



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Stock Code : 363)



2019

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 2019.



The scope of reporting covers the Group’s principal businesses, including infrastructure facilities (water-related businesses), real estate 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.

The Environmental, Social and Governance Management Philosophy of SIHL

As a responsible enterprise, the Group has always struck a balance between business development and social responsibility. This is achieved through integrating the concept of sustainable development into day-to-day business operations and major commercial decisions. As a red-chip company listed in Hong Kong, we not only assume responsibility for the social and economic development of the community, but also strive to improve the community’s environmental sustainability. The Board of Directors has always attached great importance to sustainable development and is committed to creating 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 leads the development of strategies and systems for the Group’s environmental, social and governance issues as well as managing their performance and reporting. A social, environmental and corporate governance steering committee comprising the Group’s senior management and members of the Board directs the sustainable development of the above issues. As such, the committee is responsible for formulating strategies and policies for sustainable development and identifying effectively risk management matters that are related to sustainable development in a timely manner. In addition, a social, environmental and corporate governance planning and information disclosure working group comprising heads of various business units facilitates and monitors the progress of sustainable development issues and reports them to the steering committee regularly. We believe our regulatory structure has incorporated the expertise and experience of our business units, enabling them to facilitate the coordinated development of the Group’s environmental, social and governance issues and its business growth strategies.

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Stakeholder Engagement and Materiality Assessment

We have all the way expressed our determination of listening to opinions and ideas of different stakeholders and our adherence to information disclosure. The Group has always emphasized communication with various stakeholders, including employees, customers, shareholders, business partners, suppliers, media and the community. A number of communication channels, including meetings, interviews and surveys have been established to gather stakeholders' ideas, opinions and suggestions.



Communication channels of respective stakeholders are as follows:

Major Stakeholders	Communication Channels
Employees	<ul style="list-style-type: none"> • regular meetings and gatherings • training, seminars and workshops • performance and development discussions • volunteer activities
Customers	<ul style="list-style-type: none"> • daily operations and interaction • customers' satisfaction surveys • company's website
Shareholders	<ul style="list-style-type: none"> • shareholders' meetings and other meetings • corporate communications, including circulars, notices, results announcements, annual reports and interim reports
Business partners	<ul style="list-style-type: none"> • meetings and seminars • field trips
Suppliers	<ul style="list-style-type: none"> • assessment and performance reviews • field trips and meetings
Media	<ul style="list-style-type: none"> • management interviews and meetings • results reports
Communities	<ul style="list-style-type: none"> • volunteer activities • sponsor and donation • community outreach

To meet the principles of relevance, materiality 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 will be 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.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

The Group gives high priority to environmental protection, and continuously explores opportunities and applies advanced technologies to minimise and prevent adverse impacts on the environment and depletion of natural resources.

Emissions

Air emissions and greenhouse gas emissions

We highly regard green development as an integral part of our operation concept, and reduce waste through increased efficiency, so as to reduce emissions from pollutants and greenhouse gas. For example, in property development projects, air pollution mainly occurs during the fundamental, structural and decorative construction phases. The Group has then identified various sources of pollution pertaining to these phases, including the flow of dust from construction road tracks, vehicle transport, earthwork and construction machines, and has implemented corresponding preventive measures on these sources. We have adopted strict dust control measures at construction sites, including bare soil hardening treatments, covering dust 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, and set up dust blocking devices for on-site mixing equipment.

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. Additional covers were used at sewage treatment plants for major buildings to collect air emissions, which will undergo biological deodorization treatment on a centralised basis to ensure that emission standards are met. During 2019, we continued to optimize and enhance the denitrification systems 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 fuel, which has significantly reduced emissions of sulphur dioxide and other air pollutants. In addition, the air emissions generated by processing equipment and workshops passes through dust collectors initially, enabling them to remove dust before removing odour through eight deodorising machines. 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 incinerator installed in recent years, helping to clear the odour and dust generated during production process and reduce environmental pollution. Of the existing 121 air conditioners, environmentally friendly refrigerants were used on 68 (approximately 56%) of them, and we will gradually replace all the remaining units with models using environmentally friendly refrigerants during equipment maintenance and replacement.

