



創美·CH'MEI

# 創美藥業股份有限公司

CHARMACY PHARMACEUTICAL CO., LTD.

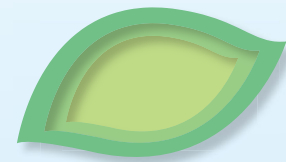
(A joint stock limited liability company incorporated in the People's Republic of China)  
Stock Code: 2289



ENVIRONMENTAL, SOCIAL  
AND GOVERNANCE REPORT | 2018



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# About the Report

Charmacy Pharmaceutical Co., Ltd. (the “**Company**” or “**Charmacy Pharmaceutical**”) (stock code: 2289.HK) is pleased to issue the Environmental, Social and Governance Report (the “**Report**”) of the Company and its subsidiaries (collectively, the “**Group**” or “**we**”). The Report mainly discloses the Group’s performance in environmental, social and governance aspects in 2018.

## Time Range

Unless otherwise indicated, the information and data in the Report covers the period from 1 January 2018 to 31 December 2018 (the “**Reporting Period**”).

## Scope of Reporting

Unless otherwise specified, the information and data in the Report covers Charmacy Pharmaceutical Co., Ltd. and its subsidiaries.

## Basis of Preparation

The Group made the disclosure pursuant to the “Environmental, Social and Governance Reporting Guide” set out in Appendix 27 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

## Contact

Charmacy Pharmaceutical values your comments and suggestions. Should you have any comments or suggestions on the Report, please contact us by the following means:

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## About Us

Charmacy Pharmaceutical Co., Ltd. (stock code: 2289.HK) is principally engaged in the pharmaceutical distribution business. It mainly distributes western medicine, Chinese patent medicine and healthcare products to downstream distributors and retail terminals, as well as provides consultation service on pharmaceutical products. Founded in 2000, over the past 19 years of rapid development, it has become one of the leading pharmaceutical distributors in the Southern China region. The Company adheres to the development strategy of “Intensive Engagement in Guangdong Province and Extensive Coverage across Surrounding Areas”, and has built logistics centers in Shantou, Foshan, Zhuhai and Guangzhou, all equipped with professional transportation teams, and has a highly efficient delivery mechanism of delivering pharmaceutical products three times per day to customers within a radius of 10 kilometers, twice per day to customers within a radius of 50 kilometers and once per day to those within a radius of 250 kilometers. In addition, the Company has a modern information system that covers the entire supply chain for pharmaceutical distribution, including procurement, sales, warehousing, transportation and delivery. Apart from that, the Company operates its own B2B e-commerce platform “Charmacy e-Medicine” (創美e藥), a platform for customers to place orders online, make inquiries and payment and many more. In 2018, the Company ranked 38th among top 100 pharmaceutical wholesalers nationwide in terms of revenue of principal business. According to the Market Research Report of the Chinese Pharmaceutical Industry (2017) 《中國醫藥行業市場研究報告》(2017)), in terms of sales scale, the Company ranked 7th among the pharmaceutical distribution businesses in Guangdong Province and second among private pharmaceutical distribution firms in Guangdong.

With its good reputation and quality services, the Company obtained the 2017-2018 “Gold Ant” service award for the Chinese logistics industry (2017年度—2018年度中國物流行業「金螞蟻」服務獎), an award conferred by the Organizing Committee of China International Logistics Equipment and Technology Exhibition (Guangzhou) (中國(廣州)國際物流裝備與技術展組委會) in May 2018; the Company was awarded the “Model Enterprise of Trustworthiness in Guangdong Province” (廣東省誠信示範企業) (for seven consecutive years from 2011 to 2017), the “Top 500 Enterprises in Guangdong Province” (廣東省企業500強), the “Top 100 Private Enterprises” (民營企業100強), the “Top 100 Enterprises of Logistics Industry” (流通業100強) and the “Outstanding Enterprise of Guangdong Province for the 40th Anniversary of Reform and Development” (改革開放40周年廣東省優秀企業), respectively, by the Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and the Guangdong Entrepreneur Association (廣東省企業家協會) from June to September 2018. In December 2018, the Company was also awarded the Honorary Certificate of “Excellent Enterprise Developed alongside with China’s Reform and Opening up” (與改革開放共同成長優秀企業) by the Longhu District Committee of Chinese Communist Party, Shantou City, Guangdong and the Longhu District People’s Government, Shantou City, Guangdong. In February 2019, the Company was honored with the “2018 Enterprise Branding Credit Jingding Award” (2018企業品牌信用金鼎獎) by the Guangdong Credit Association.



