

WANJIA GROUP

萬嘉集團

(Incorporated in the Cayman Islands with Limited Liability)

(於開曼群島註冊成立的有限公司)

Stock Code 股份代號 : 401

Environmental, Social & Governance Report

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Introduction

Wanjia Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred as the “Group”) focus on the operation of pharmaceutical wholesale and distribution business, and hemodialysis treatment and consultancy service business in the People’s Republic of China (the “PRC”). The Group has been upholding the operation philosophy of “honesty and morality go first”, adhering to the operation objective of “benefiting the society and the people” and pursuing the mission of providing healthy products and services.

The Group understands the importance of sustainable development for corporations. Delivery of medical service, which is one of the important business of the Group, has a significant impact on social benefits. The Group is continuing its strategies on environment, social and corporate governance (the “ESG”) and is committed to integrate the ESG into the management. The Group is pleased to publish its second Environmental, Social and Governance Report 2018/2019 (the “Report”) to allow stakeholders to understand the corporate social responsibilities performed by the Group.

Reporting Scope

The Report is prepared in accordance with the “comply or explain” provisions of the Environment, Social and Governance Reporting Guide set out in Appendix 27 by The Hong Kong Stock Exchange. The Report covers the ESG measures of the pharmaceutical wholesale and distribution business of the Company from 1 April 2018 to 31 March 2019 (the “Reporting Period”).

Valuable Feedback

Stakeholders’ valuable feedback can help the Group make ongoing improvements regarding our performance in environmental, social and governance aspects. Any suggestion to the report are welcomed.

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Stakeholder Communication

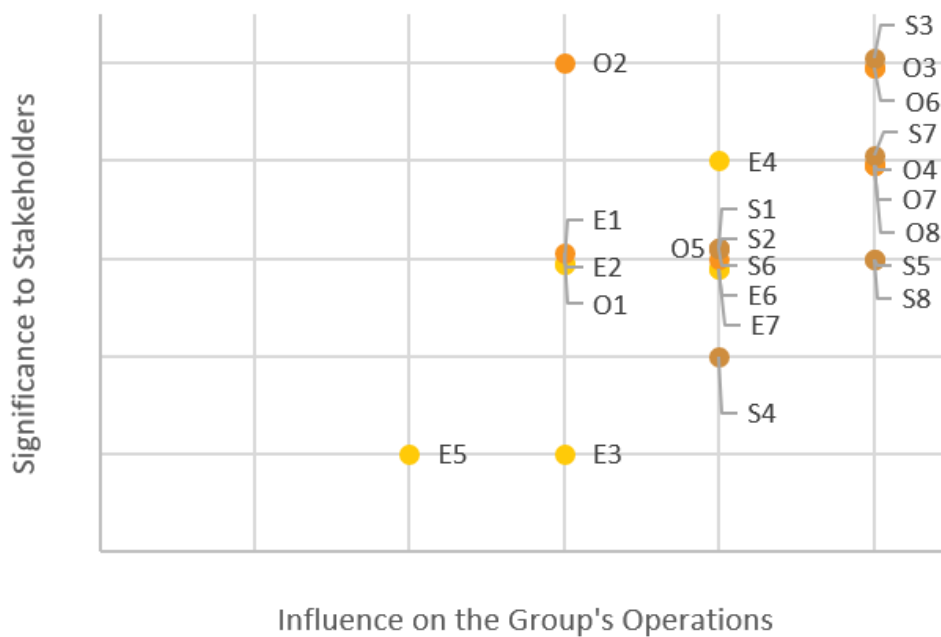
The Group understands individual stakeholders may have different expectations and requirements towards the Group. Our goal is to maintain a good balance between our business development and meeting requirements of stakeholders where feasible.