In addition, we will compare the specification and environmental impact of supplies available in the market when we replace production sites 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 eco-friendly alternatives to reduce greenhouse gas emission. Our tobacco business in Hong Kong has joined the Energy Saving Charter 2019 organized by the Electrical and Mechanical Services Department to promote measures for energy conservation such as maintaining an average indoor temperature of between 24-26°C, in an effort to make contribution to the environment.

The air emission and greenhouse gas emission data in the principal businesses of the Group under the scope of reporting in 2018 and 2019 are as follows:

Environmental KPIs	Unit	2019	2018
Nitrogen oxides emissions	tonne	1.895	1.282
Sulphur oxides emissions	tonne	0.007	0.005
Particulate matter emissions	tonne	0.123	0.117
Total greenhouse gas emissions	tonne CO2e	303,014	226,214
Scope 1 – Greenhouse gas emissions and removal	tonne CO2e	17,489	6,064
Scope 2 – Energy indirect greenhouse gas emissions	tonne CO2e	285,525	220,150

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



Emissions into waters and soil

Proper sewage treatment helps to protect the environment and communities. We treat sewage in a cost-effective manner and advocates recycling of water resources to avoid or minimize sewage discharge. To cite one example, at property development projects, our practice is to emplace catchment ditches at the construction site and treat waste water in sedimentation tanks prior to connecting with municipal rainwater pipelines. We also use collection systems to purify rainwater or reusable water, with the recycled water subsequently put to irrigation purposes. 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 realise cascade utilization of water, to encourage water recycling and avoid or reduce emissions.

Waste management

The Group adheres to waste management policies that are based on the 3Rs (reduce, reuse, recycle) and encourages the reduction of consumption and reusing and recycling of resources. Being a large-scale producer, we actively implement waste reduction strategies. Many of our property developments 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 standardisation factors to minimize wastage of building materials. In addition to using recyclable building materials, we aim to reduce waste generated at the source.

The operations of the Group do not generate large quantities 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. During the production process, we actively implement strict classifications and separate storage of waste to ensure that waste is properly recovered and treated by qualified recycling operators. For example, used oil and kerosene generated in the tobacco production process are recycled and disposed of by qualified contractors recognized by the government. The odour of exhaust gases are removed by deodorizing machines; wastewater is filtered by sewage treatment systems, and other waste paper, rubber cylinders, metal and kitchen waste are properly collected and handled by recyclers.

Currently, we have provided waste recycling bins in the office for collecting waste paper, aluminum cans, metal scraps and plastics and employees are encouraged to actively participate in recycling. Waste generated in the office including paper, printer cartridges, etc. are recovered by recyclers. The Group's real estate development companies actively responded to the Shanghai Municipal Waste Management Regulations officially implemented on 1 July 2019, and officials of the City Greening and Sanitation Bureau of Xuhui District were invited to deliver a lecture to our employees on garbage classification in April 2019.

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The waste discharge data in the principal businesses of the Group under the scope of reporting in 2018 and 2019 are as follows:

Environmental KPIs*	Unit	2019	2018
Total non-hazardous waste produced	tonne	6,325	643

* The rise in figures of the environmental KPIs is mainly due to business expansion from the scale of construction work and expansion in data coverage.

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, the U.S. WELL health and well-being building standard or 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.

Ever since a pilot run was made on a construction energy efficiency management platform at Golden Bell Plaza in Shanghai in 2018, it has provided comprehensive energy consumption information, equipment operation monitoring, energy consumption projection and alerts as well as energy strategy management for properties under the management of the Group. In the construction process of the residential and public facilities developed by the Group, recyclable materials are used and prefabricated construction method is adopted to reduce environmental pollution and waste of construction materials during construction. The Group also upgrades and renovates its existing commercial projects in an ongoing process. By improving the energy efficiency of electromechanical system, enhancing the thermal insulation performance of existing building envelope and upgrading environmental protection facilities, the energy conservation and environmental protection performance of the existing buildings are improved. The Group's tobacco business in Hong Kong endeavours to promote energy efficiency and conservation in response to the activities of Energy Saving Charter 2019 organised by the Electrical and Mechanical Services Department in April last year. The production sites are continuously upgraded, energy-saving T5 light tubes are largely used on factory venue, and halogen spotlights were supplanted with LED units, air compressors and deodorising fans were replaced with energy efficient equipment or equipment with frequency conversion control. Moreover, dust cylinders with high energy consumption were superseded with modern units. All these will help to enhance efficiency for use of resources.

