



SOCIAL RESPONSIBILITY REPORT 2016

SHANXI ZHENDONG HEALTH INDUSTRY GROUP

BRIEF EDITION

HONESTY / SUNSHINE / INNOVATION / GROWING

A large, stylized fingerprint pattern composed of numerous curved, parallel lines in a light beige color, located in the bottom right corner of the page.

ZHENDONG

ON THE WAY OF INTERNATIONALIZATION OF
TRADITIONAL CHINESE MEDICINE



2016 YEAR

BREAKTHROUGH YEAR

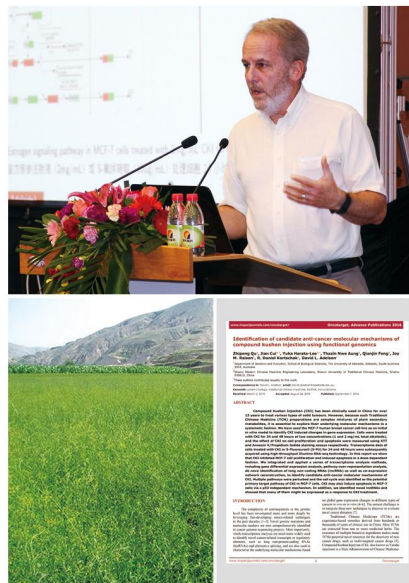
Being the beginning year of “13th Five-year Plan”, 2016 is designated as “Breakthrough Year” in Zhendong. A series of new policy on pharmaceutical field was enacted in this year, which brings increasing pressure on pharmaceutical corporations for higher and higher require to standardization. Respond to the new situation, Zhendong achieved new breakthroughs through improving management mechanism, pursuing efficiency, strengthening core competence, transformation & upgrading, team building and quality enhancing.

INTERNATIONALIZATION

The biggest breakthrough is our achievement in process of internationalization of traditional Chinese medicine. Scientific research projects in cooperation with foreign institutions have an exciting result. Research and development go forwards great leap from “imitation” to “redevelopment” to “innovation”. The University of Adelaide cooperating with Zhendong published the latest scientific paper “Identification of candidate anti-cancer molecular mechanisms of compound kushen injection using functional genomics” in the journal ‘Oncotarget’, which indicates that the traditional Chinese medicine has made a breakthrough in the treatment of cancer.

TARGETED POVERTY ALLEVIATION

Synchronized with corporate business development, Zhendong continue to promote the project of “Targeted Poverty Alleviation” on the way of Chinese herbal medicine cultivation in 2016. There were 12 poor towns, 78 poor villages, 6490 poor families, 17868 people in Pingshun county of Shanxi province who were covered in the project. Zhendong took the measures of “one family, one policy” to help them so as to guide and bring good effect on regional economic development and social stability.



ECONOMIC PERFORMANCE

RESEARCH & DEVELOPMENT

In 2016, accompanied by the basic establishment of the Beijing Zhendong Medicine Research Institute, Zhendong Group built a research and development platform which has the Beijing Institute of Medicine working as its core, the Shanxi Modern Chinese Herbal Medicine Engineering Laboratory and the Group Headquarters Technology Center working as its two wings, and the Technology Center for the branch companies filling its body. Zhendong Group integrated all the relevant resources from the overseas technology centers, postdoctoral research stations and expert research networks, and it owned many honors such as national science and technology innovation demonstration enterprise, national international co-development center, national patent excellence award etc. The Group is striving to create the research and development flagship for the international advanced, domestic leading Chinese traditional medicine and chemical medicine.

Over the years, Zhendong Group has always focused on using innovation and technology make the company strong and prosperous. The Group believes market competition is product competition, while product competition is tech competition, and the technology determines the future development. Only by improving the ability of R&D and improving the level of technological innovation, could the enterprise makes rapid progress to occupy the market and win the future.

Technological innovation has penetrated every industry in Zhendong Group. Innovation and technology is pushing all the staff members keep forging ahead. Zhendong Group is in the process of perfecting the Five Improvements for their research system, and they are still enhancing its innovation extent and technical supporting ability so that they could develop by leaps and bounds.