# Stakeholder Engagement

The Group's stakeholders include governments/regulatory authorities, shareholders/investors, staff, suppliers/partners, customers and communities/citizens. The Group actively communicates with stakeholders to fully understand the expectation of shareholders.

## Communication with and Engagement of Stakeholders

Stakeholders	Ways of Communication	Expectations and Requirements
Governments/regulatory authorities	On-site examination Active tax payment Daily communication and reporting	Compliance operation Tax payment according to law
Shareholders/investors	General meetings Result conferences Company website Reports and announcements Investor surveys	Financial results Safeguarding shareholders' rights and interests Sustainable corporate development
Staff	Labor contracts Health examination and insurance Staff training Staff activities Daily interaction	Equal Employment Health and safety Skill improvement Remuneration and benefits Career development
Suppliers/partners	On-site inspection Interaction and exchange visits Supplier assessment Market survey	Sticking to business commitments Mutual benefit and win-win situation Fair competition
Customers	On-site inspection Interaction and exchange Satisfaction survey Pharmaceutical products promotion	Sticking to business commitments Mutual benefit and win-win situation Product quality
Communities/citizens	Promoting community employment Community activities Charitable activities	Driving community development Community interaction and communication

# Environment

The Group recognises the importance of balance between business development and environmental protection and is well aware that sustainable corporate development is closely linked to the environment. The Group adopts the environmental concept of “protecting environment and saving resources” throughout its business activities to reduce the consumption of resources such as electricity, fuel and water, and improve all staff’s environmental awareness, fulfill social responsibility, and focus on protecting the environment to minimize the adverse environmental impacts from its business. During the Reporting Period, the Group has complied with the applicable environmental regulations of the places where it operates, thereby having no incidents of major violations of environmental protection laws and regulations in China that has significant impact on the Company. The Group strives to use its corporate resources effectively, not only for lowering its operating costs, but also for bringing environmental benefits to improve the workplace condition for employees and heighten their sense of belonging.

## Emissions

Since the Group is principally engaged in the distribution and delivery of pharmaceutical products, in its process of pharmaceutical logistics, the main emissions were from the Group’s transportation vehicles. The key indicators for the Group’s vehicle gas and particulate emissions for the Reporting Period are shown in the table below:

	Unit	Amount
Nitrogen Oxides (NO <sub>x</sub> )	kg	7,574.98
Sulphur Oxides (SO <sub>x</sub> )	kg	10.37
Particulate Matter (PM)	kg	431.89

Currently, the diesel vehicles that the Group are using all comply with the National-IV emissions standard as required by the Ministry of Industry and Information Technology. Selective Catalytic Reduction system is used in exhaust gas treatment and this system requires the use of diesel exhaust fluid for exhaust gas treatment oxides to meet the national standards on environmental protection. The Group also remains attentive to new energy vehicles in the market and replaces the old ones with applicable new energy vehicles, if necessary, based on the actual situation. At the same time, the Group requires the drivers to refuel at the petrol stations designated by the Group to ensure the oil standard and quality; and have the most environmental-friendly driving habit to minimize vehicle idling behavior.

The higher emission in 2018 as compared to 2017 was mainly due to: (1) the Group having acquired 15 new transportation vehicles and replaced the obsolete ones in 2018, where newly added vehicles were mostly refrigerated vehicles, and the fuel consumption of which is higher than that of the old ones. The utilization rate of medium- and heavy-duty vehicles, which have higher fuel consumption, has also increased during the course of transportation; (2) the statistics for 2017 categorized vehicles according to the payload capacity while the classification of vehicles was based on gross vehicle weight in 2018 in accordance with national standards, thereby increasing the number of heavy-duty vehicles which have higher emission.