The Group maintains regular engagements with stakeholders through various channels. We communicate with external stakeholders in effort to enhance their understand of the Group's efforts in the environment, social and governance. For internal stakeholders, communication is made through various activities, as summarized below:

| Stakeholders | Expectations and Concerns | Engagement Channels |
|--|--|---|
| Customers | <ul style="list-style-type: none"> • Quality and safety of products and services • Customer rights protection | <ul style="list-style-type: none"> • After sales services • Customer feedback forms, hotline and email |
| Employees | <ul style="list-style-type: none"> • Staff salary and benefits • Health and safety of working environment • Training and career development | <ul style="list-style-type: none"> • Training • Performance Review and Interviews • Internal announcements and publications • Suggestion Box |
| Suppliers | <ul style="list-style-type: none"> • Fair procurement process • Timely payment for supplied goods / services | <ul style="list-style-type: none"> • Site visit |
| Shareholders | <ul style="list-style-type: none"> • Corporate governance • Business compliance • Return on investment | <ul style="list-style-type: none"> • Annual General Meeting • Annual and Interim Reports • Press Releases and Announcements • Company website |
| Government and Regulatory Authorities | <ul style="list-style-type: none"> • Compliance with laws and regulations • Sustainable development | <ul style="list-style-type: none"> • Supervision on compliance with local laws and regulations • Routine reports |
| Community | <ul style="list-style-type: none"> • Community involvement • Environmental protection awareness | <ul style="list-style-type: none"> • Community activities • Subsidies and Charitable donations |

Materiality Assessment

A materiality assessment was performed to identify and evaluate the concerns and interests of the Group's internal and external stakeholders, including customers, investors, employees, suppliers and the government. The findings of the assessment are presented in a materiality matrix, as shown below:



Legend

| | | | | | |
|----|--------------------------------------|----|---|----|---------------------------------|
| E1 | Air Emission Management | O1 | Anti-competitive behaviour management | S1 | Anti-discrimination |
| E2 | Energy Management | O2 | Company profitability | S2 | Community Relations |
| E3 | Environmental Compliance | O3 | Customer Satisfaction | S3 | Diversity and Equal Opportunity |
| E4 | Expenses on Environmental Protection | O4 | Data Security and Customer Privacy Management | S4 | Employee communication |
| E5 | Greenhouse Gases Management | O5 | Innovation and Intellectual Property Rights | S5 | Occupational Safety and Health |
| E6 | Waste Management | O6 | Product Health and Safety | S6 | Social and Economic Compliance |
| E7 | Wastewater Management | O7 | Product Quality Management | S7 | Talent Management |
| | | O8 | Supplier Management | S8 | Training and Development |

Environment Protection

The Group actively drives towards our goal of achieving corporate sustainability, taking into consideration both business development as well as the possible impacts on the environment. Although pharmaceutical wholesale, and distribution business and hemodialysis businesses of the Group have lower impact on the environment compared to those from manufacturing industries, nevertheless we put in great efforts to minimize environmental impacts arising from our operations. However, we understand that environmental protection cannot be achieved with the effort of the Group alone. It also requires cooperation from all our staff and other parties. Environmental protection is one of the key aspects covered in the induction training provided to new employees to facilitate the implementation of environmental protection measures.

