



上海實業控股有限公司
SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Stock Code : 363)

2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This environmental, social and governance report focuses on the disclosure of the performance of Shanghai Industrial Holdings Limited (“**SIHL**” or the “**Company**” or “**we**” or “**our**”) and its subsidiaries (the “**Group**”) on such issues for the period commencing 1 January to 31 December 2017.

The scope of reporting covers the Group’s principal businesses, including infrastructure facilities (water-related businesses), real estates and consumer products (tobacco business), which are mainly conducted in mainland China and Hong Kong.

Based on industry background, this report highlights the characteristics of the enterprise and has been prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Main Board Listing Rules issued by The Stock Exchange of Hong Kong Limited.

Environmental, Social and Governance Management Philosophy of SIHL

As a responsible enterprise, the Group has always been committed to strike a balance between business development and corporate social responsibility. In this regard, the concept of sustainable development has been integrated into the Group’s daily business operations and major business decisions. SIHL believes that enterprises are responsible for social development. As a red-chip company listed in Hong Kong, we have not only actively assumed our responsibility for social and economic development, but also strive to promote social green and the prosperity of the community. The Board of Directors has always attached great importance to sustainable development and is committed to create long-term values for the society by taking into account and balancing the interests of major stakeholders.

Regulatory Structure for Environmental, Social and Governance Issues

The Board of Directors is responsible for developing strategies and systems for the Group’s environmental, social and governance issues as well as managing their performance and reporting. A social, environment and corporate governance steering committee comprising the Group’s senior management and members of the Board has been established to direct its sustainable development. As such, the committee is responsible for formulating strategies and policies for sustainable development and identifying effectively risk management matters that relate to sustainable development in a timely manner. In addition, a social, environment and corporate governance planning and information disclosure working group comprising heads of various business units has been established to facilitate and monitor the progress of sustainable development issues and report them to the steering committee regularly.

We believe that our regulatory structure has incorporated the expertise and experience of our business units, enabling them to facilitate the consistent development of the Group’s environmental, social and governance issues as well as its business growth strategies.

Stakeholders Engagement and Importance Assessment

Through this report, we wish to express our determination of listening to opinions from different stakeholders and our adherence to information disclosure. The Group has always emphasized communications with various stakeholders, including employees, customers, shareholders, suppliers and the communities. A number of communications channels, including meetings, interviews and surveys, have been established to gather stakeholders’ ideas, opinions and suggestions.

To meet the principles of relevance, importance and balance for this report, we have solicited the opinions and recommendations of major stakeholders for SIHL in respect of environmental, social and governance areas, and have incorporated them in the report. Stakeholders have expressed greater concerns in the area of the Group’s performance in environmental protection and energy saving, staff development and training, as well as work safety and health and product and service quality.

The important environmental, social and governance issues have been based on the opinions and suggestions of our stakeholders. This report therefore has focused on the concerns and demands of our stakeholders, highlighted issues that are representative of them, and reported on matters that are in line with the development strategies of the Company.

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ENVIRONMENTAL PROTECTION

With a commitment to environmental protection, the Group actively explores opportunities and applies advanced technologies to minimize adverse impacts on the environment and depletion of natural resources.

Emissions

Air emissions and greenhouse gas emissions

We support the concept of green development, reduce waste through increased efficiency and strive to reduce emission from pollutants and greenhouse gas.



For example, in property development projects, we have adopted strict dust control measures at construction sites, including bare soil hardening treatment, covering soil or sprinkling according to weather conditions, adding covers to seal soil transport vehicles, controlling dust emissions, establishing transport vehicle cleaning tanks, ensuring that transport vehicles do not leave the sites with soil and sand. We also sealed flyable fine particle building materials for storage.

The waste incineration facilities under the infrastructure facilities business of the Group have adopted multiple processing technologies to cleanse and treat flue gas thoroughly and maintained emissions meeting the required standards established under regular supervision by local environmental protection authorities. For example, additional covers were used for sewage treatment plants for major buildings to collect air emissions, which will undergo biological deodorization treatment on a centralized basis to ensure the emission standards are met. During 2017, we continued to optimise and enhance the denitrification system of our infrastructure facilities business to improve the efficiency of removing nitrogen oxides in flue gas.