Note: The “Reporting Guidance on Environmental KPIs” issued by the Stock Exchange is the reference in computing the environmental data stated in “Subject Area A. Environmental” of the ESG Reporting Guide. The data applied in the calculation for 2017 was recorded and derived during the course of operation, part of which was incomplete. The Group required the enterprises to file relevant records in 2018, in order to measure and disclose relevant environmental data in a more comprehensive and accurate way; the Group also incorporated the statistics of more subsidiaries, thus data was more comprehensive than that of 2017, resulting in a greater difference between the data in 2018 and that of 2017.

## Environment

### Greenhouse Gas Emissions

Gasoline and diesel and office's power consumption are the Group's major sources of greenhouse gas emissions. The Group's greenhouse gas emissions for 2018 are detailed in the table below:

Greenhouse gas emission	Unit	Data for 2018
Scope 1 – Direct emissions	tonnes of CO <sub>2</sub> e	1,830.43
Scope 2 – Indirect energy emissions	tonnes of CO <sub>2</sub> e	3,290.92
Scope 3 – Other indirect emissions	tonnes of CO <sub>2</sub> e	159.09
Total emission	tonnes of CO <sub>2</sub> e	5,280.44
Density (greenhouse gas emission per RMB million of operating income)	tonnes of CO <sub>2</sub> e/ RMB million of revenue	1.34

### Waste

The following table shows the major waste we produced during the Reporting Period:

Indicator	Unit	Data for 2017	Data for 2018
Total non-hazardous waste produced	tonnes	51.3	20.9
Density (non-hazardous waste per RMB million of operating income)	tonnes/RMB million	0.012	0.005
Non-hazardous waste produced per capita	tonnes/person	0.068	0.026

Our operating activities do not directly lead to industrial pollution; therefore, there is almost no pollutants into water and land or generation of hazardous wastes. Hence, no relevant treatment is adopted. Emissions mainly come from domestic wastage of logistics and daily office operations as well as household waste. Waste papers are mainly from the consumption of printing papers, label papers, and delivery notes. The Group has made efforts to recycle and reuse packaging materials as much as possible. At the same time, to save paper, the Group encourages employees to use double-sided printing and photocopying. The Group promotes all departments to classify and dispose of daily garbage, reuse recyclable waste, such as envelopes, courier bags, plastic bags, papers and cartons. The Group provides customers with sterilized glasses or porcelain cups instead of paper cups to reduce waste and be more environmentally friendly.



## Environment

### Use of Resources

The energy consumed by the Group during the operations mainly includes gasoline and diesel for transportation vehicles as well as electricity consumed in office. The resources consumed are office water usage and logistics packaging materials, which mainly include cartons.

The consumption of major resources of the Group in 2018

Indicator	Unit	Data for 2018
Gasoline	litre	125,693.94
Diesel	litre	529,245.29
Petroleum gas	kg	2,220.00
Electricity purchased	kWh	6,243,448.24
Electricity consumption per RMB0'000 of operating income	kWh/RMB0'000	15.87
Water consumption	tonnes	123,412.12
Water consumption per RMB0'000 of operating income	tonnes/RMB0'000	0.31
Paper materials used in outside packaging	kg	127,470.25
Density (consumption of paper packaging materials per RMB0'000 of operating income)	kg/RMB0'000	0.32

The Group is committed to its philosophy of conservation, high efficiency, prevention of wastage of resources, and focuses on reasonable use of resources in the business operation. Apart from the measures set out in the section “Emissions” above, in order to promote resource saving, we adhere to the principle of recycling and reducing waste, actively advocate the green office model and enhance the staff’s awareness of energy conservation and environmental protection, and formulate policies relating to environmental management, such as:

1. Implementing the scheme of recycling used cartons. Usable second-hand cartons are recycled and applied to pharmaceutical warehousing, distribution and transportation at logistics centers;
2. Encouraging paperless office and paper saving. Staff members are encouraged to use double-sided printing, reuse envelopes and used paper, and maximize the use of email and online review system for reviewing and signing document and communications to avoid unnecessary printing;
3. Promoting the application of telephone and video systems. The application of telephone or video conferences should be maximized to reduce the staff’s business trips so as to reduce greenhouse gas emissions;

## Environment

4. Controlling the opening hours of air conditioning at the office areas. Using the air conditioning reasonably depending on the actual weather conditions to avoid energy wastage;
5. Enhancing the management of electricity consumption at the office areas. Staff should minimize the electricity consumption caused by leaving electronic equipment such as computers and printers on standby mode. Staff should also turn off the electrical appliance and lights when leaving the offices. Administration personnel should inspect the office areas regularly to avoid electricity wastage. Energy-saving LED lights should be used as lighting facilities; and
6. Inspecting and maintaining water-consumption equipment regularly. Aging water faucets should be replaced with greater control over the water flow from water faucets to achieve higher efficiency in water consumption; “water saving” posters should be put up in the toilets and washrooms of business and office premises to enhance the staff’s awareness of water saving.