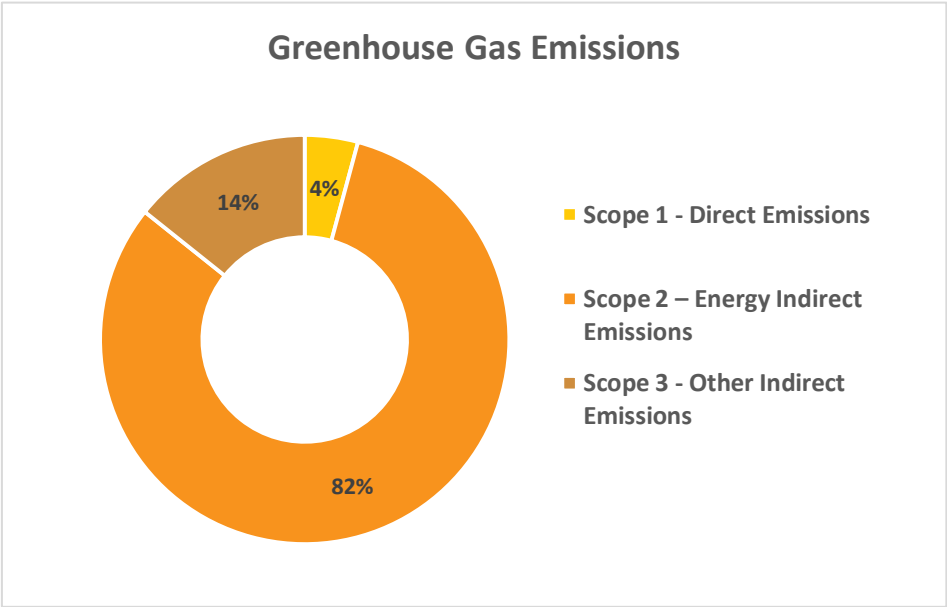
Greenhouse Gas Emissions

The Group recognizes that greenhouse gas emissions is an important metric for environmental performance, hence it is one of our long-term goals to reduce the amount of greenhouse gas emissions associated with our operations. Our greenhouse gas emissions are mainly associated with electricity consumption from our retail outlets. All of our retail outlets and warehouse are equipped with environmental control measures, where temperature and humidity are regulated according to seasonal changes to ensure the quality of the medicine held within our premises. The Group's logistics department is responsible for the delivery of goods, during which the consumption of fossil fuels results in the emission of greenhouse gases into the atmosphere. Taking into consideration the potential environmental impacts of our logistics activity, the delivery routes taken by our delivery vehicles have been optimized to minimize fuel consumption and associated emissions. During the reporting period, the Group has consumed 24,104 litres of petrol in its operations.

The Group estimated its greenhouse gas emissions for the Reporting Period primarily through the use of data associated with electricity and fossil fuel consumption. To convert energy consumption figures into equivalent greenhouse gas emissions, emission factors obtained from utility invoices, along with references to third-party documents (including electricity & gas

consumption data and associated carbon intensity factors), were used during the calculation. In addition to the quantity of carbon dioxide (CO₂) emissions, it is to be noted that the greenhouse gas emission calculations also consider the global warming contribution associated with other emitted substances, including methane (CH₄) and nitrous oxide (N₂O), whose impacts are expressed in equivalent quantities of carbon dioxide (CO_{2e}) to determine the cumulative environmental impact of Group's operations with respect to global warming.

During the reporting period, no violations were recorded with respect to relevant environmental laws and regulations. The total greenhouse gas emissions associated with the Group's operations during the reporting period was estimated to be 1,554 tCO_{2e}.



Air Emissions

In addition to the emission of greenhouse gases, combustion of fossil fuels is also associated with the emission of a number of air pollutants, namely nitrogen oxides (NO_x), sulphur oxides (SO_x) and particulate matter (PM). Similar to the estimation of greenhouse gas emissions, air emissions are evaluated based on statistics associated with fossil fuel consumption and vehicle usage. The amount of air emissions produced by the Group during the reporting period included 51.3 kg of NO_x, 0.35 kg of SO_x, and 4.9 kg of particulate matter.

Waste Management

Proper waste disposal is essential for reducing the impact to the environment and ecology. The Group has established waste management procedures for classification and disposal of wastes generated during our daily operations.

Where required, medicine requiring disposal will be returned to the supplier or handled by medical waste contractors designated by the government, to be written off in accordance with our Destruction Management System (《報損與銷毀管理制度》). During the reporting year, the Group did not encounter any cases where goods required return to the supplier due to defects nor generated any hazardous waste. In total, the Group has disposed about 100kg of expired pharmaceuticals during the reporting period.

For general waste, the Group encourages recycling by providing waste classification facilities at various locations within our premises. Recycling of wastes generated at our retail outlets makes use of local recycling facilities. The Group actively upgrades its electronic office system to enhance communication among employees and also reduce the use of paper for information dissemination. To further reduce waste at our retail outlets and offices, disposable paper cups are not in used. During the reporting year, the Group generated a total of about 20 tons of non-hazardous waste.

Water Consumption

The Group's water consumption from our pharmaceutical and hemodialysis businesses is not considered to have material environmental impact. The main source of water usage arises from employees' daily water consumption. Since our water supply facilities are shared between tenants in office and retail outlets, precise data associated with water consumption were not available. However, we have monitored the quantity of wastewater discharges from our hemodialysis business, which amounted to a total of about 108 m³ during the reporting period.

Although our water consumption is not significant, we regularly remind our staff to conserve water.