In tobacco processing, our three boilers all adopted cleaner ultra-low sulphur diesel as fuel, which has significantly reduced the emission of sulphur dioxide and other air pollutants. In addition, air emissions generated by processing equipment and workshops passes through dust collectors initially, enabling them to remove dust before removing odour through eight deodorizing machines. In addition, closed-circuit televisions were installed in exhaust chimneys to monitor the systems round-the-clock to ensure that gas discharged meets the required standards. Furthermore, piped gas was used as fuel at newly installed processing facilities, helping to clear the odour and dust generated during the production process and reduce environmental pollution.

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In addition, we will compare the specification and environmental impact of supplies available in the market when we replace production site or office supplies, and prefer products with higher energy efficiency. For example, our tobacco plants in Hong Kong have gradually ceased the use of non-ecofriendly refrigerants and use ecofriendly alternatives to reduce greenhouse gas emission. Our tobacco business in Hong Kong has joined the Energy Saving Charter 2017 organised by the Electrical and Mechanical Services Department to promote measures for energy conservation such as maintaining an average indoor temperature between 24 to 26°C, in an effort of making contribution to the environment.

The air emissions and greenhouse gas emissions data in the principal businesses of the Group under the scope of reporting in 2017 are as follows:

Environmental KPIs	Unit	2017
Nitrogen oxides emissions	tonne	1.529
Sulphur oxides emissions	tonne	0.002
Particulate matter emissions	tonne	0.145
Total greenhouse gas emissions	tonne CO ₂ e	264,984
Scope 1-Greenhouse gas emissions and removal	tonne CO ₂ e	6,870
Scope 2-Energy indirect greenhouse gas emissions	tonne CO ₂ e	258,114

Emissions into water and land

We advocate recycling of water resources to avoid or minimize sewage discharge. Taking property development projects as an example, we have established rainwater or reusable water collection systems to encourage recycling, utilising the recycled water for irrigation. Water recycling devices for machinery, equipment and vehicle flushing water are installed at construction sites to separate sewage from wastewater, and reusable water collection tanks are used to realize cascade utilization of water and avoid or reduce emissions.

Waste management

The Group adheres to waste management policies that are based on the 3R (Reduce, Reuse and Recycle) and encourages the reduction of consumption and reusing and recycling of resources.

Many of our property development projects adopt the U.S. Leadership in Energy and Environmental Design (LEED) standards for designs. Architectural design takes into account environmental impacts at various stages of the life cycle of a project including site selection, design, construction, operation, maintenance, renovation and demolition, as well as automation and standardization factors to avoid waste of building materials. Certain recyclable building materials are also adopted to reduce waste generated at the source.

The operations of the Group do not generate large quantity of hazardous waste which requires treatment. Hazardous waste generated in our infrastructure facilities (water-related businesses) are used in the Group's waste incineration thermal power generation. In business operation, we actively implement strict classifications and separate storage of waste to ensure that waste is properly recovered and treated by qualified recycling operators.

Waste generated in the office including paper, printer cartridges, etc., are recovered by recyclers. We have also provided waste recycling bins in the office and employees are encouraged to actively participate in recycling.



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The waste discharge data in the principal businesses of the Group under the scope of reporting in 2017 are as follows:

Environmental KPIs	Unit	2017
Total non-hazardous waste produced	tonne	129

Use of resources

We have adopted national codes for energy conservation of public buildings and local energy conservation rules where the projects are located in the design of our property projects. Some large complex projects and certain residential projects of the Group are designed in accordance with national star-rated building or U.S. LEED green building standards in order to reduce environmental pollution and the loss of resources in the whole life cycle of the building through a series of design and measures to save land, energy, water and materials.

In addition, energy conservation transformation programs are carried out at our properties and production sites to improve energy efficiency. For example, Urban Cradle, the design of which has been commenced in 2017, will be built using prefabricated construction method. We expect that the proportion of prefabrication for each construction unit will be approximately 40% which will significantly reduce the impact on the construction site and the surrounding environment, and reduce the waste of building materials. We have used T5 light tubes at our tobacco plants in Hong Kong and gradually replace all lightings to LED lights in the plants. We also procure equipment with higher energy efficiency or frequency control to further improve energy efficiency. Water plants and sewage treatment plants under the infrastructure facilities business of the Group are operated under reduced pumping pressure at low seasons of water supply or drainage. Repair and maintenance of equipment such as pump motors are strengthened to enable electricity saving without affecting their best performance.