In the year 2018, in terms of energy, the Group reduced the consumption of coal and petroleum and use electricity and natural gas as energy instead so as to lower the emission of sulphur dioxide and dust and mitigate global warming effect, making significant contribution to solving the issue of environmental pollution. In terms of paper, a total of over 250,000 approval processes were accomplished during the review of documents via the online review system by the Group. Assuming that four pages of approval documents were involved in each process, a total of approximately 500,000 pages of paper were saved. Under the green office policy initiated by the Group, the paper consumption has been reduced in the year of 2018 as compared with that of 2017. In terms of package cartons, more medicine package cartons were demanded as a result of the increase of spare packages issuing given that the terminal clients increased in 2018. In terms of water, water consumption in the year of 2018 increased largely, which was mainly attributable to land subsidence and fire pipeline fracture arising from the nearby construction projects of our subsidiaries. The Group has no issue concerning seeking applicable water resources.

During the Reporting Period, the Group has complied with the relevant environmental laws and regulations, including but not limited to: Environmental Protection Law of the People’s Republic of China (《中華人民共和國環境保護法》), Water Pollution Prevention and Control Law of the People’s Republic of China (《中華人民共和國水污染防治法》), Law of the People’s Republic of China on Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), Law of the People’s Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》). During the Reporting Period, the Group was not aware of any incident involving non-compliance with the laws and regulations which would have a material impact on the Group in terms of air and greenhouse gas emissions, water and land discharges, and the generation of hazardous and non-hazardous waste.

# Employment and Labor Practices

Employees are the driving force for a corporation's continuous development. The Group upholds its philosophy of human resources management of "Respect, Care, Kindness and Cultivation" and is committed to protecting the legal rights and interests of employees, attaching great importance to their physical and psychological health and offering them learning opportunities and development platforms, in order to help employees realize their own value as they promote corporation development, gain a broader room to develop their career, and achieve the mutual development of corporation and staff.

## Staff Overview

As of 31 December 2018, the Group had a total of 819 staff members. The specific compositions are as below:

Item	Category	Number of staff	Percentage of total number of staff
Sex	Male	495	60.44%
	Female	324	39.56%
<b>Total</b>		<b>819</b>	<b>100.00%</b>

Item	Category	Number of staff	Percentage of total number of staff
Employment type	Procurement personnel	57	6.96%
	Sales personnel	189	23.08%
	Logistics management and operation personnel	439	53.60%
	Finance and administration personnel	134	16.36%
<b>Total</b>		<b>819</b>	<b>100.00%</b>

Item	Category	Number of staff	Percentage of total number of staff
Age distribution	30 and below	441	53.85%
	31-40 (inclusive)	239	29.18%
	41-50 (inclusive)	102	12.45%
	Above 51	37	4.52%
<b>Total</b>		<b>819</b>	<b>100.00%</b>

## Employment and Labor Practices

### Compliant Employment and Staff Welfare

The Group strictly complies with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other laws and regulations, and upholds the principle of "Open Recruitment, Fair Competition, Merit-based Selection and Priority to Internal Recruitment". We recruit high-quality talents through multiple channels such as social recruitment, campus recruitment and internal promotion, and appraise and select candidates based on their moral traits, education background and competence. We are committed to providing an equal employment opportunity which advocates fair competition and anti-discrimination. The Group strives to provide a fair and just working environment to our employees free of any discrimination on the basis of gender, age, marital status, religion, race, physical condition and other factors.

