

# 創美藥業股份有限公司

CHARMACY PHARMACEUTICAL CO., LTD.

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2016





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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 2016.

### Time Range

Unless otherwise specified, the information and data in the Report covers the period from 1 January 2016 to 31 December 2016 (the “Reporting Period”).

### Scope of Reporting

Unless otherwise specified, the data and information in the Report covers Charmacy Pharmaceutical Co., Ltd. and its subsidiaries (collectively, the “Group”).

### Basis of Preparation

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

### 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

Established in 2000, Charmacy Pharmaceutical is a leading pharmaceutical distributor in Southern China, with a comprehensive distribution network covering Southern China and surrounding areas including Fujian Province. We distribute diversified pharmaceutical products and provide consultancy service to (i) pharmaceutical distributor customers, (ii) retail pharmacies, and (iii) hospitals, clinics, health centers and others. Most of our income comes from the pharmaceutical distribution business. Charmacy Pharmaceutical has a variety of product offerings, including western medicines, Chinese patent medicines, healthcare products, Chinese medicine material and decoction pieces, medical devices and cosmetic products.

On 14 December 2015, the Group was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2289.HK).



## Stakeholder Engagement

The Group's stakeholders include staff, shareholders/investors, customers, suppliers/partners, governments/regulatory authorities and communities/citizens. The Group communicates with stakeholders actively, to fully understand the expectation of the 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	Law-abiding 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 Training activities Staff parties 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	Sticking to business commitments Mutual benefit and win-win situation Fair competition
Customers	Daily communication and interaction Satisfaction survey	Product quality Sticking to business commitments
Communities/citizens	Promoting community employment Community activities Charitable activities	Driving community development Community interaction and communication



## Environment

We are well aware that sustainable corporate development is closely linked to the environment. Hence, whilst developing its own business, the Group also focuses on protecting the environment to minimize the adverse environmental impacts from its business.

### Green Operation

The Group is principally engaged in the distribution and delivery of pharmaceutical products, which, in essence, does not involve any direct production process. Therefore, the Group does not discharge pollutants into water and land or generate hazardous wastes.

In its process of pharmaceutical logistics, the Group causes potential adverse effects on the environment mainly due to the emissions from transportation vehicles. Accordingly, the Group has adopted the diesel vehicles that comply with the National-IV emissions standard as required by the Ministry of Industry and Information Technology, to meet the national standards on environmental protection and make up for the adverse environmental impacts. The Group also remains attentive to new energy vehicles on the market and adopts applicable new energy vehicles if necessary, based on the actual situation.

### Green Office

The Group is committed to its philosophy of conservation, high efficiency, reasonable application of resources, and prevention of wastage of resources. The Group actively promotes the green office model and enhances the staff's awareness of energy conservation and environmental protection.

During the Reporting Period, the Group endeavored to improve energy conservation in its daily operation and adopted the following measures:

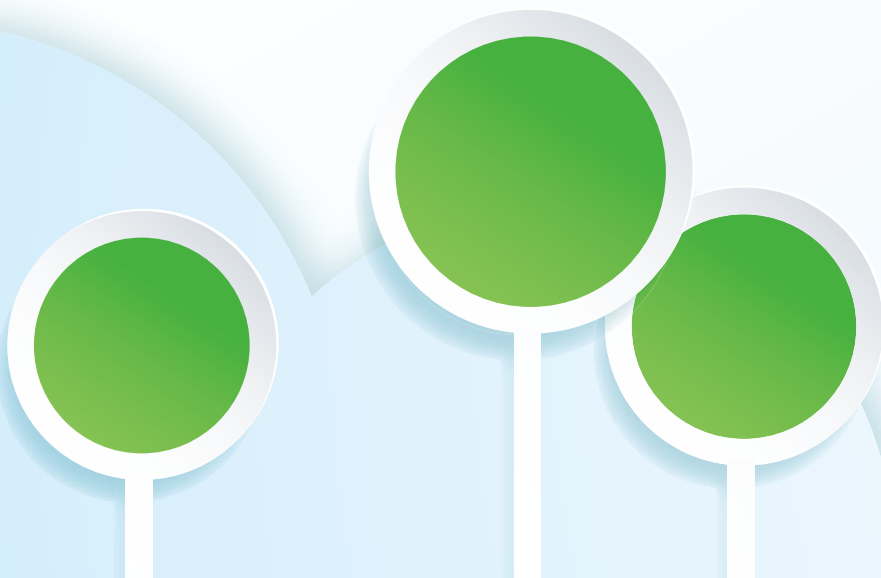
1. Implementing the scheme of recycling used cartons. Usable second-hand cartons are applied to pharmaceutical warehousing, distribution and transportation at logistics centers;