02





23%

Talents are the core elements of enterprise development, the first resource of innovation transformation and the strategic support for the future. Many elements are needed for an excellent team made of innovative scientists and technology talents, such as modified talent culture methods, innovative recruiting and remaining methods, as well as modified promotion methods. In order to create a high-level entrepreneurial team, a scientific elite group and a system of innovation, Zhendong Group recognized talent cultivation as their foundation and base on that they made the talent development strategy to expand the growth path for talents through multiple channels. At present, the group already has got 120 doctor experts and 90% of them are specialized in pharmaceutical industry, which made Zhendong Group achieved the leading position from the other competitors.

71%

45%

97%

In September 2016, China Pharmaceutical Development and Innovation Summit, also known as Top 100 Pharmaceutical Companies Presentation, published the pharmaceutical R&D comprehensive strength list 2016. The Zhendong Group won the 4th place in the list.

In 2016, Zhendong invested 117.27 million RMB in R&D which accounts for 3.57% of the sales. In terms of product performance, Zhendong has achieved the substantial growth in a declining economy cycle, among which, Zhendong Pharmaceutical Co. rose 23%, Zhendong Chinese herbal medicine base Co. rose 71%, Zhendong Pharmaceutical trade group rose 45%, Zhendong Woohe Biological technology Co. rose 13%, Zhendong Home Health Care Co., rose 97%.

QUALITY ASSURANCE

The Zhendong Group holds the believes of good quality stems from good design, and follows the slogan: drug quality is not only produced, but also designed. The group values the important role of R&D in the production and quality management and treats R&D as the inexhaustible driving force of enterprise sustainable development.

In the procurement phase, Zhendong takes genuine medicinal materials as their first choice to ensure the product's efficacy and quality stability. Genuine medicinal materials refers to the ancient Chinese medicine, which has a long history, good provenance, excellent variety, high yield, excellent curative effect and the special characteristics of the region. Zhendong Group selects the valid parts of the materials to ensure the content of the active ingredients.



The Products of Zhendong have passed all the quality detections over the years, and achieved the AAA credit rating level. With the tile of first Green Enterprise in Shanxi Province, no product quality accident has occurred. In 2015, the group passed all the GMP and GSP certificates.

After-sales service is the last barrier to quality management. Zhendong believes that instead of to maintain competitiveness they keep good after-sales service to be responsible for customers, and the responsibility for customers is the bottom line. With the quality service orientation, they are committed to improving the service quality and striving to provide comprehensive awareness service to customers.

CUSTOMER SERVICE

From all the time, Zhendong Group has adhered to the laws and regulations the business model of legal and commercial ethics. They continuously improving their sales management system, vigorously promoting "Sunshine Culture", completely eradicating bribery, so that they could make a fair environment for the drug trading, and effectively safeguard the legitimate rights and interests of consumers.

MARKET CONCEPT

Zhengdong interprets the market view of "balancing benefits with morality" through service philosophy of "amiable service, friendly treatment, sincere handshaking, forever friends".

FOR CLIENTS

being clients -oriented, "communicate with heart, serve with love, think what you want to and realize what you expect to", create value, exclude difficulty and anxiety, provide considerate services for clients.