The Group insists on compliant employment and prohibits forced labor. By following the principle of legitimacy and compliance, equality and willingness and negotiation and consensus, the Group enters into written labor contracts with its employees which clearly define their remunerations, working hours, rest and leave, occupational safety and health, insurance and welfare and other matters. We truthfully inform our employees details, responsibilities, environment and conditions in relation to their work as well as our internal rules and policies, and guarantee the rights and interests to which our employees are entitled. The Group implements the standard working-hour system and its employees can enjoy the national statutory holidays according to laws, and hence their rights to legitimate rest and leave are firmly guaranteed.

The Group strictly complies with the requirements of the Law on the Protection of Minors of the People's Republic of China (《中華人民共和國未成年人保護法》) and the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》), and expressly stipulates the minimum age of recruitment to avoid the employment of minors under the age of 16. In addition, we will inspect candidates' ID cards and other identification information during the interview to ensure their ages are in line with our employment requirements. In 2018, there was no incident concerning child labor or forced labor within the Group.

The Group strictly complies with the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) and other laws and regulations, and implements local rules on social insurance and housing provident funds to contribute to social insurance, medical insurance and housing provident funds for all employees based on relevant regulations in order to guarantee their legitimate rights and interests.

The Group provides staff members with remunerations and benefits that are competitive in the market and selects outstanding staff members to commend excellent staff members, managers and departments, ensuring capable staff members to receive the recognition and reward from the Company for their contribution while they leverage their own value, which will make staff members more positive at their work.

## Employment and Labor Practices

The Group cares for its staff and offers a variety of benefits, including birthday and holiday gifts, wedding cash gifts, high-temperature subsidies during summer, herbal tea and desserts, and travel fund for outstanding staff members. The Group also organizes various activities for staff members to enrich their cultural life.



The Group has set up a staff canteen to offer staff members free breakfast, lunch, dinner and late night snacks, and provides non-local members with free staff dormitories which are fully equipped with living facilities, providing its staff with a comfortable work environment and living environment, to enhance the sense of belonging among the staff.

## Employment and Labor Practices

### Health and Safety

The Group strictly complies with the Law of the People's Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Regulations on Work-Related Injury Insurance of the People's Republic of China (《中華人民共和國工傷保險條例》), the Fire Control Law of the People's Republic of China (《中華人民共和國消防法》) and other laws and regulations, and takes various measures to safeguard the health and safety of staff members in an active manner, so as to create a safe and healthy work environment for the staff.

To ensure occupational health and safety of staff members, the Group takes out commercial accident insurance for positions ranked above directors and positions that are highly dangerous. The insurance premium is paid by the Company in full. The Group also organizes a free health examination regularly for staff members whose positions are entitled to such examination according to the provisions of Good Supply Practice for Pharmaceutical Products ("GSP") (《藥品經營質量管理規範》).

The Group cares about the physical and mental health of its staff members and encourages them to do more physical exercise in their spare time. It has established staff activity rooms equipped with various fitness equipment, in a bid to enrich their amateur cultural life and relieve their work pressure.

The Group attaches great importance to improving the safety knowledge and awareness of its staff through providing pre-employment training on fire safety knowledge. The Group has formed a fire safety team responsible for the supervision, management and inspection of fire safety work. Safety and fire drills are also in place to improve the fire safety awareness among the staff. The Group has a well-equipped security system with real-time monitoring of all areas of the Company through closed-circuit systems and daily scheduled patrols to eliminate security risks in a timely manner, ensuring normal operation and maintaining the safety of the Group's assets, the staff members and their assets.

The Group is committed to vehicle safety management. The Group has set up the "Annual Safe Driving Award" to honor the outstanding drivers who have no record of illegal driving or traffic accidents for the whole year and meet other criteria for selection, with a view of enhancing the responsibility of vehicle safety management and improving the awareness of safe driving among drivers of the logistics centers.

### Development and Training

Talents are the core competitiveness for the development of a corporation. The Group promotes the management model of learning corporation, establishes a sustainable system for talent cultivation and offers extensive training and learning opportunities to support their continuous studies and improve their overall quality and skills for the positions, realizing the common development of the staff and corporation.

