



上海實業控股有限公司

SHANGHAI INDUSTRIAL HOLDINGS LIMITED

(Stock Code : 363)



2020

*Environmental, Social
and Governance Report*

2 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



ABOUT THIS REPORT

This environmental, social and governance report focuses on the disclosure of the significant issues encountered by Shanghai Industrial Holdings Limited (“SIHL” or the “Company” or “we” or “our”) and its subsidiaries (the “Group”) on environmental, social and governance aspects for the period commencing 1 January to 31 December 2020.



The Group’s environmental, social and governance performance as stated in this report covers its principal businesses, including infrastructure facilities (water-related businesses), real estate and consumer products (tobacco business), which are conducted in Hong Kong and mainland China.

This report, which is prepared in accordance with the mandatory disclosure requirements and “comply or explain” provisions contained in the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, is based on industry background and highlights the characteristics of the enterprise.

The Environmental, Social and Governance Management Philosophy of SIHL

As a responsible enterprise, SIHL has always maintained a balance between business development and social responsibility by integrating the concept of sustainable development into its day-to-day business operations and major commercial decisions. The Board of Directors has always attached great importance to sustainable development and is committed to creating long-term values and a sustainable future for the society by taking into account and balancing the interests of major stakeholders. As a listed company in Hong Kong, the Group not only assumes responsibility for the social and economic development of the community, but also strives to improve the community’s environmental sustainability and prosperity.

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 and managing properly 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 team comprising the heads of various business units facilitates and monitors and reports the progress of sustainable development issues 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.

Stakeholder Engagement and Materiality Assessment

SIHL has always emphasized regular communication with various stakeholders, including employees, customers, shareholders, business partners, suppliers, media and the community, and has all the way expressed our determination in listening to the needs and expectations of different stakeholders with an open mind, formulating counter measures in response to the concerns of stakeholders and adhering to information disclosure. A number of communication channels, such as regular meetings, interviews and surveys, have been established to gather stakeholders' ideas, opinions and suggestions on how we can create long-term value for the society and attain sustainable future development.



Our communication channels with respective stakeholders are as follows:

Major Stakeholders	Our 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"> annual general 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 on-site inspections
Suppliers	<ul style="list-style-type: none"> assessment and performance reviews on-site inspections and meetings
Media	<ul style="list-style-type: none"> management interviews and meetings results reports
Community	<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 of our stakeholders for the Group to further understand their expectation and recommendations in respect of our performance on environmental, social and governance areas, and have identified the latest environmental, social and governance tasks that should be prioritised. 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, which is consistent with their concerns expressed in the financial year of 2019.

We will discuss the feedbacks with the environmental and corporate governance steering committee and the social, environmental and corporate governance planning and information disclosure working team internally, after which we will make it as the basis of our key environmental, social and governance agenda and incorporate them into this report. Therefore, this report 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 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 instance, the Group's property business collects domestic waste, construction waste and hazardous waste generated during the construction process before delivering them to a qualified organization for processing, and sets up different collection points for waste to enable source classification, with the aim to reduce the generation of hazardous and non-hazardous wastes. We have set up toilets equipped with flushing water source and septic tank at the construction sites. The tank is covered and subject to applying odour sprays regularly and a dedicated team is responsible for cleaning every day. The construction sites are equipped with sufficient garbage pools and garbage bins. Construction waste is stacked and cleared in time. Employees regularly clean up the waste to keep the environment clean.

In respect of reducing the emission of air pollutants and greenhouse gas, the Group has adopted cleaner ultra-low sulphur diesel fuel for the three boilers used for tobacco business, which has reduced emission of smoke and respirable suspended particles and in turn significantly reduced emissions of sulphur dioxide and other air pollutants. In addition, the air emissions generated by processing equipment and workshops pass through dust collectors initially, enabling them to remove dust before removing odour through eight deodorising machines. The deodorising machines are subject to regular cleaning and potion refill. Closed-circuit televisions were installed in exhaust chimneys to monitor the systems round-the-clock to ensure that gas discharged meets the required standards and avoid generating black smoke due to poor combustion. Furthermore, piped gas has been used as fuel at incinerator installed in recent years, helping to clear the odour and dust generated during production process under high temperature so as to reduce environmental pollution. Environmentally friendly refrigerants are used on most of the existing air conditioners, and we will gradually replace all the remaining units with models using environmentally friendly refrigerants during equipment maintenance and replacement.