During 2017, energy conservation transformation programs have been carried out at our development properties for the use of direct water supply from the water pump, which not only avoids the secondary contamination that may occur in supplying water from a water tank, but also enhances the water quality for the community and reduces the noise from operating pumps and as well as effectively resolves the difficult issue of water wastage arising from leakage in fire water tanks. It is expected that such energy conservation transformation of water pump will save power consumption by 40 to 80%.

With the in-depth development of the information system, the Group continues to raise the level of office automation, improve office efficiency and promote paperless office. We actively encourage employees to conduct video and teleconferencing and reduce unnecessary business trips by holding video conference in order to strengthen their awareness of energy saving and low carbon emissions.

The resources usage data of relevant enterprises in the principal businesses of the Group under the scope of reporting in 2017 are as follows:

Environmental KPIs	Unit	2017
Total energy consumption	kWh	322,044,305
Total direct energy consumption	kWh	25,685,558
Diesel	kWh	892,155
Gasoline	kWh	491,366
Liquefied petroleum gas	kWh	143,197
Natural gas	kWh	24,158,840
Total direct energy consumption intensity	kWh/HK\$'000 of revenue	0.871
Total indirect energy consumption	kWh	296,358,747
Electricity purchased	kWh	295,651,330
Towngas	kWh	707,417
Total indirect energy consumption intensity	kWh/HK\$'000 of revenue	10.045
Total water consumption	m ³	462,141
Water consumption intensity	m ³ /HK\$'000 of revenue	0.016
Total packaging material used for finished products	tonne	6,981
Packaging material used for finished products per unit produced	kg/unit of finished product produced	3.760

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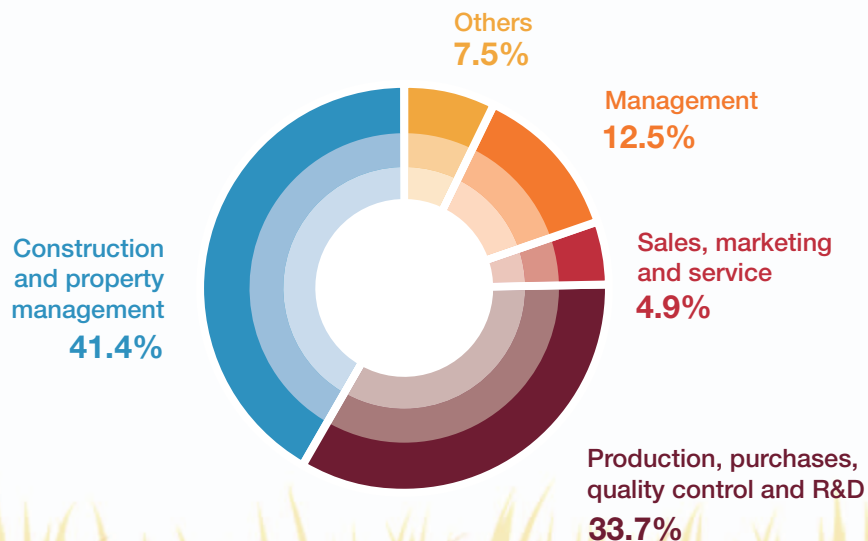
Environment and natural resources

The Group actively explores technologies and methods to protect the environment and natural resources in its daily operation and projects. In the project planning process, the Group conducts comprehensive environment impact assessments, adopts relevant measures to lower environmental impacts, and strives to protect the habitat and natural resources at project sites.

EMPLOYMENT AND LABOR PRACTICES

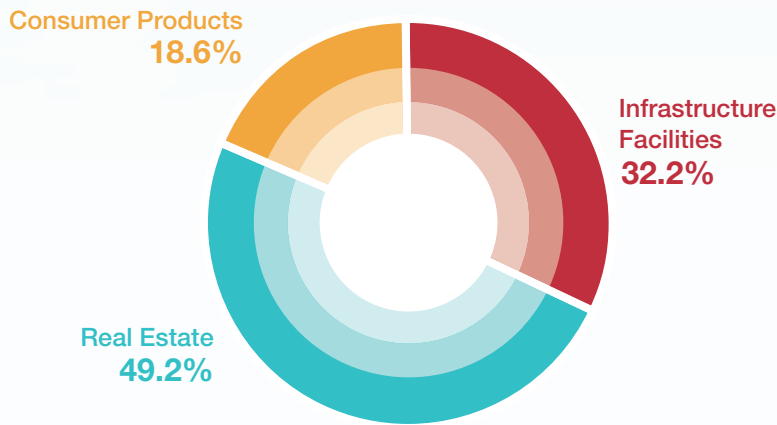
We regard our employees as our most valuable capital/resources who are essential for the sustainable development of the Group. With a total number of employees of about 19,244 as at the end of 2017, the Group continues to improve its talent recruitment, retention and development systems, developing a regulated, open, robust and efficient management style to ensure employees realize that their values are properly recognized. Data used in the charts of this section cover all employees of the Group.