## Environment

2. Encouraging paperless office and saving paper. Staff members are encouraged to choose double-sided printing, reuse used paper, and maximize the application of electronic documents to avoid unnecessary printing;
3. Controlling the opening hours of air conditioning at the office area. Reasonable consumption of air conditioning should take place according to the actual weather conditions, to avoid energy wastage;
4. Enhancing the management of electricity consumption in the office area. Staff should minimize the electricity consumption caused by leaving electronic equipment such as computers and printers in standby mode. Staff should also turn off the electrical appliance and lights when leaving the office. Administration personnel should inspect the office area regularly, to prevent electricity wastage;
5. 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;
6. Promoting the application of telephone and video conference 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.

During the Reporting Period, the Company has upgraded the staff canteen by replacing all its LPG-powered cookers with induction cookers, in an effort to reduce energy consumption and greenhouse gas emissions.





## Employment and Labor Standards

Committed to its philosophy of “Respect, Care, Kindness and Cultivation”, the Group respects and values its staff members, so that they acquire a sense of belonging to the Group. The Group also cares for and treats every staff member with kindness, striving to create a pleasant work environment. In addition, to encourage its staff on all-rounded development, the Group has created development platforms where staff members can realize their own value and gain broader space to develop their career.

In 2016, the Company earned the title “The Best Employer in Guangdong Province” (“廣東省最佳僱主”) jointly conferred by Guangdong Provincial Enterprise Confederation (廣東省企業聯合會) and Guangdong Provincial Association of Entrepreneurs (廣東省企業家協會).

### Staff Overview

As at 31 December 2016, the Group had a total of 659 staff members. Among them, 435 were male and 224 were female, representing 66.01% and 33.99% of all the staff members respectively.

Total Number of Staff in 2016: By Gender		
Category	Number of Staff	Percentage
<b>Male</b>	435	66.01%
<b>Female</b>	224	33.99%
<b>All the Staff</b>	<b>659</b>	<b>100.00%</b>

Total number of Staff in 2016: By Age		
Category	Number of Staff	Percentage
<b>28 and below</b>	294	44.61%
<b>29-35</b>	203	30.80%
<b>36-45</b>	104	15.78%
<b>46 and above</b>	58	8.80%
<b>All the Staff</b>	<b>659</b>	<b>100.00%</b>

## Employment and Labor Standards

Total number of Staff in 2016: By Profession		
Category	Number of Staff	Percentage
Senior management	7	1.06%
Middle management	19	2.88%
Administration Personnel	138	20.94%
Staff at Marketing Centers	213	32.32%
Staff at Logistics Centers	282	42.79%
<b>All the Staff</b>	<b>659</b>	<b>100.00%</b>

In the principle of “Open Recruitment, Fair Competition, Merit-based Selection and Priority to Internal Recruitment”, the Group recruits staff by a rigorous procedure and such approaches as internal promotion, position exchange and external recruitment. The Group provides equal employment opportunities for applicants and the staff, regardless of employment discriminations against ethnicity, race, nationality, religious belief, sex and age, etc.

The Group strictly complies with the Labor Law of the People’s Republic of China and other regulations. Under no circumstances will the Group employ minors (under the age of 18) for any type of work. The Group also respects every staff member in terms of personal freedom, with no forced labor that restricts such freedom.

### Staff Welfare

To stimulate work enthusiasm among its staff members, the Group provides them with remunerations and benefits that are competitive in the market. The Group holds monthly award ceremonies at its marketing centers and selects outstanding staff members and teams on a quarterly and yearly basis, to commend excellent staff members, managers and departments for their efforts and contribution and motivate the staff to work enthusiastically.

The Group strictly protects the staff’s right to rest and take leaves. In strict compliance with the Labor Law of the People’s Republic of China, the Group applies a standard working-hour system, under which staff members work eight hours a day for five days a week. If overtime work is needed, the Group would provide overtime payment or arrange for alternative shifts and holidays. Furthermore, the Group ensures all the staff’s entitlement to statutory holidays.

## Employment and Labor Standards

The Group ensures all the staff's entitlement to statutory benefits. In strict compliance with PRC laws and regulations, the Group pays premiums for social insurance, such as pension, medical, work injury, unemployment and maternity insurance, as well as housing provident fund, to protect the basic lawful rights and interests of the staff. The Group also purchases commercial accident insurance for the staff members above the director level and those who work in high-risk positions, with all such insurance premium fully covered by the Company.