The air pollution caused by the Group's property development business mainly occurs during the foundation, structural and decorative construction phases. We have identified various sources of pollution pertaining to these phases, such as the flow of dust from construction road tracks, vehicle transport, earthwork and construction machines, and have implemented corresponding preventive measures on these sources. During the construction phase, we regularly sprinkled water to reduce dust on the road to control dust pollution. We use a closed temporary built waste conveyor or a hoisting container or bags to remove construction waste from the building structure. It is strictly forbidden to dump waste at will. Construction waste must be duly cleared and an appropriate amount of water shall be sprinkled to reduce dust pollution to the air. Cement, other dusty objects and particulate materials are either stored or tightly covered in the warehouse. It should be ensured that no spilling and flying of these materials are found during transportation. Also, these materials shall be unloaded and stacked at a designated area. All access roads and stackyard onsite are paved with concrete to reduce pollution. To prevent spillage from transport vehicles, we have tightened our requirements by demanding all transport vehicles to install movable baffle at unloading chute to prevent spillage as well as clear the concrete before leaving the site. Meanwhile, we have set up a vehicle washing machine at the exit where vehicles can only leave the site after being washed. Vehicles are not allowed to carry mud and sand out of the site to cause environmental pollution.

The air emission and greenhouse gas emission data in the principal businesses of the Group under the scope of reporting in 2019 and 2020 are as follows:

Environmental KPIs	Unit	2020	2019
Nitrogen oxides emissions	tonne	1.763	1.895
Sulphur oxides emissions	tonne	0.003	0.007
Particulate matter emissions	tonne	0.134	0.123
Total greenhouse gas emissions	tonne CO ₂ e	199,273	303,014
Scope 1 – Greenhouse gas emissions and removal	tonne CO ₂ e	11,409	17,489
Scope 2 – Energy indirect greenhouse gas emissions	tonne CO ₂ e	187,864	285,525



Emissions into water and soil

The Group treats sewage properly to help protect the environment and communities. We treat sewage in a cost-effective manner and advocates recycling of water resources to avoid or minimise sewage discharge. The drainage facilities of the Group's property development projects must meet relevant regulatory requirements and apply for discharge permits in accordance with the requirements of relevant local authorities. We impose stringent measures in segregating rainwater and sewage and strictly prohibit the discharge of other types of water into the municipal rainwater pipe network. We install standardised drainage ditches at access roads and material stackyards onsite to control the flow of sewage and allow them to run through the sedimentation tank before converging with municipal rainwater pipes. Meanwhile, sedimentation tanks are installed at onsite toilets such that sewage and toilet water will be discharged into the municipal sewage pipeline after sedimentation. Construction sewage is strictly prohibited from being directly discharged into municipal sewage pipeline or out of the construction site to pollute the environment. The Group's tobacco business discharges sewage upon it is being treated by the sewage treatment system, with the aim to minimise the pollution to water resources.

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 impact 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 minimise 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. During the waste disposal process, the Group actively implements strict classifications and separate storage of waste to ensure that waste is properly recovered and treated by qualified recycling operators. Used oil and kerosene generated in the tobacco production process are recycled and disposed of by qualified contractors recognised by the government. Soot and other wastes are compressed in waste compression buckets before being sent to landfills for burial, with the aim to actively reduce the generation of waste, sewage and exhaust gas during the production process and meet relevant government standards. We have set up waste recycling bins in the office for collecting waste paper, aluminum cans, metal scraps, plastics and food waste and employees are encouraged to actively participate in recycling to allow recovery and treatment by qualified recycling operators. All electronic wastes generated by the Group's real estate business are treated separately and will not be mixed with day-to-day office waste. The property management company is responsible for disposing office waste.

6 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The waste discharge data in the principal businesses of the Group under the scope of reporting in 2019 and 2020 are as follows:

Environmental KPIs*	Unit	2020	2019
Total non-hazardous waste produced	tonne	960	6,325

* The drop in figures of the environmental KPIs is mainly due to the impact of COVID-19 epidemic on our business operation.

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 life-cycle of the building through a series of design and measures to save land, energy, water and materials.