Total workforce by employment type



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Total workforce by business segment



Employment

The Group is committed to talent management and adheres to a “people-oriented” spirit. We have adopted an equal opportunity recruitment strategy to attract talented people. By establishing a performance appraisal mechanism to determine competitive remuneration and benefits through assessing individual contributions, corporate results and market trends, we ensure that employees are fairly compensated.

Enterprises within the Group have produced staff manuals in accordance with the nature of their business for strict implementation, setting out clear policies for office procedures, reporting duty, attendance, performance appraisals, rewards and penalties, compensations and benefits as well as training and employee rights. By adopting a principle of “remuneration based on position”, these enterprises provide employees with competitive remunerations in accordance with economic growth and business operations, integrating a remuneration that is based both on a fixed salary and performance appraisal and taking into account of job responsibility and individual capability as well as corporate results. In addition, the enterprises continued to improve their remuneration and benefit package by taking into account standardized performance management as the key to talent selection and remuneration management, ensuring that an objective, fair, regulated and transparent performance system is followed.

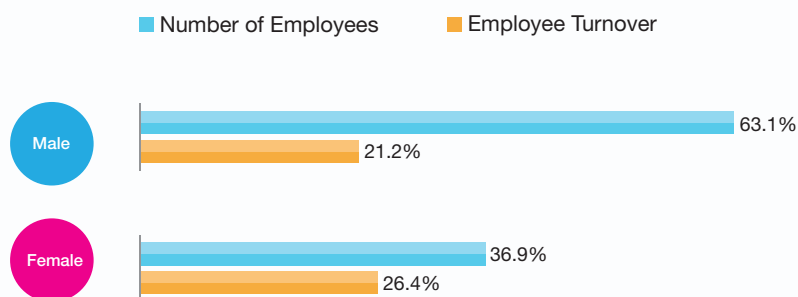


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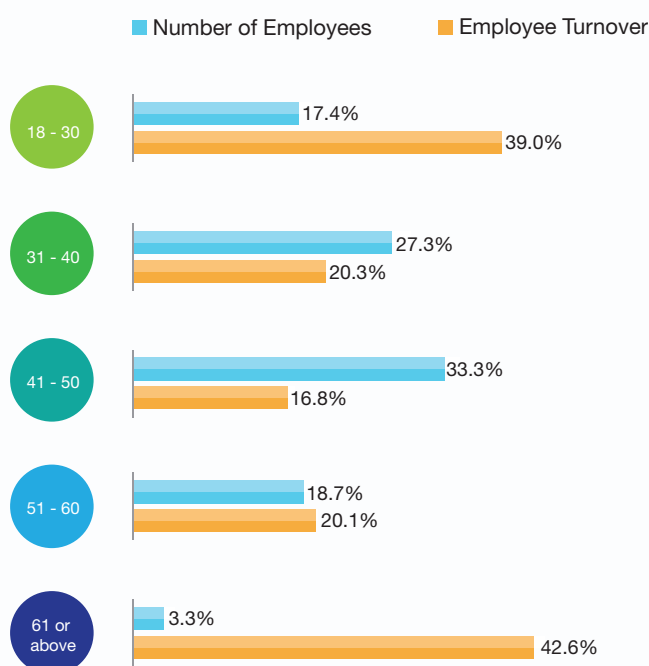
In order to ensure effective recruitment and successful retention of talents, the Group offers, in addition to salaries, allowances and bonuses, a compensation package to its employees that include cash and medical allowances, regular physical examinations, maternity leaves and marriage leaves, personal accident insurance as well as retirement benefits. Furthermore, in compliance with the Mandatory Provident Fund Schemes Ordinance, the Company provides qualified employees with defined contribution pension plans and participates in the mandatory provident fund scheme for all of its employees, which is operated and managed by independent trustees in accordance with the provisions of respective regulations.