The Group offers its staff a variety of benefits, including birthday gifts, wedding cash gifts, high-temperature subsidies in summer, herbal tea and desserts, health examination, and travel benefit for outstanding staff.

The Group provides its staff with a comfortable work environment and creates a pleasant work atmosphere. Staff members are also offered free breakfast, lunch, dinner and late night snacks, and non-local members are provided with staff dormitories which are equipped with bathrooms, water heaters, air conditioners, televisions, furniture and wireless networks, etc. All these efforts aim to create a cozy living environment and enhance the sense of belonging among the staff.

The Group takes care of every staff member. On 22 August 2016, one staff member was hospitalized due to low back pain and later diagnosed as having paravertebral abscess which caused thoracolumbar tuberculosis. The staff required a large sum of money for surgery. In order to help the staff member overcome the difficulty, the Group immediately started fund raising among all the staff and raised approximately RMB100,000. The fund, delivered by the company representative to the family members of the staff member, enabled the surgery to take place smoothly.

## Employment and Labor Standards

### Health and Safety

In order to ensure a safe work environment, the Group has formulated and strictly implemented the Fire Safety Management System, with a work mechanism in place that emphasizes prevention and combines it with firefighting. A fire safety team is formed, responsible for the supervision, management and inspection of fire safety work. Safety and fire drills also take place regularly, to improve the safety awareness and survival skills among the staff. In addition, the Group has formulated and strictly implemented the Management System on Security and Access Control of the Company, to ensure normal operation and order of life in the factory area and to maintain the safety of the Group's assets, the staff members and their assets.

In order to encourage the drivers of the Group's logistics centers to drive safely and comply with traffic safety rules, 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, etc for the whole year.

Concerned about the health of its staff members, the Group encourages them to do more physical exercise in their spare time and helps them to balance work with life. The Group has its staff activity room, basketball court and outdoor equipment available for staff members to relieve work pressure and improve their physique. The Group also organizes annual free physical examination for its staff members whose positions require regular physical examinations in accordance with the Quality Management Practices for Pharmaceutical Operation.

### Development and Training

The Group attaches great importance to the professional development of its staff members who are offered extensive training opportunities, to support their continuous studies and improve their overall quality and professionalism. The Group has also prepared its management system on staff training, which includes the Management System on Training and the Management System on External Training.

In 2016, the Group organized a total of 107 training sessions, including a total of 23 information-based development projects, 10 inductions for new recruits, 14 external trainings for management personnel, and 60 other internal trainings.

## Supply Chain Management

In 2016, the Group had a total of 1,019 suppliers, of which 673 were pharmaceutical manufacturers and 346 were distributor suppliers. Supplier selection and management is a key part of ensuring stable product quality and safety. The Group maintains a close and stable relationship with its suppliers and strives to build mutually beneficial partnerships.

The Group has a complete supplier review process. We carefully select new suppliers based on a range of criteria, including the supplier's product offerings and quality, product quality records, business scale and reputation, etc. Our quality control staff would also review the qualifications and track records of alternative suppliers. Only those who match our criteria would be selected. We also require suppliers to provide the relevant licenses, permits and documents necessary for operation, including but not limited to business licenses, the Certificate of Good Manufacturing Practices for Pharmaceutical Products (藥品生產質量管理規範認證證書) (or the Certificate of Good Operating Practices for Pharmaceutical Products (藥品經營質量管理規範認證證書)), the Certificate of Pharmaceutical Production in China (中國藥品生產許可證) (or the Pharmaceutical Supply License (藥品經營許可證)) and other relevant certification, to assess suppliers' qualifications and their capability of product quality control. In respect of existing suppliers, we would review their product quality records and require them to renew the relevant licenses and certificates upon their expiry.

The Group also regularly assesses the supplier's reputation in product quality and the quality of pharmaceutical products. The quality assessment record serves as the basis for adjusting procurement plans or replacing suppliers. As for unqualified suppliers or products upon quality assessment, the Group would take relevant measures such as terminating procurement from such suppliers.

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 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. We would also take thorough and effective measures to destroy the damaged pharmaceutical products, so as to prevent their distribution and environmental pollution.

## Product Responsibility

The Group is well aware of its paramount responsibility for ensuring people's safe consumption of pharmaceutical products. As such, we always put pharmaceutical quality and safety as our top priority, by formulating strict quality control procedures and vigorously implementing them to ensure our operation in full compliance with laws, regulations and standards. By doing so, we strive to provide our customers with high-quality and safe products.

