance and housing accumulation funds, high-temperature allowances for sales personnel, an employee parent-child education fund, employee mutual aid payments, and provide assurance ten-year service gold medals, all of which show that we place a high value on our employees.

When there is a vacancy in the Group's position, the relevant department must submit a Personnel Requirement Form and specify the job responsibilities and requirements for approval. In recruitment, the Group follows the principle of giving priority to internal staff, and appoints the best person based on fair and open procedures. There is absolutely no bias or discrimination. The Group encourages internal mobility of its employees. The human resources centre occasionally publicises vacancies, and employees can obtain job rotation or promotion through fair competition procedures. If there is no suitable person within the Group for the vacancy, the human resources centre will conduct an external recruitment exercise.

We have developed a comprehensive promotion system for our employees and greater opportunities are made available to excellent employees. Our employee promotion paths mainly include internal position competition, and recommendation by the relevant department and the human resource centre. Outstanding employees are included in our support talent team. We have also established a department management team and succession system, and require the person in charge of the department to train at least one or two reserve core personnel every year to ensure the sustainable development of the Group's human resources. In addition, we have formulated a comprehensive appraisal system, and consider performance as an important basis for employee promotion, salary adjustment, bonus distribution, year-end appraisal, and equity incentives. Thus the Company treats all employees equally. As the business becomes more internationalised, we have focused on introducing a diversified workforce and providing them with equal employment and promotion opportunities.



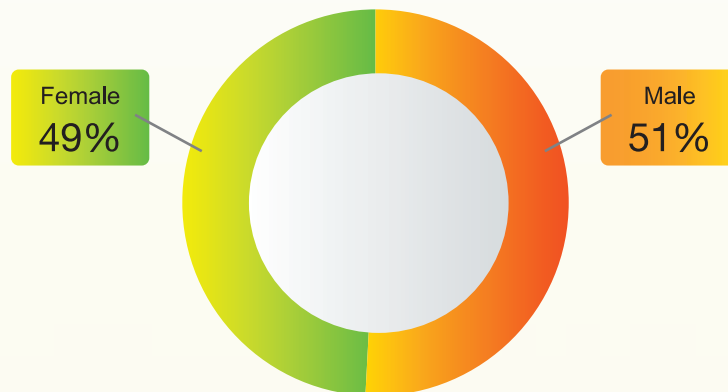
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The headquarters of the Group has launched an initiative implementing an eight-hour, five-day workweek. The working hours of employees stationed abroad are based on the working hours of the headquarters and ensure that each employee has at least one day off every week. Employees are entitled to statutory holidays according to local laws, as well as to casual leave, sick leave, marriage leave, maternity leave, care leave and bereavement leave according to the actual circumstances. To protect the rights and interests of female employees, we pay full wages to employees on maternity leave, and breastfeeding employees are entitled to a one-hour break every day. The head of the department will also ensure that proper care of these employees is taken during maternity and lactation period.

We attach importance to employees' opinions and have established multiple channels of communication, including an office automation (OA system), WeChat group, corporate WeChat group, general manager suggestion boxes, telephone, mail, and forum. These channels enable management to understand the needs of employees in a timely manner and adopt appropriate measures. Last year, all communication channels have functioned smoothly, and mutual trust and interaction have been established between management and employees.

The Group's business comprises the agency and distribution of pharmaceutical and healthcare products, as well as the research and development, manufacturing and production of medical device engaged by Dong Di Xin, with the two segments having 530 and 476 employees respectively. The following charts set out the gender proportion for each of the business segments,