Water plants and sewage treatment plants under the infrastructure facilities business of the Group are operated under reduced pumping pressure at low seasons of actual water supply or drainage. Repair and maintenance of equipment such as pump motors are strengthened to enable electricity saving without affecting their best performance. Our development properties use direct water supply from the water pump, which not only avoids 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 as well as effectively resolves the difficult issue of water wastage from leakage in fire water tanks.

With in-depth development of the information system, the real estate business of the Group continues to raise the level of office automation and promote paperless office. Employees are encouraged to conduct video and teleconferencing and reduce unnecessary business trips in order to strengthen their awareness of energy saving and low carbon emissions.. When acquiring new vehicles for business use, the Group chooses those "new energy" models with high energy efficiency and low emissions in first priority.

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The resources usage data of relevant enterprises in the principal businesses of the Group under the scope of reporting in 2018 and 2019 are as follows:

Environmental KPIs*	Unit	2019	2018
Total energy consumption	kWh	407,462,738	292,507,439
Total direct energy consumption	kWh	39,069,886	24,178,638
Diesel	kWh	9,872,546	1,474,305
Gasoline	kWh	2,287,892	1,879,977
Liquefied petroleum gas	kWh	154,295	174,651
Natural gas	kWh	26,702,868	20,649,706
Ethanol gasoline	kWh	52,284	–
Total direct energy consumption intensity	kWh/HK\$'000 of revenue	1.21	0.795
Total indirect energy consumption	kWh	368,392,852	268,328,800
Electricity purchased	kWh	331,363,970	267,585,194
Towngas	kWh	37,028,882	743,606
Total indirect energy consumption intensity	kWh/HK\$'000 of revenue	11.39	8.8229
Total water consumption	m ³	1,092,630	647,482
Water consumption intensity	m ³ /HK\$'000 of revenue	0.0338	0.0213
Total packaging material used for finished products	tonne	7,502	7,265
Packaging material used for finished products per unit produced	kg/unit of finished product produced	3.76	3.76

*The rise in figures of the environmental KPIs is mainly due to business expansion from the scale of construction work.

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 of its real estate projects, the Group hires a professional unit to conduct comprehensive environment impact assessments so that it will take into account the concept of environment and social responsibility, and plans and manages its projects on a sustainable basis. A working list for environmental management are compiled during the construction stage and measures for environmental protection are in place during operation. The Group adopts relevant measures to lower environmental impacts and strives to protect the habitats and natural resources at project sites. In our case, the T18 Grade A office building at Minhang district, Shanghai received LEED Gold pre-certification at the design stage. To achieve this, specific materials were selected to minimise their environmental impact during the entire life-cycle of the building. The Group is committed to meeting the low carbon requirements even at higher costs, and engages environmental assessment certification whenever needed. In an effort to reduce noise pollution, the Group's property enterprises carefully plan for the facilities used in the construction site in the project construction process. Noisy equipment are kept away from residential areas wherever possible, sound insulation measures are adopted, and low noise construction technology are used to reduce the noise level in construction sites.

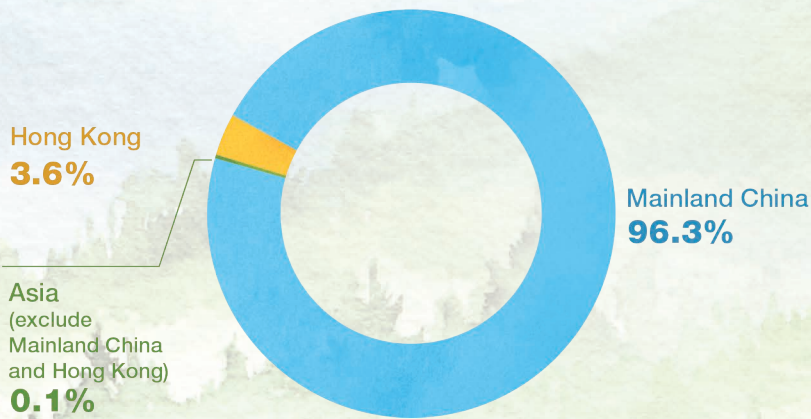
EMPLOYMENT AND LABOUR PRACTICES

We regard our employees as our most valuable capital who are essential for the sustainable development of the Group. With a total number of employees of about 18,415 as at the end of 2019, the Group continues to improve its talent recruitment, retention and development training, 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.