The principal activities of members of the Group are located in China and Hong Kong. In accordance with respective local regulations and corporate cultures, we have formulated relevant codes of conducts for employment to provide employees with equal opportunities and adhere to a policy of diversification and anti-discrimination. The relevant codes of conducts are also included in the staff manuals for implementation.

Total workforce and employee turnover rate by gender

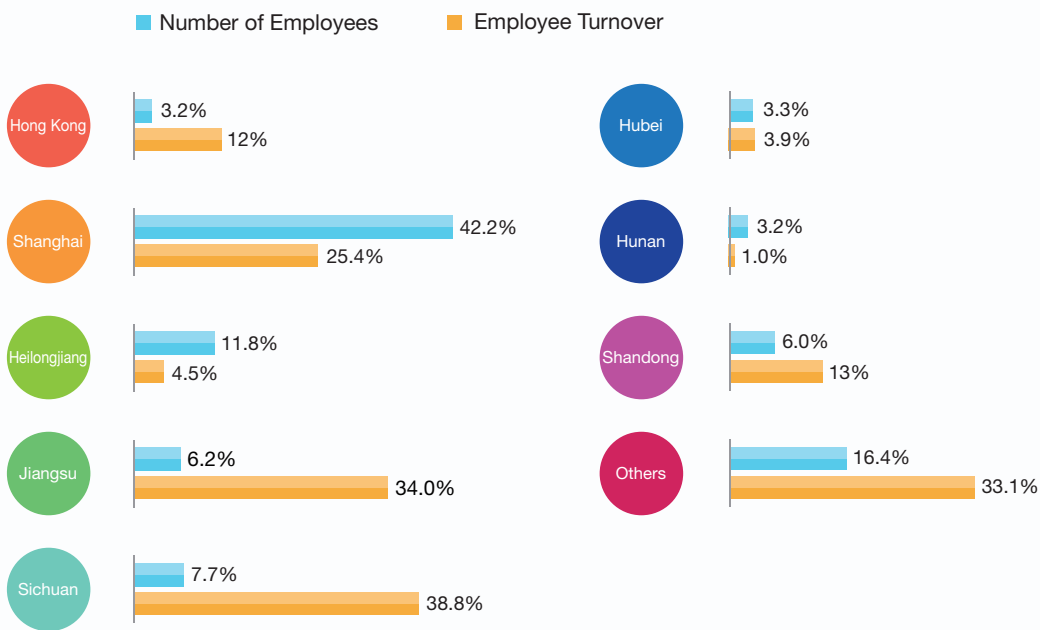


Total workforce and employee turnover rate by age group





Total workforce and employee turnover rate by geographical region



Health and Safety

Putting top priority on the health and safety of employees, we are committed to providing a safe working environment for our staff. The Group adheres to the corporate culture philosophy of “healthy lifestyle, joyous working” and constantly enhances production safety mechanisms of all units, implements rules and regulations required for production safety, as well as identifying and controlling workplace hazards. Striving to establish a corporate safety culture, ensure occupational health and safety of its employees and establish a working environment with zero accident, the Group has made considerable efforts in the following three areas: strengthening the development, supervision and control of its safety systems; providing employees with safety education and training and enhancing their awareness of safety and emergency capability.



In order to improve the operational safety of our tobacco production business in Hong Kong, a safety committee has been formed to meet and report on production safety performance at least every quarter. We continuously make improvements to strengthen the monitoring and review of the Group’s safety management systems. The Company holds various activities each year such as “Safety Production Month” to enhance employees’ safety awareness. Furthermore, relevant safety policies which are easily accessible by employees are revised at least once every two years to keep abreast with the latest developments of the market.



Occupational safety risk management has always been a major concern for the construction industry. During the year, our member companies entered into safety responsibility letters with their functional departments and subsidiaries, with a signing coverage rate of 100%; carried out safety inspections and irregular checks on all units and full coverage inspections on production safety, and provided protective, heat stroke prevention and cooling equipment for workers; issued safety rectification notices for safety risks identified and conducted closed-loop rectifications.