Pharmaceutical and Healthcare Products Segment



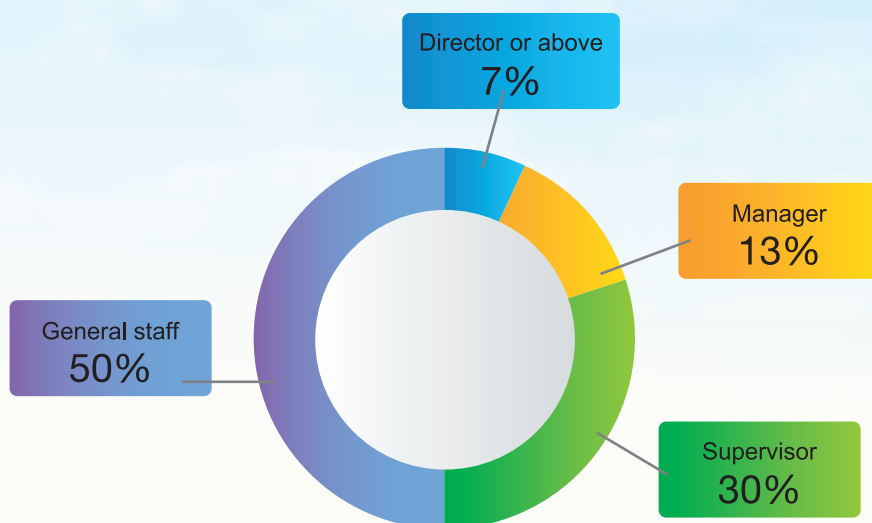
Medical Device Segment



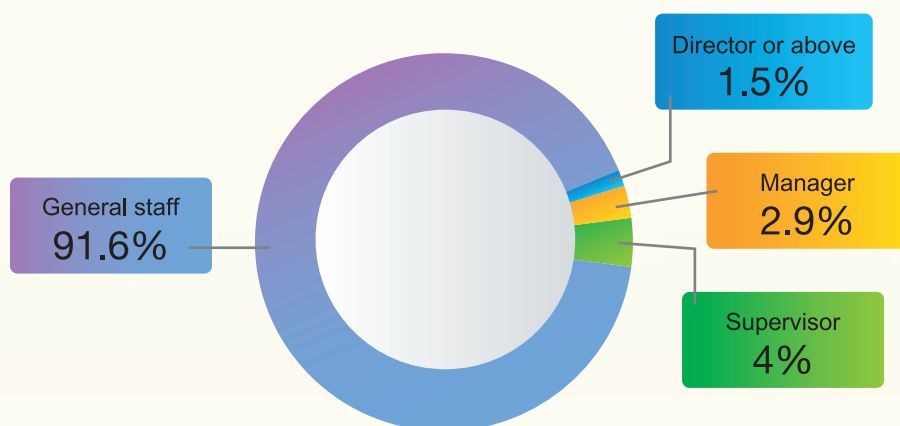
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The following charts set out the distribution of positions for each of the business segments,

Pharmaceutical and Healthcare Products Segment



Medical Device Segment



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Occupational Safety

The Group strictly enforces national occupational safety regulations and complies with relevant laws and regulations. Emergency handling procedures for unexpected accidents during work have been established and precautions are taken in advance. As some production work involves the operation of heavy machinery and could threaten the safety of employees if not properly handled, we have informed employees in detail about relevant risk factors and conducted rigorous training to ensure employees' competence while we also provide relevant occupational safety products and equipment to them. Also, clear guidelines are provided in the operating instructions.

For certain jobs exposed to hazards from occupational illness and injury, apart from the Test on Hazardous Factors of Occupational Diseases carried out in factories, employees are provided with medical checks before, during and after employment. We also regularly arrange for staff at headquarters to participate in the fire training of the local fire department and the fire drill of the property company every year, and require the affiliates to conduct similar activities on an annual basis. For employees who travel frequently, the Group has purchased group travel accident insurance for them. During the reporting period, the Group has not experienced any industrial accidents.

Development and Training

Talent is the foundation for the success of an enterprise. The Group encourages employees to pursue continuing studies and work together with the Company to achieve excellence. The Group has developed a comprehensive management system for employee training and professional development. The training requirements of employees are mainly investigated by a specialised business school, and plans and budgets are formulated accordingly and submitted to the general manager and vice chairman for approval, and a post-training assessment will be performed. We have also formulated strict rules for assessment methods and standards to meet the Group's business plan and marketing outline. Training provided to employees consists of relevant examinations or assessments to monitor employees' learning outcome.