Packaging Materials

The Group consumes some material quantities of packaging materials for the delivery of pharmaceutical goods and services to its customers. The total mass of packaging materials consumed by the Group during the reporting period is about 55 tonnes, primarily consisting of cardboard boxes.

A breakdown of the use of packaging materials is presented in the table below:

| Packaging Material | Mass Consumed (tonnes) |
|--------------------|------------------------|
| Paper | 45.6 |
| Glass | 7.3 |
| Plastics | 1.8 |
| Metal | 0.5 |

Summary

The consolidated data with respect to key performance indicators (KPIs) regarding emissions and resource consumption associated with the Group during the reporting period is summarized below:

| Environmental KPIs | | |
|--|--|-------------------|
| Category | Unit | 2018-2019 |
| <u>Energy Consumption</u> | | |
| Total Energy Consumption | GJ | 6,501 |
| Petrol Consumption | GJ (L) | 834 (24,104) |
| Electricity Consumption | GJ (kWh) | 5,667 (1,574,294) |
| Total Consumption Intensity | GJ / 1000 HKD revenue | 0.067 |
| <u>Greenhouse Gas Emissions</u> | | |
| Total Greenhouse Gas (GHG) Emissions | t CO ₂ e | 1,554 |
| Scope 1 - Direct Emissions | t CO ₂ e | 65 |
| Carbon Dioxide (CO ₂) Emissions | t | 57 |
| Methane (CH ₄) Emissions | kg | 5 |
| Nitrous Oxide (N ₂ O) Emissions | kg | 27 |
| Scope 2 – Energy Indirect Emissions | t CO ₂ e | 1,267 |
| Scope 3 - Other Indirect Emissions | t CO ₂ e | 221.8 |
| Paper Waste Disposed At Landfills | t CO ₂ e | 219.6 |
| Employee Business Travel | t CO ₂ e | 2.2 |
| Total Greenhouse Gas (GHG) Emissions Intensity | t CO ₂ e / 1000 HKD revenue | 0.02 |
| <u>Air Emissions</u> | | |
| Nitrogen Oxides (NO _x) Emissions | kg | 51.3 |
| Sulphur Oxides (SO _x) Emissions | kg | 0.35 |
| Particulate Matter Emissions | kg | 4.9 |

| Environmental KPIs | | |
|---------------------------------------|-----------------------|-----------|
| Category | Unit | 2018-2019 |
| <u>Waste Management</u> | | |
| Total Hazardous Waste Produced | t | 0.1 |
| Total Non-Hazardous Waste Produced | t | 19.8 |
| Total Hazardous Waste Intensity | kg / 1000 HKD revenue | 0.0010 |
| Total Non-Hazardous Waste Intensity | kg / 1000 HKD revenue | 0.21 |
| Total Sewage Generation | m3 | 108 |
| <u>Use of Resources</u> | | |
| Total Packaging Material | t | 2.3 |
| Paper | t | 45.6 |
| Glass | t | 7.3 |
| Plastics | t | 1.8 |
| Metal | t | 0.5 |
| Total Packaging Consumption Intensity | t / 1000 HKD revenue | 0.47 |

Caring for Employees

The Group's present achievements are attributed to the joint efforts from our staff. The Group is committed to create a suitable working environment for its employees. In line with the long-term development of the Group, our human resources policy was established in accordance with the national and provincial regulations of to ensure our staff can receive appropriate support and training.

As an equal-opportunity employer, the Group ensures all staff members are treated equally. Discrimination due to any reason, including but not limited to, gender, race, physical disability, marital status, religion, political opinion or sexual orientation, is not tolerated. Recruitment and promotion of our staff are only based on work performance and capabilities. The Group's human resources department arranges annual performance evaluation for our staff to provide them with performance feedback, as well as to understand the needs of our staff members. Employee remuneration within the Group is determined according to respective staff responsibilities, as well as the overall market trend. The performance evaluation also provides valuable information to management, helping the Group identify talents for taking leading roles for the Group's future development. There was no complaint received in relation to any unfair treatment during the reporting year.

Remuneration

The Group has established a Remuneration Committee in 2013, which adopted the approach under code provision B.1.2(c)(ii) of the Corporate Governance Code (CG Code) and made recommendations to the Board on the Group's overall policy and structure for the remuneration of Directors, senior management, and employees.