In 2017, more safety education and training activities were organized for the Group's employees. The alertness to emergency response within the Group has been further enhanced with the implementation of fire evacuation drills and other simulation exercises to enhance employees' health and safety awareness and contingency adaptability. Our employees were also provided with labour protection products required for special skills and positions. The safety condition of equipment was checked on a regular basis and our employees were given relevant occupational health checks to ensure their health.



In addition, all enterprises within the Group have strengthened their internal information communication, with special teams responsible for the coordination, planning, organization, development and promotion of safety and health matters. A corporate occupational health and safety culture will continue to be emphasized.

Development and Training

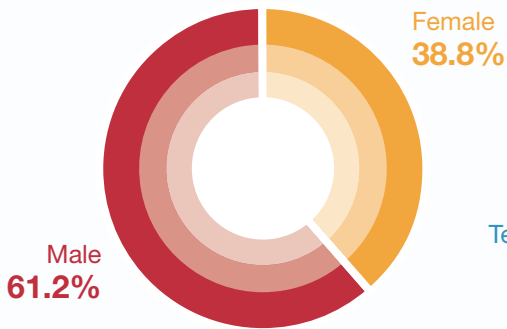
The Group attaches great importance to professional development and training for its employees, broadening their horizon for growth and helping them to recognize their own value and potential.

We provide employees with a wide range of training and development opportunities and have established a good learning mechanism. Each year, a wide range of internal and external training programmes were organized, covering induction training, performance management, quality control, occupational health and safety as well as financial and tax management. According to the requirement of the Group's five year plan, each subsidiary proactively establishes an effective and responsible management team and strengthens the employees' sense of belonging. For example, a "Talent development plan" for young employees has been implemented by our listed real estate enterprise bi-annually to build a sufficient talent reserves for the development of our enterprises. They have held their "Staff podium" for eight years since its launch in 2010, so far over 142 sessions have been held with over 3,572 employee participants. The "Staff podium" aims to provide a chance for their employees to act as teachers so that they can improve their skills and quality through mutual training. Experienced industry experts and senior management are invited to share their experience in management, culture and profession. Furthermore, we also place great emphasis to the talent pool of middle managers and identify, reserve and cultivate talents through management trainee rotations, training programmes and regular assessments.

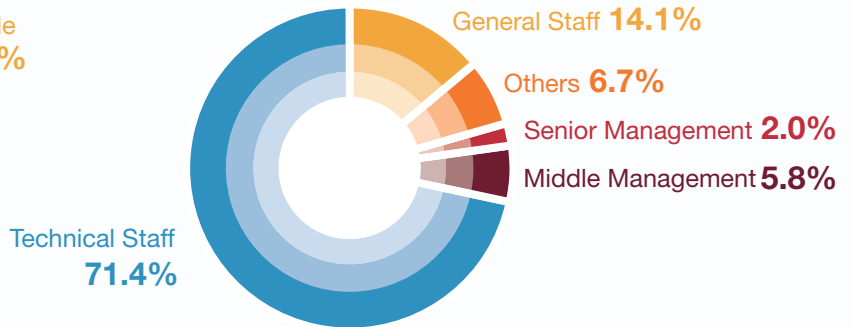
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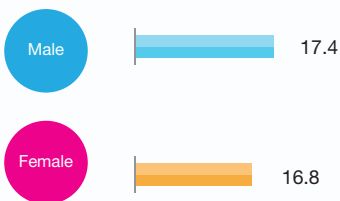
The percentage of employees trained by gender



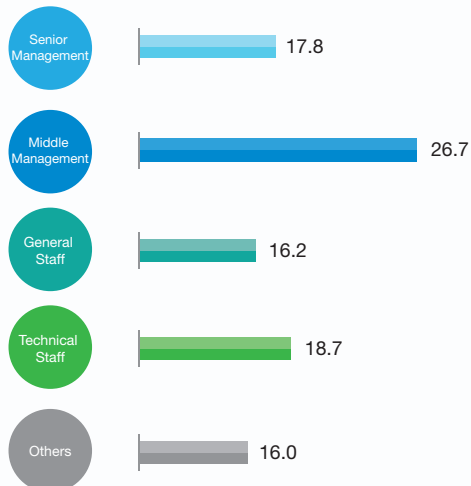
The percentage of employees trained by employee category



The average training hours completed per employee by gender



The average training hours completed per employee by employee category



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In order to further enhance our corporate culture of training and development to meet the future expansion and business development of the Group, a series of corporate cultural activities were held to strengthen the spirit of teamwork and provided a platform for cross learning and exchange.