## Employment and Labor Practices

### Training of New Employees

In order to help new employees to fully understand the corporate culture of the Group and integrate themselves into the Group's family as soon as possible, the Group has established a training and management system for new employees, in an effort to pay continuous attention to new employees during the probationary period. Strengthening "communication and mutual assistance" among staff members and fully implementing the mentor system are beneficial to conduct business guidance and render experience, which will help new staff identify job duties, work tasks and goals. To this end, communication meetings for new employees are organized on a monthly basis to understand their dynamics and promote communications among them.

### Training of Management Trainees

To accommodate the needs of the Group's strategy and operation, the Group selects and cultivates a group of talented college students with high potential through the campus recruitment in accordance with the talent strategy and real circumstances. Through 1-2 years of training, the trainees will quickly grow into "Star of the Future" of Charmacy Pharmaceutical, becoming the young backbone and reserve force supporting the Group's strategy and business development.





### Talent Team Building

The Group attaches great importance to talent team building. In 2018, the Group carried out the “Voyage” plan for the construction of a junior talent team. By selecting and cultivating reserve talents, it endeavors to adapt to the needs of the Group’s development strategy, support the rapid and steady development of the Group’s future business and promote the rapid growth of talents.



### Cultivation of Internal Lecturers

The Group advocates and works to create a cultural atmosphere of sharing learning and knowledge by establishing an internal lecturer management system, proactively developing and cultivating team of internal lecturers and strengthening the deposition and dissemination of knowledge and skills as well as giving play to the core role of internal lecturers in talent cultivation and system development within an enterprise. The Group encourages its staff members to recommend themselves or the departments to recommend professional talent for certification as internal lecturers. The Group’s Human Resources Center organizes application and certification for internal lecturers on an annual basis, and conducts assessment of certified internal lecturers annually.



# Supply Chain Management

By adhering to the operation philosophy of “Operating with Honesty, Benefiting the Public and Achieving Win-win Outcome”, the Group attaches great importance to the supply chain management, and actively maintains the cooperation with suppliers.

The Group’s product supply pipeline includes pharmaceutical manufacturers and distributors. The Group selects the appropriate suppliers based on comprehensive factors including its own purchasing scale, the supplier’s sales policies including minimum sales, prices and sales discounts, payment method and billing period. As of 31 December 2018, the Group had a total of 1,075 suppliers, of which 668 were pharmaceutical manufacturers and 407 were distributors.

The Group strictly complies with the requirements of laws and regulations including the Drug Administration Law of the People’s Republic of China (《中華人民共和國藥品管理法》) and GSP, and establishes a stringent review mechanism of suppliers’ qualification to strictly review suppliers’ qualification and other criteria, ensuring those suppliers admitted to the supplier management system of the Group meet the requirements of the GSP and our quality management systems. The Group monitors and controls risks in the course of operation, keeps an eye on the operational development of its suppliers, and adopts prompt and appropriate measures to stop procurement activities when discovering any abnormal conditions. The Group also conducts quality appraisal of suppliers on an annual basis and determines whether to continue the business relationship with suppliers based on the appraisal results.

When conducting procurement, the Group will sign the Pharmaceutical Commodities Quality Assurance Agreement (《醫藥商品質量保證協議書》) with suppliers, which requires suppliers to be responsible for the quality of the products they provide within the period of validity, and for all the resulting losses. The supplier who supplies counterfeit and inferior products is required to bear all legal and economic responsibilities and indemnify the Group in full against any resulting losses such as fines and damages.

The Group actively works with its partners to fulfill its corporate responsibility, promote the sustainable development of the industry, and increases its positive impact on the environment and society. As for some of the pharmaceutical products that are damaged by pressure or broken during the transportation process, we would reject such products during our inspection and communicate with the suppliers. If the breakage reporting is needed, we would also take thorough and effective measures to destroy the damaged pharmaceutical products, so as to prevent their distribution and environmental pollution.

# Product Quality and Safety

Pharmaceutical products are related to the health of residents. The Group always adheres to the principle of “Quality First”, and is committed to providing customers with quality products.