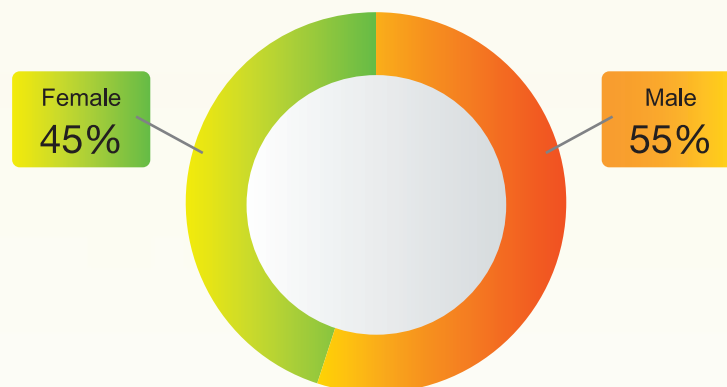
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Kingworld Training Courses

During the reporting period, the Group has organised internal training for employees, which mainly included an annual sales and marketing conference, the fourth five-year strategy, sales staff competence, leadership development, sales techniques and micro distribution skills for terminal salespersons, new employee orientation training, new media training for product managers to upgrade their skills, 4CS cross-cultural consumer characteristics, and training camps for director or manager candidates. In addition, the external training arranged by the Group for senior-level employees mainly includes the development of the industry, the development trend of OTC business, the new sales and marketing model of the pharmaceutical industry, and innovation in the management of corporate schools in the era of new media.



On the other hand, in order to expand online sales channels, the Group has specially provided division heads with the knowledge training of Culturelle probiotic products and omnichannel marketing strategy courses enabling them to have a more extensive knowledge of products and sales strategies. In addition, we have also launched the “Promoter Training Programme” so that all employees understand the new channels and new e-commerce marketing models of the Group. For skills and responsibilities required for important positions, the Group specifically assigns staff to participate in relevant external training at the Company’s expense, provided that such staff shall enter into relevant service agreements. During the reporting period, the training on product knowledge per employee in the pharmaceutical and healthcare products segment of the Group was increased to 12 hours. The following chart shows the gender proportion of employees participated in training,



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Intellectual Property Rights

We have always attached importance to safeguarding and protecting our intellectual property rights and have imposed rigorous management in this regard. The Group has established an internal control system, including the administration of trademarks and patents. In addition, the Group enters into a confidentiality agreement with its employees at the time of the signing of their employment contract, with detailed specifications on the employee's scope, obligations and responsibilities with regards to confidentiality, as well as the relevant cessation-of-employment arrangements.

Labour Standards

The Group strictly abides by national laws and regulations concerning child labour or forced labour. The staff handbook has clearly stated that any person under the age of 18 will not be employed. We will conduct identity verification at the time of recruitment to check the validity of identity documents. If an employee is found to be under the age of 18, he or she will be dismissed immediately and the person in charge of the department of the recruitment will be punished.

Our contracts with employees are based on the relevant provisions of the local labour law and labour contract law, and are negotiated by both parties. The contracts guarantee the rights and interests of employees. Employees have the right to refuse any dangerous work arrangement. Forced labour is prohibited and, once discovered, we will immediately stop related work and conduct follow-up investigations.

Business Model

Supply Chain Management

Suppliers for the Group's pharmaceutical and healthcare products segment are mainly pharmaceutical companies. Raw materials of medical device segment purchased by Dong Di Xin mainly include electronics products and plastics. We have established a regulatory regime to prevent suppliers from adversely affecting the environment and society. We enter into warranty agreements with our suppliers, which require compliance by both parties. Suppliers' relevant qualifications and compliance are periodically checked. Once problems are identified, we will terminate the procurement and request for product recall.

Product Responsibility

The Group has drawn up accountability policies for the products it distributes and sells, job descriptions for different positions, equipment and facilities management systems and also health and personnel health management systems, etc. The Group also abides by the relevant laws and regulations concerning product safety, advertising and other aspects, such as the Drug Administration Law, Food Safety Law and Implementation Rules of the Food Safety Law of the People's Republic of China and also Administrative Provisions on Food Labelling as well as the Code of Practice for Quality of Pharmaceuticals.

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Our Quality Department is responsible for health and safety relating to our products as well as the compliance of labelling. Our Marketing Department is responsible for advertising promotion and strictly abides by product specifications and government regulations. In terms of customer privacy, we have established a customer management and data security system and set up a specialised department for management so as to regularly monitor the security of data and privacy matters.