During the Reporting Period, the Group won the "Most Innovative Service Award during the 12th Five-Year Plan Period" ("十二五"最佳服務創新獎) and the "Most Innovative Management Award during the 12th Five-Year Plan Period" ("十二五"最佳管理創新獎) of the Chinese pharmaceutical distribution industry, both conferred by China Association of Pharmaceutical Commerce (中國醫藥商業協會).

### Product Quality Management

For its operation, the Group has obtained the Certificate of Good Operating Practices for Pharmaceutical Products. The Group has temperature control warehouses where its pharmaceutical products are kept in a suitable storage environment to ensure their quality and safety. The Group implements quality control in all the stages of business operation, including procurement, receipt, inspection, warehousing and pre-delivery inspection. Based on its careful selection of suppliers, the Group further reviews its products to ensure its compliance:

1. ✓ Before warehousing, the basic information of the procured products, such as details of the manufacturer, approval number and packaging, is verified or checked on the basis of product inspection standards, procurement records and the pharmaceutical inspection reports issued by the suppliers.
2. ✓ If the product fails to pass the check and verification, the supplier would be notified that its products are denied entry into the warehouse.
3. ✓ If the product passes the check and verification, then the pharmaceutical inspection reports and procurement receipts issued by the suppliers would be kept for filing purposes, with such products to be warehoused.
4. ✓ Quality control personnel regularly check the quality of warehoused products and monitor the condition of their storage.
5. ✓ Unqualified products are confirmed to be stored in an independent area designated for such products, with relevant qualified personnel regularly informed to destroy such products. Staff members of the quality control department are responsible for monitoring the destruction throughout the process.

## Product Responsibility

Suppliers usually offer quality assurance for their products, and are responsible for the product quality during the valid period. Suppliers will be liable to the Group for its loss(es) caused by product quality issues. Nevertheless, the Group also takes responsibility for the products we distribute, especially when such responsibility arises from our improper storage or delivery.

To ensure the provision of high-quality and safe products for its customers, the Group strictly complies with the temperature control requirements for pharmaceutical products during their transportation, with necessary measures in place such as heat insulation, refrigeration and freezing. In 2016, the Group purchased a total of 23 refrigerated transportation vehicles for its two logistics centers in Shantou and Foshan, to ensure that the storage temperature during product transportation meets the requirements of the Good Operating Practices for Pharmaceutical Products and to ensure product quality and safety.

During the Reporting Period, the Group was awarded the “Qualified Enterprise in Line with the National Standards of Operation Practice for Cold-chain Logistics of Pharmaceutical Products” (《藥品冷鏈物流運作規範》國家標準達標企業), a title conferred by the Pharmaceutical Logistics Sub-branch of China Federation of Logistics & Purchasing (中國物流與採購聯合會醫藥物流分會) and the Cold Chain Logistics Professional Committee of China Federation of Logistics & Purchasing (中國物流與採購聯合會冷鏈物流專業委員會).



“Qualified Enterprise in Line with the National Standards of Operation Practice for Cold-chain Logistics of Pharmaceutical Products”

## Product Complaints and Handling Approaches

The Group has formulated a series of quality management systems and operating procedures, such as the “Management System on Quality-related Complaints”, the “Management System on Pharmaceutical Product Return”, and the “Management System on Pharmaceutical Product Recall”, with clear specification. The Group actively responds to the quality-related complaints from its customers. When receiving customer complaints on product quality, the Group’s quality management department would immediately notify the other party to stop selling the batch of pharmaceutical products, and collaborate with the marketing center’s sales department to communicate with the other party to learn the situation in a timely manner, and review and verify the quality issue. If the pharmaceutical products pass the review and verification in respect of their quality, we will give feedback to the customer within 24 hours after the quality is confirmed and resumes their sales. If the pharmaceutical products are verified to have quality issues and the batch of pharmaceutical products is still in its valid period, then we will timely notify the other party of product return or replacement in accordance with the “Management System on Pharmaceutical Product Return”. During the Reporting Period, the Group received a total of 48 complaints on product quality, all of which were properly handled.

## Product Responsibility

### Customer Relations Management

The Group adheres to the operation philosophy of “Staying Altruistic, Benefiting the Public and Achieving Win-win Outcome”, establishes solid partnership with customers, and realizes a win-win situation during pleasant cooperation.

On 27 February 2016, the Group held a party themed “Appreciating 15 years of Relationship and Joining Hands for Further Progress”, an event to thank the listed customers for their trust, support and help.