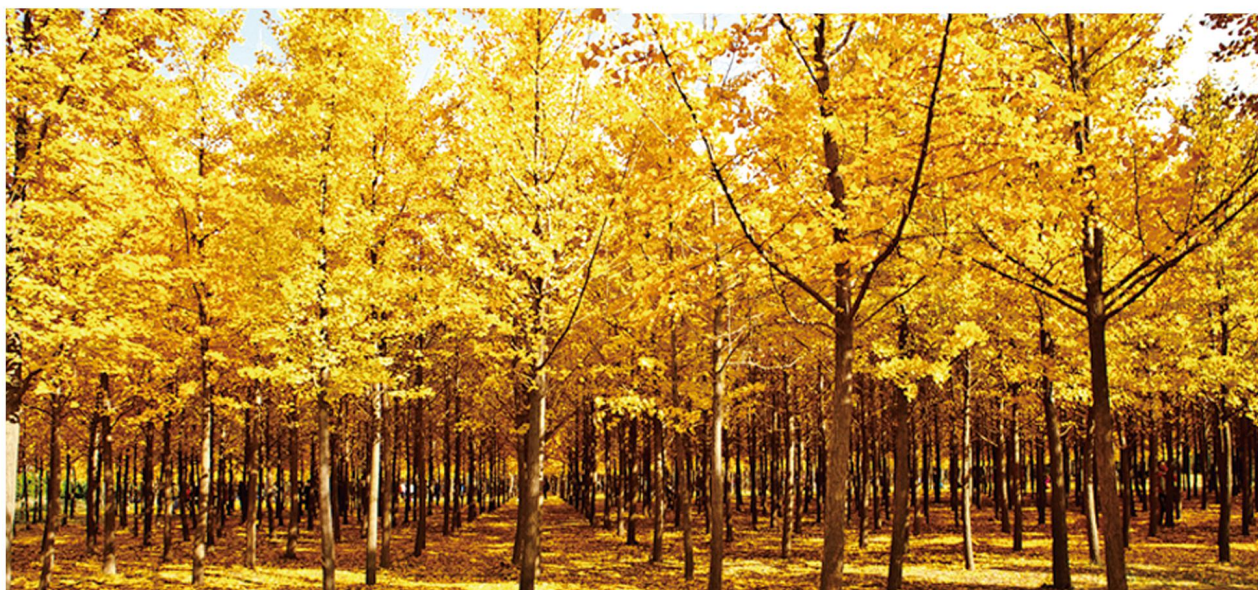
FOR CONSUMERS

establish concept of "transpositional consideration, sincere treatment and constant trust" to truly safeguard core benefits of consumers.

In recent years, the activity "transfer philosophy" for "freeing mind, changing idea and keeping courage" has been positively responded and practiced by Zhengdong. When making progress during changes, customer service way of Zhengdong transforms from simple interest relationship to cooperative relationship, from pure product sale to diverse ideas such as advanced marketing culture, marketing brand, marketing service, marketing responsibility and marketing vision, etc.



INDUSTRY CHAIN COOPERATION



06

The quality of Chinese herbal medicine is uneven which seriously affects the quality of the products. Facing the present situation, Zhendong established Chinese herbal medicine base, and founded the Zhendong Chinese herbal medicine base Company. The establishment of the company guarantees the quality of Chinese medicinal materials and the development of the group by reducing the middle parts.

Zhendong Group gradually developed an advanced planting model: Government Guiding + Technology and Investment + Cooperative Organization Management + Farmers operation. The model mainly accepts advanced payment and orders, while adopts land running pattern as assistance. In the modern Chinese medicinal plants grow base Zhendong had built, fine refinement and processing was achieved and an industrial system with growing, producing, transporting, marketing, retrospection and processing was established. At present, the cultivation area of Zhendong for Chinese medicine material has reached 800,000 mu, and they grand the national list for both the acreage and the varieties. The group will continue to build one million mu of planting base, the intensified, specialized and socialized agricultural and operation system, "the first workshop", and provide a good source for the healthy and vigorous development of the traditional Chinese medicine industry.

Since 2013, Zhengdong has initiated and established Co-construction & Sharing Alliance of National Base for Traditional Chinese Medicinal Materials, Lianqiao Industry Collaborative Innovation Alliance around Taihang Mountain, Shanxi Industry Association of Traditional Chinese Medicinal Materials to fully play the functions of platform, realize unified planning of industrial development, promote quality of medicinal materials, set up price guarantee mechanism, integrate superior resources, facilitate communication and cooperation, and guide industry development.





EXPLORE THE INTERNATIONAL ROAD OF TRADITIONAL CHINESE MEDICINE

In recent years, Zhendong built a scientific cooperation with NCI, United States, Holland Life Science Institute, Adelaide University, made a series of achievements. President Li said: the internationalization of Chinese medicine research must go abroad, only we make the foreign experts and the pharmaceutical companies to research the methods in Chinese medical treatment, the products can go abroad, and Chinese medicine can be recognized by the world.

Zhendong Group is focusing on removing the major obstacles to the internationalize of the traditional Chinese medicine by making standards, accumulate clinical effects, and analyzing mechanism.