In terms of energy saving, the Group's property development business implements a series of measures in its day-to-day operations. We install energy saving electrical equipment, LED lights and printers in office and computers are preset at energy saving modes. We require employees of all departments to turn off lights and computers in non-office hours and encourage them to use less air conditioners. When using air conditioners, there should not be too large a difference between indoor and outdoor temperatures. Employees are encouraged to work paperless as much as possible to reduce the use of paper and the generation of waste paper and waste ink cartridges. Meanwhile, we give priority to new energy vehicles and commercial vehicles in purchasing with the aim to reduce energy consumption and air pollutant emission. We adopt a dispatch system in respect of vehicles for business use. Employees are required to apply to the administrative and human resources center and fill in an application form for using vehicles. In terms of property operation, we gradually upgrade and renovate existing commercial projects and enhance property energy efficiency by improving the energy efficiency of the mechanical and electrical systems, strengthening the thermal insulation performance of the original building maintenance structure and updating the environmental treatment facilities.

At the beginning of the reporting period, the Group's property development business implemented further energy management and control over its operating property, Shenyang U Centre, by formulating energy saving plan pertinent to technological transformation and equipment operation management and control as well as adjusting the operating time and frequency of various equipment and facilities. We implement time slot management on various facilities such as escalators, lighting, air conditioner and heating so as to ensure the quality of operation while controlling energy consumption effectively. Upon implementation of the measures, the average energy consumption of the Group's property development business has decreased further, enabling the realisation of our energy saving and consumption reduction targets. All the production workshops of the Group's tobacco business are under consistent renovation and the energy saving T5 fluorescent lamps are installed on a large scale. The halogen spotlights in the factory are replaced by LED lights. Air compressors and deodorising fans have all been replaced by more energy-efficient or inverter-controlled equipment. We optimise the dust tank by replacing the old dust tank that consumes more energy, with the aim to further improve resource utilisation efficiency and reduce energy consumption.

In terms of water conservation, the Group's property development business has implemented new water consumption standard, whereby water conservation equipment and water conservation measures are deployed in the construction sites to improve water consumption efficiency as well as conserve water and reduce emissions. We have established reclaimed water reuse facilities to collect rainwater and after treatment use it for green watering and road cleaning. The business also uses other water conservation equipment, such as sanitary appliances with high water consumption efficiency, water metering devices and sensor faucets. We also regularly measure the water consumption volume of the construction site of each project to control the use of water resources. For sewage treatment in the construction area, we have set up catchment ditches onsite and the sewage will pass through the sedimentation tank before flowing into the municipal rainwater pipeline. We have installed grease traps at onsite canteen and septic tanks at the toilets. The sewage is filtered by the grille and then connected to the sewage pipeline. The Group's tobacco business collects rainwater for cooling air-conditioners in the factory. For the air-conditioning water towers of other air-conditioners, we have a regular cleaning system to check water quality regularly and reduce water consumption.

The resources usage data of relevant enterprises in the principal businesses of the Group under the scope of reporting in 2019 and 2020 are as follows:

Environmental KPIs*	Unit	2020	2019
Total energy consumption	kWh	415,295,464	407,462,738
Total direct energy consumption	kWh	24,142,131	39,069,886
Diesel	kWh	6,459,542	9,872,546
Gasoline	kWh	1,645,636	2,287,892
Liquefied petroleum gas	kWh	67,154	154,295
Natural gas	kWh	15,969,798	26,702,868
Ethanol gasoline	kWh	–	52,284
Total direct energy consumption intensity	kWh/HK\$'000 of revenue	0.89	1.21
Total indirect energy consumption	kWh	391,153,333	368,392,852
Electricity purchased	kWh	370,099,898	331,363,970
Towngas	kWh	21,053,435	37,028,882
Total indirect energy consumption intensity	kWh/HK\$'000 of revenue	14.41	11.39
Total water consumption	m ³	565,568	1,092,630
Water consumption intensity	m ³ /HK\$'000 of revenue	0.0208	0.0338
Total packaging materials used for finished products	tonne	3,794	7,502
Packaging material used for finished products per unit produced	kg/unit of finished product produced	3.79	3.76

* The drop in figures of the environmental KPIs is mainly due to the impact of COVID-19 epidemic or our business operation.

Environment and natural resources

The Group is committed to implementing environmental management when carrying out property management and office operations, examples include green building and reducing environmental pollution, with an aim to actively fulfilling its responsibility to protect the environment. The Group strictly complies with laws and regulations related to emissions of exhaust gas and greenhouse gas, emissions into water and soil and the generation of hazardous and non-hazardous wastes that have a significant impact on the Group, such as the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Water Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution, the Law of the People's Republic of China on Environmental Impact Assessment and the Regulations on Domestic Waste Management of Shanghai Municipality. During the reporting period, the Group did not violate the above laws and regulations that have a significant impact on the Group.