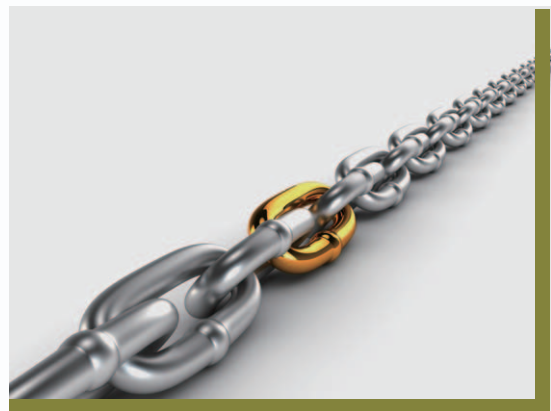
Labour Standards

The Group complies with the relevant labour laws and regulations, and resolutely avoids any child labour or forced labour in operation.

OPERATION PRACTICES

Supply Chain Management

In view of the diversity of its business, the Group has to interact with a wide range of suppliers in our daily operation. For this reason, we are committed to establishing a close partnership with them to seek mutual interest and to arrive at a common goal for the development of the Group. Enterprises within the Group have established their respective supplier management and self-assessment systems to ensure suppliers and materials procured meet their assessment standards and minimize potential chain risks. The list of our suppliers is updated at intervals and their performance is evaluated with a scoring system. Suppliers with scores below the Group's internal standard will be removed. In case any goods delivered fail to meet the Group's delivery and quality requirement, we will issue punishment warning notice to implement certain punitive measures. Furthermore, we arrange field visits to main suppliers to inspect their production and access eligibility for the selection of qualified suppliers.



Using a single supplier is generally avoided to prevent supply chain risk. In 2017, the total purchase from our top five suppliers accounted for no more than 30% of our total purchases

Bidding activities are regulated under respective rules to ensure the quality and efficiency of procurement. Fair and transparent evaluation rules are also implemented to create a fair and open bidding process to enhance procurement.

Product Liability

Delivering outstanding product and service quality is our commitment to customers. Over the years, the Group has made considerable efforts to improve the quality, healthiness and safety of its products and services while striving to innovate and strengthening communications with our customers and to create a more pleasant experience for its customers.

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Product quality is the core competitiveness of an enterprise and also the most essential requirement for product responsibility. For many customers, property purchase is among one of the most important investment decisions in life. With this in mind, we strictly control our property projects and strive to ensure product quality and protect customers' interests by improving quality standards through monthly project inspections, joint inspections upon the delivery of the properties and third-party sampling checks.

In response to a call from the State Council for establishing a green building system, the Group has endeavoured to work out an efficient, clean, low-carbon, recycling green manufacturing system. Our property development business assumes the responsibilities for urban development, promoting green development and improving the quality of life. High-quality products can create long-term values for customers and the society. As such, in addition to product quality, we also focus on energy-saving and environmentally-friendly building designs to improve environmental protection as well as the health and safety aspects of the community. For example, our Apex Tower, an office building in the TODTOWN project under development, has obtained the US LEED green building golden award pre-certification, our Bingjiang U Center project in Xuhui, Shanghai now at the designing stage, has obtained the LEED and national standard green building certification and our Beijing West Diaoyutai Phase III residential project also obtained the national standard green building certification.

Our commitment to quality has also been reflected in the reliability of our products and services. For instance, the quality of water supply and sewage treatment business of the Group has passed national safety standard certification. Subsidiaries of the Group possess Class A qualification for environmental pollution control facilities operation and have passed integrated occupational health and safety management, quality, environmental certification which meets international standards. Real-time monitoring system is adopted in the sewage treatment process, and designated persons are responsible for the collection and analysis of water samples to ensure the treatment results meet required standards.





Complaints or suggestions from citizens are collected by the relevant enterprises through their websites or hotlines and are responded to and dealt with immediately to solve their service needs. We have also set up a 24-hour tap water supply service hotline and assigned designated persons to be responsible for handling and managing users' comments, suggestions and complaints and urging the handling of the relevant complaints.