The workforce by gender



The workforce by geographical region



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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, setting out clear policies including office procedures, reporting duty, attendance, performance appraisals, rewards and penalties, compensations and benefits as well as training and employee rights for strict implementation. By adopting the 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 job responsibility and individual capability as well as corporate results. In addition, the enterprises continued to improve their remuneration and benefits package by taking into account regulated performance management as the key to talent selection and remuneration management, ensuring that an objective, fair, regulated and transparent performance system is followed to appraise, select and promote outstanding talents.

The Group offers a comprehensive compensation package to its employees that include, in addition to salaries and bonuses, cash and medical allowances, regular physical examinations, maternity and marriage leaves, paid leaves, personal accident insurance, training subsidies, condolences for employees in difficulties, etc. as well as retirement benefits in order to ensure effective recruitment and successful retention of talent. Furthermore, in compliance with the Mandatory Provident Fund Schemes Ordinance, our business in Hong Kong 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.

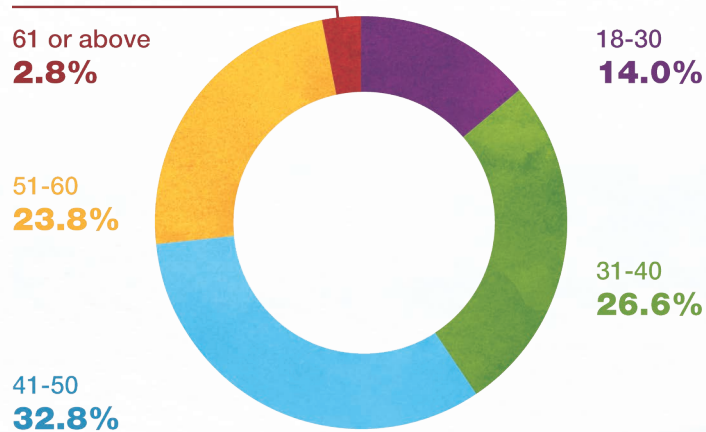
The workforce by employee type



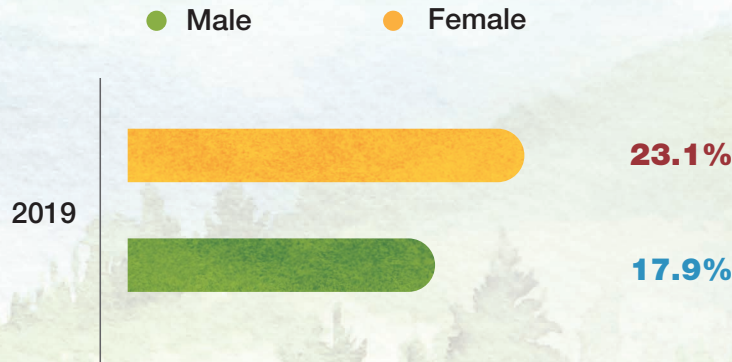
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The principal activities of members of the Group are located in China and Hong Kong. In accordance with respective local regulations and corporate cultures, we have formulated relevant codes of conduct for employment to provide employees with equal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

The workforce by age group

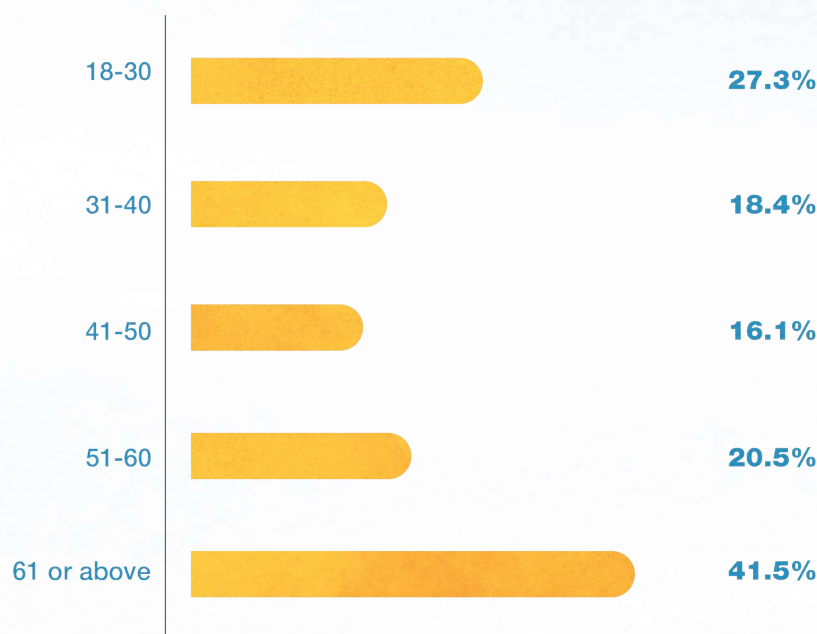


Employee turnover rate by gender



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Employee turnover rate by age group