The members of the Remuneration Committee for the year and up to the date of this report are Mr.WONG Hon Kit (Chairman), Dr.LIU Yong Ping, and Mr.HO Man.

The primary duties of the Remuneration Committee include, but not limited to:

- Making recommendations to the Board on the policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure and developing policies on such remuneration;
- Determining the remuneration packages of all individual executive Directors and the senior management and making recommendations to the Board of the remuneration of non-executive Directors; and
- Reviewing and approving compensation payable to the executive Directors and the senior management for any loss of termination of office or appointment to ensure that it is consistent with the relevant contractual terms and is otherwise fair and not excessive.

The role and function of the Remuneration Committee include the determination of specific remuneration package for all executive Directors and making recommendations to the Board of the remuneration of non-executive Directors. The remuneration of Directors are based on the Group's operating results, individual performance and comparable market statistics.

The Remuneration Committee is also responsible for setting up the overall remuneration policy for the company. Remuneration for employees is strictly based on merit, qualification and competence of employees.

The Remuneration Committee held 4 meetings during the year ended 31 March 2019.

Distribution Ratio of Employees

As of 31 March 2019, the Group employs a total of 102 employees, with all of them being full-time employees.

Cultivation of a sense of belonging within employees can help maintain team morale and reduce employee turnover. To enhance communication and trust between our staff, the Group exchanges opinions with its employees through various channels. A wide range of group events and activities are organized every year to promote friendship and teamwork. During the reporting period, the annual staff turnover rate within the Group was determined to be about 56%, which may be partly attributed to the acquisition and discontinuation of individual businesses within the Group, resulting in some fluctuation to the staff count.

The distribution of our staff with respect to gender and age are presented in the following table:

| Employee Demographic Data | |
|---------------------------|-----|
| Total # of Employees | 102 |
| <i>Gender</i> | |
| Male | 32 |
| Female | 70 |
| <i>Age Group</i> | |
| 16-23 years old | 8 |
| 24-29 years old | 29 |
| 30-40 years old | 36 |
| 41-50 years old | 22 |
| 51-60 years old | 6 |
| >60 years old | 1 |

Occupational Health and Safety

The Group takes the responsibility to ensure its staff members work in a safe environment. Employees are required to comply with guidance on safe work and pay attention to personal hygiene at all times. To ensure that the health conditions of our staff remains above satisfactory levels, physical examinations are arranged annually by the Group. In case any abnormal health conditions are identified, follow-up actions will be taken and internal transfers may be performed where applicable to limit further exposure to incompatible work environments.

In case staff members are involved with tasks which may be potentially hazardous, the Group provides appropriate instruments and suitable equipment for its employees to protect their well-being. In addition, the Group's offices are also designed with the consideration of ergonomics limit the likelihood of occupational injuries. For example, our offices are maintained at an adequate brightness level to minimize eye strain, and hallways are regularly cleaned to reduce the risk of staff injury due to slips, trips and falls. During summer periods, cold drinks are provided to our employees to prevent heat stroke. As for staff members who participate in outdoor work, suitable weather protection such as sunscreen and rain gear are provided.

The Group strictly complies with laws and regulations regarding employee rights and protection. During the reporting period, there was no record of any work-related injuries for our staff.

Development and Training

The Group recognizes that the constant acquisition of new knowledge and skills is essential to the continuing growth of the organization, enabling the enhancement of our competitiveness and driving the Group to become a learning-oriented enterprise. The Group provides its employees with various forms of training to improve their personal abilities and professional knowledge. An annual training plan is developed to ensure training resources are utilized efficiently. During the reporting year, in-house training organized for the Group's employees included continuing education for accounting and pharmacists, as well as training course covering individual and corporate taxation. The training sessions were attended by a total of 11 employees.

Furthermore, since government policies with regards to medications and other associated regulations are frequently revised, the Group also provides subsidies for employees to enrol in courses to consistently acquire up-to-date knowledge to support the development of their expertise. Upon completion of the training courses, reviews are performed in effort to further optimize future in-house training programs.