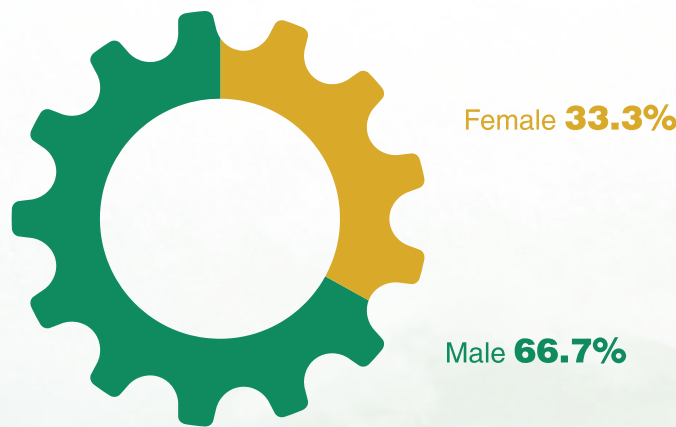
In terms of green building, the Group’s property development projects across China have all complied with relevant national and local design standards to meet the specification requirements on building thermal performance, energy efficiency of building services, water conserving performance of appliances and renewable energy utilisation. On this basis, we strive to attain higher standard in energy saving and environmental protection design, adopt a series of design measures to conserve land, energy, water and building materials, encourage employees to engage in activities like technological transformation, process optimisation, energy saving, consumption reduction, management innovation and waste recycling as well as focus on the use of recyclable materials and prefabricated construction methods to alleviate the impact on the environment throughout all life cycle of the building. The Group’s West Diaoyutai • Emperor Seal Phase 3 in Beijing is a residential development project located in Haidian District, Beijing. We have incorporated a number of energy-saving elements into the project design and estimated that the building can achieve an energy-saving rate up to 79.3%. The solar water heating system can provide 100% domestic hot water. Moreover, we assess the environmental performance of our development projects by adopting a set of objective standards. Specific environmental measures are adopted in all new development projects based on the national and local evaluation standards for green buildings. During the reporting period, two development projects of the Group, namely, the redevelopment of residential district (Phase 3) of West Diaoyutai • Emperor Seal in Beijing and the A3-8 and A3-9 group project located on plot no. A3 of Originally in Xi’an, obtained the Two-star Green Building Design Label Certificate.

In an effort to reduce environmental pollution, the Group’s real estate 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 is used to reduce the impact of noise in construction sites to residents in the neighbourhood. Moreover, the Group’s tobacco business emits odourous gases during the production process and any direct emissions will impact the nearby environment to a certain extent. Therefore, we filter the gas emitted during the manufacturing process through the deodorising system before it is discharged, with the aim to minimise the impact of odour and harmful substances on the environment.

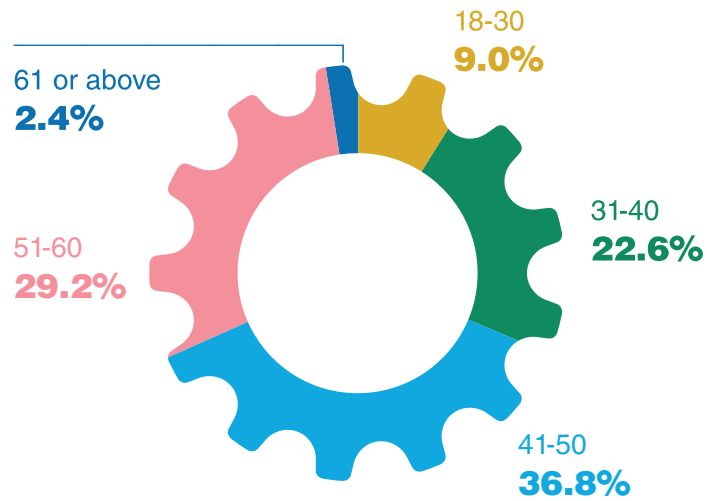
EMPLOYMENT AND LABOUR PRACTICES

Employees are essential for the sustainable development of the Group and we regard them as our most valuable capital. With a total number of employees of about 18,344 as at the end of 2020, the Group continues to improve its talent recruitment, retention and development training, developing a regulated, open, robust and efficient management style to ensure employees realise that their values are properly recognised.