Employee turnover rate by geographical region



Health and safety

Putting top priority on procuring the health and safety of employees, we are committed to providing a safe and comfortable working environment for our staff. The Group adheres to the corporate philosophy of "healthy lifestyle, joyous working" and constantly improves and enhances production safety mechanisms of all units, refines and 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 capabilities. New employees in our tobacco business are required to receive safety training before reporting duty, to make sure that employees at all levels possess the relevant certificates as required by law. To build up a safety culture, the Group strives to enhance the safety awareness of its staff and further strengthen the day-to-day safety education for key employees, with specific training methods tailored-made for different work units.

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In June 2019, the “Second Quarterly Work Meeting of the Safety Committee and Special Fire Protection Training in Safe Production Month” was held by the property enterprises under the Group, comprising training on evacuation drills and fire scene experience to strengthen employees' sense of responsibility for safe production and fire safety work. With its rich content and diversified format, the safe production work meeting has achieved remarkable educational and training results, which effectively enhances the safe production and fire safety awareness of our employees and lays a solid foundation for the implementation of the Group's annual safe production work.

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. In accordance with the Group's safety management systems, we continuously strengthen the monitoring and review of our safe production work and make improvements thereof. The company holds various activities such as “Safe Production Month” to enhance employees' safety awareness. Furthermore, relevant safety policies which are easily accessible by employees are revised at least every two years to keep abreast of the latest developments of the market.

Occupational safety risk management has always been a major concern for the construction industry. In 2019, our member companies signed safety responsibility letters with their functional departments and subsidiaries with a signing coverage rate of 100%. Safety inspections and irregular checks on all units were carried out with full coverage of inspections on production safety, including key area patrols, mechanical inspections and supervision by safety committee. The Group provided protective, heat stroke prevention and cooling equipment for workers; issued safety rectification notices for safety risks identified and conducted rectifications thereof.

In 2019, 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 raise employees' health and safety awareness and contingency adaptability. Our employees were also provided with labour protective gear 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. During the reporting year, no work-related injuries or fatalities were recorded for the Group, apart from 2,395 lost days of paid leave due to work injuries.

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

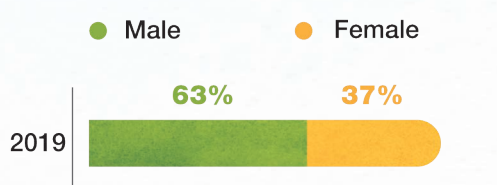
The Group attaches great importance to professional development and training for its employees, broadening their horizon for growth and helping them to recognize their own value and potential. We provide employees with a wide range of training and development opportunities and have established a good learning mechanism. Each year, a wide spectrum of internal and external training programmes were organized, covering induction training, performance management, occupational skills, 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, staff training camp activities were held by the Group's property enterprises in 2019, covering topics which included corporate strategy and development, identification of potential hazards, safety culture, individual income tax adjustment and social insurance reform as well as project development and financial and accounting standards. Employees of over 400 man-time participated in these activities. Furthermore, we also place great emphasis to the talent pool of middle management. For example, on-the-job trainings were provided for the property enterprises of

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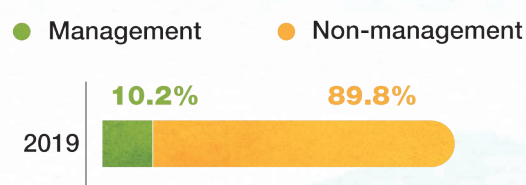
the Group in 2019. We also identify, reserve and cultivate talents through management trainee rotations, overseas training programmes and regular assessments. During the reporting year, the average training hours completed per employee by gender and average training hours completed per employee by employee category were as follows:

Employee Category	2019 Average training hours
The average training hours completed per employee by gender	
Male	13.7
Female	13.3
The average training hours completed per employee by employee category	
Management	30.4
Non-management	12.3

The percentage of employees trained by gender



The percentage of employees trained by employee category



In order to further enhance our corporate culture 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 its operation.