In order to further enhance customer experience and live up to an internet era living concept, our property service business continued to optimise the on-line "Chengbao" APP2.0 service in 2017 to facilitate electronic and intelligent development, which completely upgrades urban intelligent life from multiple perspectives including product, service and experience. It seeks to meet the needs of property owners by establishing an internet platform connected to existing third-party platforms, consolidating resources and comprehensive information to form an integrated big data management platform and share extensive information with users. An "Opinions and Advice" function has been included in "Chengbao" APP2.0, which conveys owners' opinions and suggestions directly to the relevant departments of our enterprises in order to facilitate effective response to and proper solving of consultations and questions about products and services.

Providing factual and accurate information is an important prerequisite for corporate responsibility communication. In our communication with customers, we pay attention to quality apart from the volume of information. Our enterprises strictly comply with the requirements of local laws and regulations, including requirements for advertising and labelling, in marketing products and services. For example, health warnings are printed on tobacco packaging to provide transparency to consumers and the general public.

The Group attaches great importance to the protection of customer information and privacy, and strictly prevents unauthorized disclosure of customer privacy. Enterprises within the Group observe strictly relevant regulations and rules to maintain the confidentiality of customer information, which is accessed only by authorised personnel to protect information security. We communicate the requirements for protecting customers' privacy through internal communication and training. Unauthorized disclosure of user information will be handled in accordance with the respective rules of the Company and the persons identified shall be held responsible.

Anti-corruption

Business ethics and integrity are key elements for the survival of an enterprise. With a strong emphasis on corporate integrity and honesty, we comply strictly with the requirements of the relevant laws and regulations and Hong Kong's Listing Rules. Our enterprises have established internal rules to provide guidance and a basis for employee behaviours. We have also provided channels for reporting misbehaviours through setting up reporting hotlines and confidential emails. All directors and senior management with a total of more than 100 people played a leading role in promoting integrity and disciplined practices in our operations, and dedicated to act as a role model for subordinated divisions and staff. They have signed and implemented the commitment to Party discipline and integrity building, leading their team members to adhere to honesty and integrity in their practices, to establish a sound corporate culture of integrity, and to build and monitor systems for the implementation of major responsibility and accountability.

Furthermore, in adherence to good corporate governance principles, the Group has tightened internal control management and enhanced warning education and discipline inspection work. The headquarters of the Group conducts special audits of its project companies on a regular basis, covering finance, procurement, management and production.

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We convey clearly our great determination for integrity and honesty to our employees through staff manuals and internal training, and emphasize the Group's requirements for professional ethics and declaration of interests. In addition, we also require our suppliers to be sincere and honest.

SOCIAL RESPONSIBILITY

As an established red-chip window company with a strong presence in the society, SIHL has made considerable efforts to build a rapport with the local communities. The Group arranges its staff to participate in city management, taking the initiative to arrange its staff to participate in charitable and voluntary activities, such as providing voluntary service for the Walk of Civilization (文明行路) and blood donation. At the same time, in line with the corporation branding campaign of its subsidiaries, the Group makes good use of corporate resources and is dedicated to innovating the way we carry out charity and community activities, with a continued focus on art, education, environmental protection and poverty relief. In 2017, we promoted our social responsibility work mainly through supporting education, helping the poor and participating in community development. Major social responsibility activities carried out during the year are as follows:

Over the past two decades, the Group has been supporting and providing subsidies to the Liu'an Chengkai Hope Primary School in Anhui Province since it was built in 1996. Each year, employees were organized to provide voluntary education at Liu'an Chengkai Hope Primary School, donate items such as eye-protection desk lamp and to help individual students with financial difficulty. Liu'an Chengkai Hope Primary School has become a local school with relatively advanced school facilities, teachers and teaching philosophy. In addition, we launched branding campaigns named Love on Classroom Desk (課桌上的愛) and Art for Children Walk (藝起童行) with the aim of supporting education in villages to provide education opportunities to "left-behind" children and promote the harmonious regional development.

In addition, employees are encouraged to go into the community and participate in public volunteer activities. Our volunteer team has participated in regional volunteer clinic activities, and assisted over a hundred Chinese and western medical staff from a number of professional bodies in Hong Kong to participate in such services. In 2017, we provided volunteer clinic services for over 3,000 residents in four administrative districts, including Hung Hom, Sham Shui Po, Yaumatei-Tsimshatsui-Mongkok and Kwun Tong, providing them with health counselling and medical services. As a result, the community has become more conscientious about the importance of medical and health services.