The Group highly respects the privacy of its customers, strictly protects such privacy in its daily operations, ensures the safety of customer information and forbids any form of information leakage.



“Appreciating 15 Years of Relationship and Joining Hands for Further Progress”  
A Party in Appreciation of Listed Customers



## Anti-corruption

Strictly complying with relevant national laws and regulations, the Group has formulated and issued such internal control systems as the “Management Regulations of Honest Practice”, which are circulated among all staff members who are also required to sign a “Letter of Commitment to Honest Practice” as a reminder. All such efforts aim to enhance the supervision and management over the Group’s entire staff and reduce the occurrence of corruption and bribery.

The Group has set up a special line for its staff to complain about and report inappropriate or non-compliance behavior. After receiving such complaints or tip-off, the Group will carry out inspection and investigation according to the information of complaint and tip-off, hear the statements and defenses of the reported party and the whistleblower, collect relevant evidence, and raise suggestions based on the investigation results. The Group also assesses corruption and bribery risks annually.

During the Reporting Period, the Group did not have any incident in relation to the bribery, extortion, fraud and money laundering by the Group and its staff.

## Community

As a citizen of its society, a company shoulders corresponding social responsibility of creating value for communities. The Group attaches great importance to its relationship with communities by actively participating in community construction and charitable undertakings, to serve for community development and make social contribution with concrete action.

### Promoting Community Employment

Given the continuous expansion of its development, the Group actively creates employment opportunities for communities and effectively drives the employment of community residents. During the Reporting Period, the Group provided opportunities for an average of 21 people per month, and hired a total of 245 new staff members. The Group also enhances its communication with communities and establishes good partnerships to offer smooth channels for talent recruitment and introduction. In November 2016, led by Chancheng District Bureau for Human Resources and Social Security, Guangdong Charmacy Pharmaceutical Limited took part in a job fair held in Liuzhou, Guangxi where the company received 41 resumes, with an intention to recruit 10 of the applicants.

### Active Participation in Recreational and Sports Events in the Community

In June 2016, Charmacy Pharmaceutical sent its staff for the Staff Badminton Match of Longxiang Street, an event organized by Longxiang District, Longhu Street, Shantou City. Charmacy Pharmaceutical won the Outstanding Organization Award in the event.

In October 2016, Guangdong Charmacy Pharmaceutical Limited sent its employees to attend the Staff Basketball Competition of Foshan City, an event organized by Foshan Workers' Cultural Palace, and won the Excellence Award in the event.



## Community

## Enthusiastic Participation in Public Welfare

### “Bringing a Cool Summer to the Charity House with Love”

On 1 July 2016, to celebrate the 95th anniversary of the founding of the Communist Party of China, the party committee of Charmacy Pharmaceutical took the initiative to mobilize its party members for a visit to Shantou Charity House, to bring the senior citizens and children supplies for a cool summer, such as Lian Hua Feng Cha (蓮花峰茶). The party members also cleaned the charity house so that its residents could live in a clean and tidy environment. The visit serves as a tribute to the Party's birthday with concrete action and practice the corporate mission of “Create a Healthy and Beautiful Life”.



Bringing a Cool Summer to the Charity House with Love

### “Presenting a Cool Summer to Military Officers and Fostering a Closer Relationship”



Presenting a Cool Summer to Military Officers and Fostering a Closer Relationship

Before August 1st the Army Day, Charmacy Pharmaceutical sent its staff on a visit to the second squadron of public-security fire brigade of Longhu District, Shantou City, to provide fire fighters there with simple medicines and heat-removing supplies worth approximately RMB7,000, as a gesture of good wish and tribute to the fire fighters ahead of their festival.

### “Visiting Senior Citizens in the Community on the Mid-Autumn Festival”

Prior to the Mid-Autumn Festival, Charmacy Pharmaceutical sent its staff representatives on a visit to the community activity center for the elderly, bringing Chaoshan-style moon cakes, fruit and gift money to senior citizens there, as a gesture from all the staff in Charmacy Pharmaceutical for the festival.



Visiting Senior Citizens in the Community on the Mid-Autumn Festival

## 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.	Green Operation	
A2: Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.	Green Office	
A3: The Environment and Natural Resources	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Green Office	
<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, anti-discrimination, and other benefits and welfare.	Staff Overview; 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	

## ESG Reporting Guide Index of the Stock Exchange

Aspect	General Disclosure	Chapter	Remarks
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.	Staff Overview	
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 Responsibility	Matters concerning product advertising are not applicable to the scope of business 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	
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 the communities' interests.	Community	