In strict compliance with the Law of the PRC on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》), Implementation Regulations on the Law of the PRC on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法實施條例》), GSP, Provisions for Supervision of Drug Distribution (《藥品流通監督管理辦法》) and other relevant laws and regulations, the Group has developed a series of improved documents on quality management system, including Quality Management System, Quality Management Procedures and Quality Management Duties, which are principle-related regulations applicable throughout the overall pharmaceutical operations, and strictly implemented quality control procedures to ensure that the laws, regulations and relevant standards are fully complied with during the pharmaceutical operations. The Group conducts quality control and management in all aspects of the products, and makes efforts in product quality assurance. The Group has also, with the assistance of SAP information system, achieved the standardization of operating mode, and informationized the quality management during the whole procedure according to the requirements of GSP to ensure that risks are controllable in aspects of procurement, stock-in, storage, stock-out, delivery of products and so on.

Product quality is the most important factor in the evaluation of procurement. The Group imposes a tight control over the product sourcing and has established a review mechanism for the first operation of products according to GSP. For products purchased for the first time, the purchasing manager, marketing center, product management department, quality control department, quality responsible personnel and other departments (positions) are required to conduct a rigorous review on the price, purchase volume, product approval supporting documents and qualifications. For products not purchased for the first time, the purchase volume shall be determined based on the recent sales volume and safety stock, and the validity period of the product approval supporting documents and product quality shall be subjected to regular review. In the meantime, the Group also conducts an annual quality review on procured products, adopts the principle of “procurement based on premium quality”, and determines whether to continue to purchase the products according the review results.

During the receipt of goods, the Group strictly follows the Operation Procedures on Receipt of Pharmaceuticals (《藥品收貨操作規程》). Acceptance will be conducted on a batch-by-batch basis according to the delivery confirmation by verifying the accompanying list from the delivery party, medicine inspection report and other documents and the goods. During the acceptance, sampling and inspection on pharmaceutical products will be conducted on a batch-by-batch basis according to the Operation Procedures on Receipt of Pharmaceuticals, and the appearance, packaging, labeling, instructions and related supporting documents of the sampled pharmaceutical products shall be examined individually, while pharmaceutical products with special management requirements shall be inspected by two persons. Pharmaceutical products proved to be substandard in quality inspection or inconsistent with the supporting documents will be rejected and returned to suppliers.

## Product Quality and Safety

The Group has established warehouses that are suitable for the classified storage of pharmaceutical products and meet the requirements for storage of pharmaceutical products, and has in place facilities and equipment for effective monitoring, regulation and control of temperature and humidity. Pharmaceutical products in stock are stored in the corresponding warehouses in strict accordance with GSP provisions and the quality property of pharmaceutical products, and are regularly maintained.

During the outbound delivery and transportation of products, stringent review and quality inspection shall be conducted on pharmaceutical products, and pharmaceutical products with special management requirements will be reviewed by two persons. At the same time, the quality of pharmaceutical products during outbound delivery shall be tracked and recorded. Closed vehicles are used for transportation of pharmaceutical products, and other transportation facilities such as refrigerator cars, cool box or incubators for pharmaceutical products are equipped with a special temperature control system to ensure that the delivery of pharmaceutical products meets the requirements.

### Quality Training

In order to level up the pharmaceutical products quality management, the Group attaches great importance to the trainings related to pharmaceutical products quality management. By the combination with internal training and external training, employees are able to raise their sense of quality and increase their business level, which eventually strengthen the Group's ability on quality control and quality risk-prevention.

### Product Complaints Handling

The Group attaches great importance to complaints handling related to product quality and products and has developed systems, such as Quality Incidents and Complaints Management System (《質量事故、投訴管理制度》) and Drug Recalls Management System (《藥品召回管理制度》), to regulate the dealing procedures of quality incidents, complaints and recalls for drugs, to enhance our service quality, ensure medication safety and improve after-sales service system. The Group actively responds to quality enquiries and complaints from customers. For quality issues found in quality inquiries, complaints, spot checks and sales process, we will find out the causes, identify liabilities, take effective measures and make records. Meanwhile, if serious quality problems were found in pharmaceutical products sold, the Group would take measures in a timely manner to recover such products and make records, and report to the drug regulatory authority.

During the Reporting Period, the Group had received a total of 7 complaints related to product quality which were well-handled.

### Customers' Interests Protection

The Group has set up customer information management system to conduct strict access management over customer information to ensure its safety. The Group has also expressly stipulated in its Employee Code of Conduct (《員工行為規範》) that the disclosure of Company's confidential documents, customer information and supplier information is prohibited in order to ensure the safety of customer information. During the Reporting Period, the Group has not involved in any non-compliance incident relating to the privacy of products and services provided.