OPERATIONAL PRACTICES

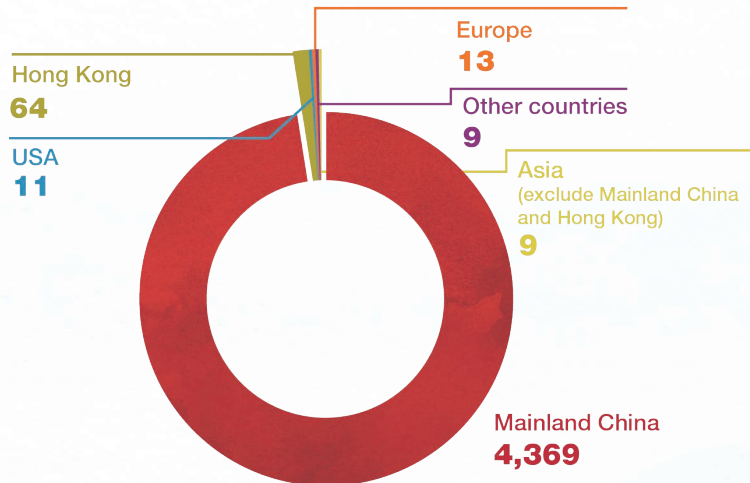
Supply chain management

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 growth. Enterprises within the Group have established their respective supplier management and assessment systems to ensure suppliers and materials procured meet their assessment standards and minimize potential risks in the supply chain. The list of our suppliers is updated regularly and their performance is evaluated with a scoring system. Suppliers with their scores below the Group's internal standards will be removed from the supplier list. 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 assess eligibility for the selection of qualified suppliers. The Group adopted a newly designed supplier database system for its property enterprises in 2018, which has provided a more efficient channel for the assessment and selection of suppliers.

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Using one single supplier is generally avoided to prevent supply chain risk. In 2019, the total purchase from our top five suppliers accounted for no more than 30% of our total purchases. During the reporting year, we had engaged 4,475 suppliers, of which 4,433 were from mainland China and Hong Kong, 13 from Europe, and 29 from USA and other countries.

Total suppliers by geographical region



Bidding activities in the course of procurement of suppliers 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.

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 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 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, operation and production. The Group's property business has completed their semi-annual and annual internal control evaluation reports in 2019 which allow us to have a better understanding of the respective risks exposed by the property business and the effectiveness of the current management systems.

We convey 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. All directors and senior executives of the Group display their integrity through leading by example, and the general managers of functional departments and subsidiary companies are also held accountable in the building of the Group's ethical system. During the reporting period, the Group conducted a dialogue on integrity between the management and 16 middle managers newly appointed in 2018 and 2019. The Group also required all management staff to take a closed-book examination on "knowledge of fighting against corrupt business practices", and the middle management were required to sign an anti-corruption undertaking with the Group to further strengthen our anti-corruption work. Moreover, the Group also organized different case studies of violating the relevant laws and regulations for demonstration to its staff in furtherance of our corruption prevention education. During the reporting year of 2019, the Group did not record any legal proceedings, claims or disputes in connection with corruption.

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Product Responsibility

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.

Product quality is the core competitiveness of an enterprise and also the most essential requirement for product responsibility. For many customers, buying a property is one of the most important investment decisions in life. With this in mind, we strictly control the quality of 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 properties and third-party sampling checks.

In response to the call from the State Council for establishing a green building system, the Group's property business has endeavoured to develop an efficient, 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 value for customers and society. As such, in addition to product quality, we also focus on energy-saving, environmentally-friendly building designs that improve environmental protection as well as the health and safety aspects of the community. For example, our Bingjiang U Center project in Xuhui, Shanghai, has obtained the LEED and national standard green building dual certification, and our Urban Cradle commercial and office project and Xi'an Chanba River Ecological District residential project also attained a two-star 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 processes, and designated persons are responsible for the collection and analyses of water samples to ensure the treatment results meet required standards. Detailed examination procedures for incoming material inspection, online inspection and finished product inspection were developed for the Group's tobacco business in Hong Kong to further assure product quality and safety. No goods sold or delivered by the Group's property business and tobacco were recalled due to health and safety reasons in the year of 2019.