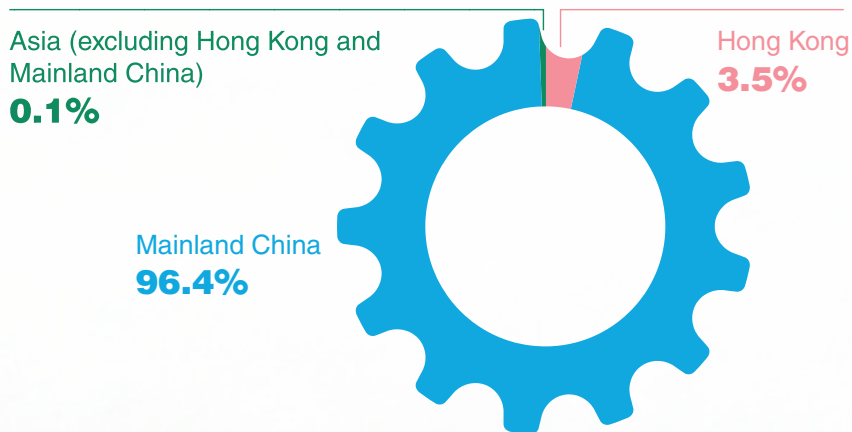
The workforce by gender



The workforce by age group



The workforce by geographical region



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, employment termination, attendance, abnormality management, performance appraisals, rewards and penalties, compensations and benefits as well as training and employee rights, with modification as required for strict implementation.

By adopting the principle of “remuneration based on position”, our 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 our operating results. The Group pays salaries and bonuses in accordance with relevant national and local regulations and makes contribution for employees to various social insurance funds and provident funds. Employees are entitled to statutory holidays, marriage and bereavement leave, annual leave, compensatory leave, sick leave, maternity leave and personal leave. In addition to statutory benefits and holidays, the Group also provides employees with various allowances, such as lunch allowance and holiday allowance. During the reporting period, the Group strictly complied with relevant national and local laws and regulations and there was no cases of violating employment laws and regulations.

Moreover, the Group is committed to building a diversified team. By adhering to the principle of fairness and equality in the recruitment process, the Group focuses on the professional ethics, expertise, experience and development potential of the candidates to ensure that they enjoy equal opportunities and will not be discriminated by their nationality, ethnicity, race, gender, age, marital status, social status or religious beliefs. The Group implements a probation system for newly hired employees. During the probation period, the head of the department where the employee works for will make assessment of the employee. Upon passing the assessment, the employee will be formally hired as permanent staff. Furthermore, the Group regards standardised performance management as the basis of decision-making for talent recruitment and remuneration management. Our enterprises follow an objective, fair, standardised and transparent performance management system to assess, promote and reward outstanding talents.

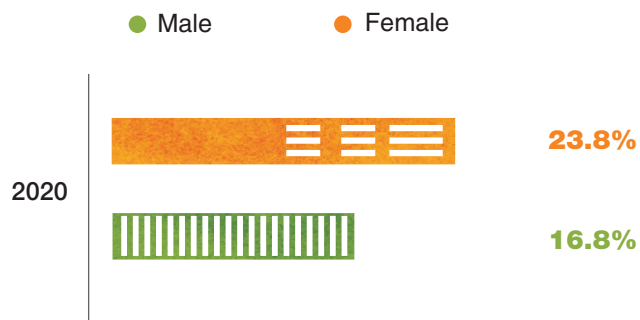
The Group also stipulates the conditions and arrangements for cancelling and terminating employment contracts in the employee handbook pursuant to relevant laws and regulations to protect the rights and interests of both parties. The conditions applicable to cancellation of employment contract include failure of employees to observe the attendance system repeatedly during the probation period, provision of false personal information, gross negligence of duties or material violation of any laws and regulations. The Group will arrange employees to properly handover their work before the date they leave the job.