To facilitate the understanding of the Group, an induction training program is provided to all our new recruits. The training program covers the Group's history, operating philosophy, business process and corporate culture. Since the specifics of tasks and situations encountered during daily work cannot be taught comprehensively in a classroom environment, experienced staff members are arranged to guide new employees and provide them with guidance on a daily basis to smoothen their adaptation to their job position. Furthermore, the Group encourages innovation from its employees and welcomes contribution of new ideas towards the Group's operations.

Retirement Benefits

The Group's employees in the PRC participate in defined contribution schemes associated with relevant provincial and municipal governments, under which the Group and the employees in the PRC are required to make monthly contributions to these schemes in accordance with relevant requirements. The Group's subsidiaries in the PRC contribute funds to the pension in accordance with the requirements of the relevant local and municipal governments.

The Group has arranged the Hong Kong employees to join the Mandatory Provident Fund Scheme, a defined contribution scheme managed by an independent trustee whereby each of the Group (the employer) and the Hong Kong employees make monthly contributions to the scheme in accordance with relevant legislations.

Details of the Group's contributions to the retirement benefit schemes are presented in Note 37 to the consolidated financial statements included in the Annual Report.

Labour Standards

The Group is against the use of child labour. The Group would not employ any children for any jobs and has enforced a number of prevention measures in effort to eliminate any possibility of underaged employees from being present in its workforce. Identity cards are checked during recruitment to ensure applicants meet the legal age requirement for work. In addition,

confirmation of employment requires approval and review by multiple departments to ensure compliance.

The Group is deeply aware of the importance of work-life balance towards the health and morale of employees. Studies have shown that long working hours leads to a reduction in productivity and increases the risk of accidents, hence, the Group does not encourage overtime work. In case overtime work situations are unavoidable, work flow are regularly monitored to ensure safe operation.

To safeguard the rights of employees, the Group has approved the establishment of a labour union to represent the employees and to voice their opinion. The labour union regularly exchanges opinions and ideas with the management through routine meetings.

The Group's human resources department clearly explains to employees their rights and responsibilities to safeguard the interests of all parties and reduce labour disputes. The human resources management policy is revised regularly by the human resources department according to updates of the labour law issued by the government. During the reporting period, no violation of laws and regulations relating to labour standards was identified.

Operating Practices

Supplier Management

The Group pursues the mission of providing pharmaceuticals to the community and distribute medicine for healthcare institutions. In contrast to household goods, it is essential to ensure a steady supply of medication for patients in accordance with their treatment schedules. The Group has established a long-term relationship with a variety of large and medium-sized pharmaceutical suppliers from various provinces across the nation as means to diversify our supply chain and maintain stability of supply. The Group maintains contact with its suppliers through various channels to learn about their needs and to identify opportunities for collaboration with each other. Each year, the Group holds a banquet inviting all its suppliers,

providing a platform for the exchange of opinions and communicate on potential cooperation plans.

Quality and safety are particularly key characteristics for pharmaceuticals. The Group takes proactive measures to ensure the quality of suppliers, through the implementation of quality management system. Prior to inclusion as a supplier for the Group, a strict and thorough investigation of the potential supplier is performed to evaluate their suitability. Approved suppliers are reassessed annually to ensure compliance with Group's requirements is maintained. In addition to price and quality of goods, the Group also has specific requirements regarding the environmental policies of its suppliers. Suppliers are required to submit document proof indicating their compliance with relevant environmental laws and regulations.

Product Responsibility

The Group upholds the operation philosophy of “honest and morality go first”, and adheres to the operation objective of “benefiting both the society and people”. The Group pursues the mission of providing quality healthcare products and services. Drug safety and effectiveness are of particular importance. As a responsible drug distributor, the Group adopts effective quality control measures during procurement, storage, sales, and transportation to ensure the quality of medicine. The Group is committed to provide professional services at our customers' convenience. The Group's drug distribution business was in strict compliance with laws and regulations stipulated by the China Food and Drug Administration. To facilitate employees' effective execution of their responsibilities in accordance with relevant requirements outlined by laws and regulations, the Group has established an effective quality management system, which plays a key role in protecting our customers' personal information from unauthorized access, as well as ensuring the quality of our after-sale services.