The Group adheres to the service of "Customer First", strictly controls product quality and actively deals with customer complaints to ensure that customers are provided with satisfactory products and services. Defective products are purchased by the Group's tobacco enterprises in Hong Kong to safeguard the rights and interests of customers. Complaints and suggestions from citizens are collected by 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 optimize the online "Chengbao" APP2.0 service in 2019 to facilitate electronic and intelligent development, which completely upgrades urban intelligent life form 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" column 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 consultations and effective responses and solutions to solve properly the problems about products and services.



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Providing factual and accurate information is an important prerequisite for corporate responsibility communication. In our communications 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 disclosures 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 authorized personnel to protect information security. We communicate the requirements for protecting customers' privacy with our staff through internal communication and training. Unauthorized disclosures of user information will be handled in accordance with the respective policies of the relevant enterprises and the persons identified shall be held responsible.

SOCIAL RESPONSIBILITY

As an established red-chip 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 charitable and voluntary activities, such as providing voluntary service for the Walk of Civilization 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 2019, 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:

In support of education, the Group has been supporting and providing subsidies to the Liu'an Chengkai Hope Primary School in Anhui Province for more than 20 years 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, warm suit and stationery etc. 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. We also give much support to higher education. In 2019, the Group continued to subsidize the university education of a number of college students. Our real estate business signed a targeted support agreement with Tangzi Village, Midu County of Yunnan Province. As the first stage of construction, the building of a main road accessing the village and a school canteen started in May 2019 with a capital contribution totaling RMB1,510,000. Another RMB250,000 were donated on behalf of the Group to three primary schools in the village as meal allowance for the students.

In addition, we continued to promote the Art for Children Walk brand programme and participated in charitable student assistance activities for the fifth consecutive year for supporting rural education, providing opportunities for the left-behind children to receive education for the promotion of harmonious development in the region. Group enterprises also participated in improving rural environments, poverty alleviation and providing support funds.

The Group's property business runs 11 projects for consumer poverty alleviation under the "Community Power" campaign. This special campaign introduces agricultural products from impoverished areas into communities, encouraging the property owners at large to purchase those agricultural product under the slogan of "Bring a Catty Home". The Group was named as one of "Shanghai's first participating enterprises in the consumer poverty alleviation campaign".

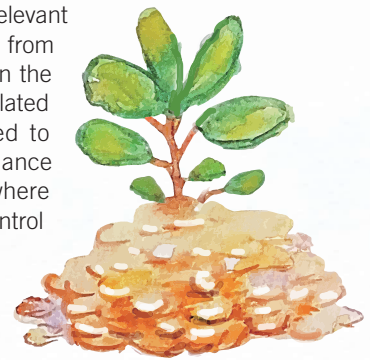
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Group employees are encouraged to participate in public volunteer activities. The Group has contributed a total of 40,276 service hours and donated funds amounting to HK\$62,594,000. During 2019, more than 100 volunteers from the tobacco business provided health, parenting, cultural and other services to the Hong Kong community, and have participated in regional volunteer clinic activities including assisting medical staff at regional clinics to offer free medical consultation and providing health education seminars. The Group's property companies also launched a number of charitable activities in 2019 including "Poverty Alleviation through Education at Hope Primary School" held in November, several activities under the "Arts with Children – Care for Children Programme" and "Wanyuan Spark' Village Teacher Summer Training Activity for Charity" during the year.

Compliance

The Group is committed to ensuring that its business operation complies with relevant laws, rules and regulations. Close attention is paid to relevant regulatory changes from time to time. The Group also conducts extensive compliance review to strengthen the effectiveness of its internal control and regulatory compliance, and has formulated and renewed its internal control policies and procedures, which are aimed to effectively monitor environmental and regulatory compliance, and provide guidance for our operation. Furthermore, the Group holds work seminars or trainings where necessary to enhance employees' awareness and understanding of its internal control and compliance procedures.

During the reporting period, we were not aware of any violation by the Group of any laws and regulations relating to environmental protection, employment and labour practices, operational practices and social responsibilities which might have an adverse effect on its operation. Nor the Group has in any form violated the laws and regulations relating to bribery, extortion, forgery and money laundering.



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