The workforce by employee type

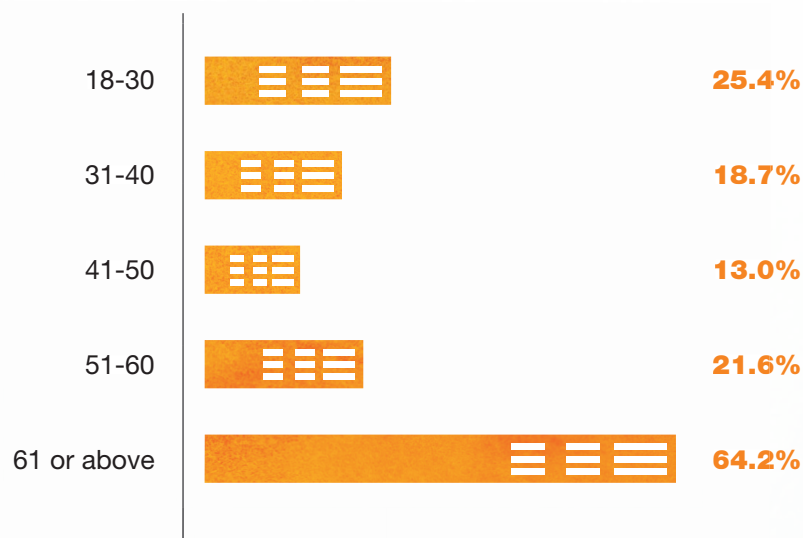


The principal activities of members of the Group are located in China and Hong Kong. In accordance with respective local regulations and corporate cultures, we have formulated relevant codes of conduct for employment and we adhere to the policy of diversification and anti-discrimination to provide employees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

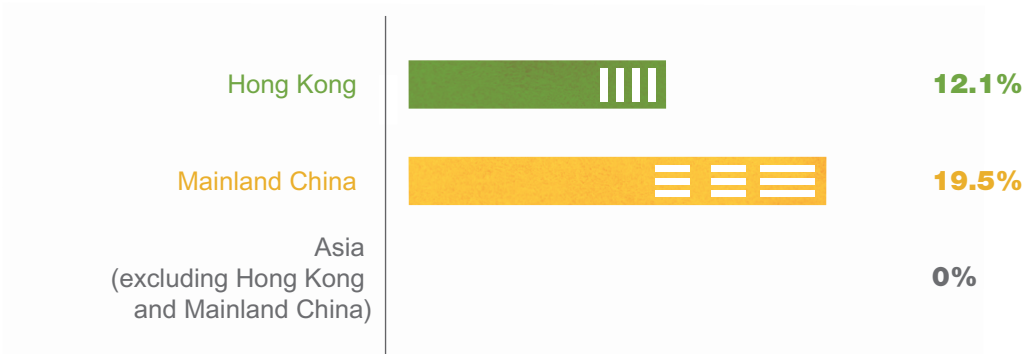
Employee turnover rate by gender



Employee turnover rate by age group



Employee turnover rate by geographical region



Health and safety

Managing the health and safety of employees forms an integral part of the Group’s daily operation. 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 response capabilities.

To mitigate the risk of occupational health and safety, the Group strictly adheres to relevant health and safety laws and regulations such as the Production Safety Law of the People’s Republic of China, the Fire Prevention Law of the People’s Republic of China, the Law of the People’s Republic of China on Prevention and Control of Occupational Diseases, the Social Insurance Law of the People’s Republic of China, the Regulations on Work-Related Injury Insurance and the Measures for the Determination of Work-Related Injuries that have a significant impact on the Group. Besides, the Group has also formulated all kinds of policies and guidelines for better identification, evaluation and management of substantial hazards in different businesses so as to reduce safety risk. For example, the real estate business of the Group actively works with construction units for the implementation of safety standard guidelines during the construction process to ensure proper management of construction safety. The real estate enterprise has also established an occupational safety and hygiene committee to formulate annual safe production plan and goals, perform daily supervision and regular identification of potential hazards. The committee has convened four meetings featuring safe production to convey the safe production work requirements to all internal responsible units and review the implementation of safe work. During the reporting period, the Group did not violate any laws and regulations relating to health and safety which have a significant impact on the Group.

The Group provides employees with various health and safety trainings. For example, trainings and drills such as flood control and typhoon control, equipment repair, fire fighting, evacuation, drowning rescue and cardiopulmonary resuscitation are organised to ensure emergency situations can be dealt with in time and reduce the extent of accidental injuries. To enhance the overall standard of safety management, the Group organises safety workshop, trainings and drills from time to time for promoting occupational health and safety information and actively creating a safety culture atmosphere to ensure operational safety. We also invite relevant staff from construction units, leasing units and merchants to participate so as to strengthen their safety awareness and emergency response capabilities, thereby reducing the risk of safety incidents.