ANALYZING MECHANISM

After the western industrial revolution brought the rapid development of science and technology, many new technologies have applied in the health care industry. The pathologic mechanism is becoming clearer, and the understanding of the disease is refined to the DNA level. While is limited by its era, traditional Chinese medicine follows philosophical dialectic, and many pathologies are from a macroscopic perspective. Along with the theoretical differences, and the modern science could not clarify the traditional Chinese medicine, which is the reason why society hold negative attitude and believes that traditional Chinese medicine is unscientific. Zhendong group is the first traditional Chinese medicine company who set up a research institute abroad. In 2012, Zhendong established the Sino-Australian traditional Chinese medicine research center in the University of Adelaide in the southern hemisphere. In 2014, collaborating with the national cancer research center, Zhendong develops traditional Chinese medicine for cancer research. In 2016, the network of cooperation between, the United States, Australia and the European Union has taken shape. The mechanism for treating cancer by Fufang kushen injection is getting distinct, which made the foundation for Zhendong Group pass the SDA certificate.

WORKING ON STANDARDS

The highest competition among companies is the standard competition. The one who controls the standards will occupy the commanding heights. In 2016, Zhendong Group has undertaken the breed standard making work for ten traditional Chinese medicinal materials: Forsythia, Kushen, Astragalus Membranaceus, Polygala Tenuifolia, Radix Bupleuri, Hawthorn, Sour Date Kernel, Flos Farfarae, and Rhizoma Hterosmilacis. Zhendong Group is leading to the overall improvement of the traditional Chinese medicine industry while improving the quality of traditional Chinese medicine products in Shanxi as well as the whole country.

ACCUMULATING CLINICAL EFFECTS

Zhendong Group is verifying the clinical effects of compound kushen injection in Guang'anmen Hospital of Chinese Academy of Traditional Chinese Medicine while decoding the mechanism of traditional Chinese medicine by using modern science and technology.

ENVIRONMENTAL PERFORMANCE

As a healthy industrial group led by pharmaceutical, Zhendong Group strives to practice the strategy of sustainable development, the idea of energy conservation and emission reduction as well as the environment protection and continue to push ahead the project of Green Mountain and Blue Water while accomplishing its industrial GMP certification.

Zhendong Group strictly abides by the rule of environmental laws and regulations, strengthens the enterprise environmental management and ensures the functional running of the pollution treatment facilities in order to discharge the pollutants at a standard level. Zhendong diverts wastewater from clean water without setting up concealed sewer pipes, avoid secret drainage and wastewater leakage, actively promote clean production, create an enterprise with green environment and continue to carry out the work of energy conservation and consumption reduction as well as the pollution decreasing and efficiency increasing. Enhance the education and training of environment-friendly publicity and improve the environmental awareness of all the people.

Technical improvement project in Zhendong Group(2016)

Technical Improvement Project	Savings(thousand yuan)
Kaiyuan Pharmaceutical company	1429
Taisheng Pharmaceutical company	1173
Zhendong Pharmaceutical company	907
Ante Pharmaceutical company	100

The idea of green and environment-friendliness and the top-level design of close and translucent demonstrated in Zhendong's office environment. All of these can reduce the impact imposed by the hot sweltering summer and the cold snowy winter, make greatest use of the natural light and decrease the low cost of the illumination and electricity, thus creating a livable city with green grass and thriving trees, clean water and lively fish, where the weather like spring all the year around.

Zhendong has built a gardening factory with a ratio of equal proportion of its engineering construction, road and green area, and the plants in the factory combine the function of decoration, greening, medicine and scientific popularization, which demonstrate its professional characters. The trees and plants in the factory have delivered the staffs' persistent pursuit of loving environment, appreciating society and respecting works with enthusiasm.

In order to avoid the devastating influence posed by the exterior drainage of the factory accidents leaking materials, Zhendong has established the "three-level prevention and control" mechanism including polluted source, treatment process and final emission according to the pollutant source and its features of the project and with the principles of achieving standard discharges and meeting the emergency disposal.





Our factory have two 10-tons pulverized coal boiler providing steam for production. We will take the bag dust collector, whose efficiency will reach to 99.5%, to dedust the waste generated by the furnace and we adopt the method of wet desulfurization by the sodium-calcium double alkali, up to a high efficiency of 70%. Finally, the processed smoke will be discharged through a 35-meters-high chimney. The coal boilers are equipped with the smoke online monitoring facilities which can monitor all the data all the time. At present, all the facilities are in good condition

The process of medicine production will produce dust due to the peculiarity of pharmaceutical industry, such as the granules generated in the process of tablets production and the dust produced by the dehydration and tableting. In order to effectively prevent the dust efflux, high-efficiency machines will filter the industrial dust, whose efficiency will reach to 99% and the dust collected will be processed by the qualified company. Currently, the dust filtering machines work well.