## Anti-corruption Construction

The Group strictly complies with laws and regulations on the prevention of bribery, extortion, fraud and money laundering including the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Anti-unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Interim Provisions on the Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) and the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》).

The Group has formulated systems such as the Administrative Rules on Clean Practices (《廉潔管理規定》), the Administrative Measures on Internal and External Complaints (《內外申訴管理辦法》) and the Administrative Rules on Gifts (《禮品管理規定》), requesting all employees to sign the Letter of Commitment to Clean Practices (《廉潔承諾書》), which aim at regulating the behaviours of its employees, promoting the self-discipline and law-abiding and clean practices among its employees, as well as eliminating the occurrence of various irregular and corrupted behaviours in the course of work or business.

The Group has set up a variety of complaints and reporting channels such as hotlines, complaints boxes, instant messaging and emails to receive complaints or reports about illegal behaviours of employees from its partners and internal sources. After receiving complaints or reports, the relevant acceptance department collects information and evidence on the issue to have a full understanding of the entire process of the issue, and strives to get the facts of the complaints clear and finally raises its suggestions of treatment based on the investigation results.

During the Reporting Period, the Group was not aware of any incident in relation to the bribery, extortion, fraud and money laundering by the Company and its staff, nor had any corruption lawsuits filed against the Group or its employees.

## Social Welfare

The sustainable development of a corporation would not be possible without the support from the society. While being committed to its own sound development, the Group also shoulders corresponding corporate social responsibility proactively. The Group attaches great importance to its relationship with community by actively participating in community construction and charitable undertakings and serving for community development, making social contribution with concrete action.

### Disaster is Ruthless while Society is Full of Love, Charmacy Pharmaceutical Actively Responded to Disaster Relief Operations

In August 2018, a sudden heavy rainstorm in the eastern Guangdong triggered a waterlogging disaster, and Shantou City was seriously affected. The Group actively responded to the disaster relief operations and immediately organized the mobilization of pharmaceutical materials to the stricken area, sending warmth and hope to the people therein.



## Celebrating Mid-Autumn Festival and Love Action

In September 2018, prior to the Mid-Autumn Festival, the Group's love and greeting team went to the community of Rulong Neighborhood Committee at Longxiang Street, Longhu District, Shantou City to visit the elders of the poor families and in the elderly activity center, and sent them Mid-Autumn moon cakes, fruits and festival allowance, giving them the most sincere festival blessings from Charmacy Pharmaceutical.



## Caring for Sanitation Workers and Creating a Civilized City

On 26 October 2018, the “Sanitation Workers’ Day”, the Group joined the Longxiang Sub-district Office of Longhu District, Shantou City to deliver a batch of medicines such as Jinju Wuhua Tea, hemostatic sticks, essential balm, anti-virus and anti-flu drugs and antipyretic drugs to sanitation workers in the area to express our care and gratitude to sanitation workers and thank them for their contributions to the creation of a civilized city.





# ESG Reporting Guide Index of the Stock Exchange

Aspect	General Disclosure	Chapter	Remarks
<b>Environmental</b>			
A1: Emissions	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions; Greenhouse Gas Emissions; Waste	
A2: Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources	
A3: The Environment and Natural Resources	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Use of Resources	
<b>Social</b>			
B1: Employment	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, antidiscrimination, and other benefits and welfare.	Staff Overview; Compliant Employment and Staff Welfare	
B2: Health and Safety	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety	
B3: Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training	
B4: Labor Standards	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to preventing child and forced labor.	Compliant Employment and Staff Welfare	



## ESG Reporting Guide Index of the Stock Exchange

Aspect	General Disclosure	Chapter	Remarks
B5: Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	
B6: Product Responsibility	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to the health and safety, advertising, labelling and privacy matters of products and services provided and methods of redress.	Product Quality and Safety	Advertising and labelling of the products are not applicable to the business scope of the Group
B7: Anti-corruption	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to bribery, extortion, fraud and money laundering.	Anti-corruption Construction	
B8: Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration of the communities' interests.	Social Welfare	



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CHARMACY PHARMACEUTICAL CO., LTD.