The Group always keeps abreast of the development of the COVID-19 pandemic and the health conditions of employees, and actively provides employees with multiple health protections. The Group actively follows the government’s infection control guidelines and requirements to formulate pandemic prevention and control contingency plans and implement various infection control measures, such as providing employees with masks and disinfectant infection control kits, recording employees’ body temperature, implementing staggered working hours, encouraging employees to hold meetings via video conferencing and arranging employees to report duty on

alternate days or work from home, etc. At the same time, the Group also attaches great importance to the health of other personnel in its operating premises by enhancing the cleaning and disinfection work on public facilities, organising annual physical examinations for employees, and signing production safety undertakings to fulfil the requirements of relevant occupational safety and health regulations.

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 recognise their own value and potential. We provide employees with a wide range of training and development opportunities and have established a good learning mechanism.

To improve the job-related capabilities of its staff, the Group organises a wide spectrum of internal and external training programmes, covering induction training, performance management, management skills, occupational skills, quality control, occupational health and safety as well as financial and tax management for discovering, reserving and training talents to meet overall planning and development needs of each business. The Group formulates annual training programmes for employees at different levels and arranges appropriate training content. For example, seminars are arranged for senior management to enhance their leadership and management capabilities; training courses are provided to middle-level management and young talents to enhance corporate cohesion and strengthen internal communication and learning to assist new middle managers master their management skills; and the “City Forum” is held for all employees to broaden their professional knowledge, create a learning atmosphere, and provide a platform for mutual communication, understanding, and collaboration. New employees will receive induction training to introduce our corporate culture, corporate development status, corporate organisational structure and rules and regulations, for helping them integrate into the working environment and enhance mutual understanding between employees. Each business of the Group also conducts business-specific training for their staff. For example, real estate enterprises provide professional training on real estate market, green building, safety culture and other topics to their employees; water companies provide trainings for heads of production and equipment engineers to improve the working ability of production staff.

The Group emphasises on improving employees’ sense of belonging through good employee relationship management, encourages employees to communicate with the management through company intranet and other channels, striving to create a harmonious working atmosphere and actively carry out employee activities. For example, the Group’s real estate enterprises have organised intangible cultural heritage experience, off-road orientation activities and team building activities and celebrated Christmas with employees to cultivate team spirit. The Group’s water companies held the “Craftsmanship Cup” job skill competition, with participation of nearly 200 employees. Some of the winning employees were awarded the title of “Group Craftsman” and their job titles and salaries were also adjusted.

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	2020 Average training hours
<i>Average training hours completed per employee by gender</i>	
Male	11.6
Female	12.2
<i>Average training hours completed per employee by employee category</i>	
Management	30.7
Non-management	10.6



The Group strictly complies with the Labour Law of the People's Republic of China, the Law of the People's Republic of China on the Protection of Rights and Interests of Women, the Law of the People's Republic of China on the Protection of Minors and the Provisions on the Prohibition of Using Child Labour and prohibits any child labour and forced labour under all circumstances. To prevent the use of child labour and forced labour, at the recruitment stage, the Group would ask the candidate to provide valid identification documents for verification of his/her identity and age to ensure that he/she applies for the job voluntarily and meets the legal requirements for entering labour contracts. Persons under 18 will be rejected for job application. The Group also implements a standard working hour system in its daily operations to ensure the work shift system and attendance system are in place. It also negotiates with employees on leave arrangement according to work needs and provides legal compensation for employees who work overtime, so as to ensure the interests of employees are protected and prevent forced labour.

OPERATIONAL PRACTICES

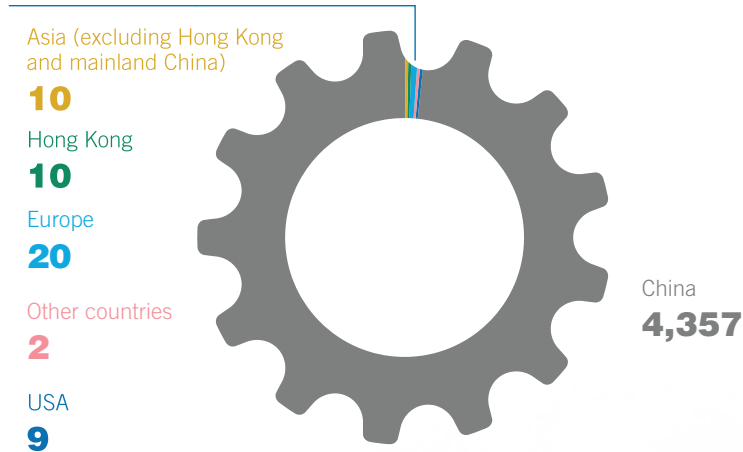
Supply chain management

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. We regulate tendering and bidding activities through relevant systems in the tendering and bidding process to ensure the quality and efficiency of procurement work; as well as implement a fair and transparent tender evaluation system to create a fair, open and equitable tendering and bidding process for enhancing procurement efficiency. When we receive a bidding plan from a potential supplier, we will consider its feasibility and rationality, supply schedule and guarantee measures, equipment employed and performance, quality, safe and civilized construction and environmental protection measures, maintenance measures, profiles of project managers and the main technical management personnel, relevant projects undertaken and performance, etc. for assessment.