Drug storage, maintenance and the sales process are all carried out in accordance with relevant standards or specifications. Furthermore, all pharmaceutical products are sample-checked by China State Food and Drug Administration (CFDA), self-tested by the manufacturer and inspected by a third party. Only after all test procedures are completed and the results found acceptable is a specific drug approved and finally permitted to be released to the market. We have also developed systems for reporting and monitoring adverse responses to pharmaceutical products, managing drug quality risks, etc. During the reporting period, there has been no incident of product problem.

Anti-corruption

We strictly abide by national anti-corruption laws and have actively responded to the government's anti-corruption campaign. Our internal guidelines have clearly stipulated that employees should not engage in activities that involve conflict of interest, abuse their power to receive gifts from customers, or seek to obtain benefits or express opinions or deliver information to the media in the name of the Company. We have formulated a sound mechanism for declaration of interest and stipulated that commissions, rebates or gifts given by business units as required should be handed over to the Company. Moreover, subordinates shall not offer any gift or red envelopes to superiors, nor shall superiors accept gifts or red envelopes from subordinates. The audit and supervision centre and the human resources centre are responsible for joint supervision of anti-corruption-related matters. Once violations are found, punishment will be imposed according to the comprehensive punishment system.

In addition, business school of the Group is responsible for anti-corruption education. Through online training and testing based on the contents of the staff handbook, employees are instilled with a set of correct values. Disciplinary actions on employees are announced as a deterrent to such behaviour. The Group has also established a comprehensive reporting mechanism that requires employees to report suspected cases. We follow the principle of fair, impartial, objective and truth-seeking reporting and attach importance to evidence and investigation clues. The Audit and Inspection Department is responsible for following up and investigation and conducting review so as to continuously improve the relevant system. During the reporting period, employees of the Group were not involved in any corruption trial.

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Giving Back to Society

In fulfilment of its corporate mission, which is to “offer help to people, benefit the world”, the Group has encouraged the embrace of the charitable spirit of “Building a Healthy China” through the Kingworld Care for Health Foundation. Kingworld has consistently championed different activities to promote public wellness and charitable causes that can benefit all sectors of society. During the reporting period, the Group has actively organised a number of corporate social responsibility activities, highlights which include the following,

We have always actively participated in charity activities. During the reporting period, as initiated by Zhao Li Sheng, the Chairman of the Board of Directors of the Group and the director of The Nature Conservancy (TNC) and The Paradise International Foundation, Kingworld co-organised the “99 Charity Day – Water Conservation Project” together with Tencent Charity and TNC, and co-organised and donated to the TNC “Nature Emotional Energy Charity Run”.



Kingworld and Shenzhen Evening News jointly initiated the “Cool Summer” caring season campaign in the large-scale charity project “Do A Good Deed Every Day” to promote caring activities in 70 cities across the country and spread love and concern for elderly people and outdoor workers.



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The Kingworld Care for Health Foundation, one of the initiators of the first “Shenzhen Charity Enterprise Campaign” held in 2016, has continued to express concern about community health. During the reporting period, Kingworld Caring Ambassadors visited a number of districts and helped to provide local residents with various health services.



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The Group, together with the Kingworld Care for Health Foundation and Shenzhen Charity Federation, donated Kingworld Imada Red Flower Oil and other supplies valued at RMB720,000 to provide disaster relief to afflicted households in Jiuzhaigou.



During the peak period of influenza outbreak in Hong Kong last year, the Group together with the Kingworld Care for Health Foundation donated a total of 1,800 boxes of Pu Ji Kang Gan Granules (普濟抗感顆粒) valued at more than HK\$500,000 to help the people fight against the flu.



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Last November, Kingworld accepted Mr. Ma Huateng's invitation to participate in the charity fundraising dinner organised by the Ai You Foundation, and actively made donations to the aid programme for orphans and needy children.



In 2017, charitable contributions made by the Group amounted to RMB5,400,000. Meanwhile, the Group donated pharmaceutical and healthcare products to earthquake victims and disadvantaged groups.

The Group's contributions to charities have won recognition across all sectors. In addition to being presented the Shenzhen Health Industry "2016/2017 Socially Responsible Enterprise" Award, it was selected for inclusion among the ranks of the 2016 Shenzhen Charity Donation on 3 June 2017, placing 17th out of 363 companies.