Product Quality

The Group has established a quality management department, responsible for setting quality targets, as well as enforcing and monitoring the execution of the code of conduct by respective

departments, to maintain consistent quality across the entire supply chain. The quality management department visits each department regularly to carry out internal review, risk assessment, and analyze of the results, along with proposing suggestions for improvement. The results generated from the assessment are submitted to the management for review and follow-up on improvement.

Storage conditions of medications are crucial for maintaining their quality and effectiveness. Depending on their individual characteristics, medications may call for different storage methods. The Group's storage and transportation facilities are all designed in compliance with national requirements. The temperature and humidity of the storage locations are monitored closely to ensure that medications are not affected by changes in the ambient environment. For goods received from suppliers, the quality department must inspect each batch of products to prevent substandard goods from reaching retail outlets. During inspection, information such as the packaging and a lot number of the products must be recorded in detail for tracking purposes.

After-Sale Service and Complaint Management

The Group highly values customer feedback and strives to continuously improve its services. Customer service representatives from the Group contact customers on a regular basis to learn about their satisfaction with the products and services. All retail outlets of the Group have posted the supervision hotline of the Food and Drug Administration and set up customer feedback collection boxes. All customer feedback and complaints are handled by the customer service department, which respond to all feedback and complaints and records in detail for future reference. For complaints involving major incidents, an investigation team will be setup by the Group to follow up and review the issues. The Group often works with its suppliers to provide feedback on product quality and together formulate plans for continuous improvement, thereby achieving win-win results.

The Group has formulated a drug recall system to facilitate systematic recalls where necessitated. In case any recalls are performed, the Food and Drug Administration must be notified by the management. No recall cases were recorded during the reporting year

Customer Privacy

During operations, the Group's employees are often required to access customers' personal information to handle membership formalities. However, in no circumstance employees disclose customers' information to any person. An authorization system has been set to limit access to personal information in the Group's computer system, which prevents unauthorized personnel from accessing restricted information. The Group's computer system is updated on a regularly basis to prevent information leakage due to cyber attacks.

Anti-Corruption

The Group believes that conducting business with integrity and good corporate governance is an important part of enhancing our competitive advantage. Since its establishment, the Group has maintained highest standards of corporate governance. Any bribery, extortion, fraud and money-laundering is not tolerated. The Group has established a clear governance structure to regularly review and monitor policies and practices of corporate management. We strictly comply with relevant laws and regulations, optimize our management system, safeguard the interests of our stakeholders, and enhance corporate value and accountability.

The Group has implemented a whistle-blowing policy for employees to report on suspected non-compliance and unethical behaviours. In case severe non-compliance incidents are identified by the management, handing over of such incidents to judicial authorities will be considered to ensure that the Group operates with the highest standard of moral and professional ethics.

The board of directors regularly reviews the adequacy and efficacy of the Group's risk management and internal control system. The employee code of conduct is set out in employment contracts and staff handbook, providing measures for handling non-compliance or unethical behaviours.

A strict anti-corruption policy is employed within the Group. Our staff are instructed not to accept any benefits from suppliers or other partner companies in any circumstance. Employees are required to declare their relations with any other personnel of the Group and other partner

companies prior to their employment and shall abstain from such business activities that may cause conflict of interests. The Corporate Governance Report is presented on pages 20-36 in the Company's 2018/2019 Annual Report. During the reporting period, the Group did not identify any involvement in bribery, extortion, fraud and money-laundering.

Community Participation

The Group's pharmaceutical business has organized and participated in a number of charity and charity events during the reporting period, as presented below.

- In June 2018, the Group's team of volunteers organized a Free Clinic Day for citizens, providing free health care and medication to those at need;
- In August 2018, the Group distributed 100 gift packets to cleaning workers of Fuzhou, providing them with refreshment for combatting summer heat;
- A collection campaign was organized in September 2018 to collect expired medication from the public, as part of a nationwide campaign promoting effective sorting of daily waste and improving public health; and
- The Group supported a community event in November 2018 which featured a talent show for children. The objective of the event is to promote to children the concept of safe handling of medication.

The Group looks forward to participate in more community activities and make more contribution to the community in the future with its resources to provide support to those in need and promote healthy living.