Our factory owns a sewage treatment station with daily sewage disposal of 400 Tons. The station takes the method of biochemical treatment; utilize the underground sewage treatment ponds to effectively degrade the pollutants, which improves the sewage recycling rate. The sewage processed by the station will conform to the "Water Pollutant Discharge Standard of Mixing formulation in Pharmaceutical Industrial". Meanwhile, the sewage treatment station is also accommodated with online monitoring facilities which will monitor the daily data at any time.

SOCIAL PERFORMANCE

PERSONNEL TRAINING AND SOCIAL SERVICE

Zhendong constructs structured human resources management system including recruitment, labor contract, vacation, overtime, performance appraisal, pay and benefit, to create comfortable working environment, improve employee welfare. Zhendong also pay more attention to employee occupation safety and physiologic health. Employees working in Zhendong are high satisfied, high proud and low turnover in local area and in same industry.

Following the talent concept of "one family, one army, one school", Zhendong has been dedicating to the professional growth of employees and has formed a set of training system and mechanism to promote staff to develop personal value, explore implicit potential and extend space for development.



Zhendong makes full use of internal and external resources to train staff. For senior managers, Zhendong dispatches them to some universities to learn relevant knowledge; for middle managers, some well-known management consulting institutions are invited here to train them; and for the first-line employees, we train them by ourselves through joint education with universities, training with one another among employees. Zhendong sent executives to China Europe International Business School for advanced studying, run joint class with Peking University, Tsinghua University and Renmin University of China for training managers, MBA seminar organized jointly with the Renmin University of China and Master of Medicine seminar with Beijing University of Chinese Medicine. In addition, Zhendong supports staff on professional growth. Zhendong pays full fee for employees to make examination about qualification and skill.

After years of exploration, practice and constantly improving the training mechanism, Zhendong has formed a training system taking the operation of "Zhendong Business School" as the core, with "one-on-one tutorial system" and "2+2" interactive training for two wings. "2+2" interactive training means that every employee needs to be trained by internal and external trainers, which is the first "2", the second "2" is that every manager needs to train both of internal and external personnel.

THE PERFORMANCE OF ZHENDONG BUSINESS SCHOOL IN 2016

- The tutorial system, graduated from the second phase of the tutorial system, including a total of 235 people, a total of 372 students, graduation rate of 85%.
 - 8 classes for the training of new employees, a total of 1056 people.
 - 36 classes for the training of employees, a total of 3120 people.
 - Undertaking meeting on management for 10 times.
 - Engaging in external training including the training for inheritors of national special technology on Chinese traditional medicine in 3 stages for 160 people, for Shanxi new professional farmers in 4 stages for 380 people; for the personnel of United Front Work Department of Changzhi County; for all doctors of Changzhi Chinese Medicine Hospital; for local government officials for 8 times of 1450 people; for local corporate employees for 11 times of 1550 people.
- All of the performance improves significantly than the previous year.

CHARITY AND PUBLIC WELFARE

Zhendong has developed charity & public welfare work into a social responsibility system synchronously with the development of business work for more than 20 years since the date the company was founded. Philanthropy has been the symbol of Zhendong.

Zhendong has spent nearly RMB 300 million on social charity and public welfare, with tens of thousands of people being helped so far.

In 2016, social donation of Zhendong reached up to RMB 28.72 million.



■ HELPING POOR DAY

The day of the last Sunday in August is set as "Helping Poor Day" in Zhendong which has been held for 18 times. The funding range for the poor college students was extended from original Changzhi County to the Changzhi area and Taiyuan, Jincheng, Datong, Jinzhong, Yuncheng and other areas.

In the 18th "Helping Poor Day" in 2016, there were a total of 1711 (households) students funded and spent RMB 7.24 million. So far, zhendong has donated to the middle and primary students, college and graduates students over RMB 100 million yuan, and has helped more than 10,000 students to realize the dream of learning.



■ WINTER AID DAY

The day of winter solstice is an annual "Winter Aid Day" in Zhendong in which day local orphans, elderly people, disabilities and special families are helped. It has been held 16 times so far.

In the 16th "Winter Aid Day" in 2016, a total of 4086 people (households) obtained aid, which paid 6.74 million yuan.





RESPECT FOR THE ELDERLY DAY

The 23th day of the twelfth month of the Chinese lunar calendar that is usually regarded as "small New Year" by China people is the official "Respect for the Elderly Day" in Zhendong, which began from the year when Zhendong was founded. Zhendong sent rice, flour and warm clothing to more than 1100 local elderly people over 60 years old annually since 1993. At present, the value of the goods has accumulated amounted to more than 10 million yuan. In 2016, 2972 people were helped for more than 760,000 yuan. Beginning in 2016, zhendong also made this day "Care Orphans Day", and Zhendong employee who has paired up with certain orphan will visit him/her on this day.



ZHONGHUA MERCY ANGEL FOUNDATION

Zhendong jointly launched "Zhonghua Mercy Angel Foundation" with salesmen and doctors registered RMB 70 million in Beijing in 2006. The fund is used to rescue and help poor patients. Over the past 10 years, Zhendong has donated more than 21 million yuan to help more than 4,500 patients in poverty nationwide. In 2016, during the "Helping Poor Day" event, Zhendong personnel including senior executives and general employees donated money to the "Zhonghua Mercy Angel Foundation", with a total of more than 680,000 yuan.

Since 2013, the students once been donated have started to donate their first monthly salary to the foundation in Shanxi Province. In 2016, 158 people made donations through foundation accounts. As of now, the total number of donors has reached 420, and the donation has been more than 260,000 yuan.



KEY PERFORMANCE TABLE

MARKET PERFORMANCE	2016	2015	2014	2013
Revenue of Major Businesses (RMB 10thousand)	518041.31	483140.93	449604	424128
Total Profit(RMB 10thousand)	54665.42	39059.83	35441.12	37002.23
Asset-liability Ratio(%)	41.98	58.95	50.22	46.66
R & D investment(RMB 10thousand)	8738.06	6260.82	5551.01	5248.95
ENVIRONMENT PERFORMANCE	2016	2015	2014	2013
Total investment in environment protection(RMB 10thousand)	300	220	240	160
Energy consumption per unit of output (tons of standard coal/RMB 10thousand)	0.0467	0.0483	0.0393	0.0395
Water consumption per unit of output (tons /RMB 10thousand)	4.37	3.98	3.66	2.04
Exhaust emissions(Ton)	So ₂ 3.9771 Fog 1.41	So ₂ 7.3313 Fog 2.15	So ₂ 35.03 Fog 19.1	So ₂ 17.51 Fog 9.55
Wastewater discharge(10thousand ton)	5.52	5.23	5.3	2.54
Comprehensive utilization of waste(%)	100	100	100	100
SOCIAL PERFORMANCE	2016	2015	2014	2013
Total tax paid(RMB 10thousand)	34719.6	20445.97	18765.49	18643.69
Total number of employees(head)	5437	4874	3951	3562
Labor contract signing rate(%)	100	100	100	100
Social insurance coverage(%)	100	100	100	100
Proportion of employees in the labor union(%)	100	100	100	100
Proportion of female executives(F: M)	64: 143	62: 141	60:139	57:133
Proportion of disabled employees(%)	0.46	0.42	0.41	0.38
Employees medical coverage rate(%)	100	100	100	100
Occupation disease incidence rate(%)	0	0	0	0
Total investment in staff training (RMB 10thousand)	604	729	604	498
Employees training coverage rate(%)	100	100	100	100
Average training time(day)	19.1	17.4	16	13.7
Employee satisfaction(%)	94.5	93	92.8	90
Employee turnover rate(%)	12.5	12.8	12.2	12.1
Donation(RMB 10thousand)	2872.25	2435	2137	1963



山西振东健康产业集团有限公司
SHANXI ZHENDONG HEALTH INDUSTRY GROUP

地址：山西长治振东科技园山西振东实业集团有限公司
电话：0355-8096088 邮箱：zgs@zajt.com