Enterprises within the Group have established their respective supplier management, qualification assessment and approval system to ensure suppliers and materials procured meet their assessment standards and minimise potential risks in the supply chain. We conduct a qualification review on the scope of operation, service area, qualifications, main performance and eligibility assessment of a potential supplier by collecting relevant information and conducting site visits for the selection of qualified suppliers and approval of appropriate cooperation plans. Besides, the Group has maintained a long-term, stable and reliable supplier database. To strengthen the management of the supplier database, the Group's subsidiaries would perform an annual assessment on their own suppliers and update the supplier list to help suppliers improve their performance. We also optimised the classification of, and the assessment approach and criteria for, suppliers in order to reflect their performance in a focused and objective manner to ensure they can fulfill the Group's requirement in a better way. The Company uses emails and arranges face-to-face interviews to closely contact suppliers to adjust the supply issues immediately, and request suppliers to produce more environmentally friendly products according to technical standards, obtain inspection reports for incoming goods and accept new technical standards.

To effectively control the risk of its supply chain, we usually avoid using one single supplier. In 2020, the total purchase amount from our top five suppliers accounted for no more than 30% of our total purchases. During the reporting year, the Group had engaged 5,149 suppliers, of which 5,092 were from mainland China and Hong Kong, 20 from Europe, and 37 from USA and other countries.

No. of suppliers by geographical region



Anti-corruption

Business ethics and integrity are key elements for the survival of an enterprise. With a strong emphasis on corporate integrity and honesty, the Group does not allow any sort of corruption. The Group strictly adheres to national laws and regulations relating to bribery, extortion, fraud and money laundering, namely the Criminal Law of the People’s Republic of China, the Anti-Unfair Competition Law of the People’s Republic of China, the Anti-Money Laundering Law of the People’s Republic of China and the Prevention of Bribery Ordinance, and requirements of the Hong Kong Listing Rules. Our enterprises have established internal rules to provide guidance and a basis for governing employee behaviours. We have also provided channels for reporting misbehaviours through setting up whistleblowing hotlines. The supervision and examination department will review any reported malpractices in detail as the Group has zero tolerance for any misbehaviours.

During the reporting period, the Group’s key management, heads of functional centers, heads of subsidiaries, members of the team in charge of bidding and procurement, etc. jointly convened the integrity development conference and inspection and rectification meeting. All directors and senior executives of the Group display their integrity through leading by example to provide integrity guidance to the team, develop an excellent corporate integrity culture as well as establish and monitor the responsibility system and accountability system.

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. If employees are found to have violated the Group’s anti-corruption system or engaged in illegal activities, the Group will, subject to the severity of the incident, either seek compensation from such employees or report them to the judiciary.

We convey expressly our determination for integrity and honesty to our employees through staff manuals and internal training, and emphasise the Group's requirements for professional ethics and declaration of interests. In addition, we also require our suppliers to be honest and abide by the law. All directors and senior executives of the Group display their integrity through leading by example, and the general managers of functional departments and subsidiaries are also held accountable in the building of the Group's ethical system. The Group conducts anti-corruption education for the directors and employees via different means. For example, the Group's real estate enterprises held "Integrity and Cautionary Education" at Golden Bell Plaza and took their employees to visit the Minhang Integrity Cultural Centre aimed at improving the integrity awareness of the employees. The Group's tobacco business in Hong Kong provided employees with a six-day occupational ethics training programme to reinforce their knowledge of relevant rules and regulations. During the reporting year of 2020, the Group did not involve in any related legal proceedings, claims or disputes.

Product Responsibility

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, as delivering outstanding product and service quality is our unrelenting commitment to customers.

Product quality is the core competitiveness of an enterprise and the most basic requirement of product responsibility. In order to improve the quality of projects, the Group's property business uses Building Information Modeling (BIM) technology to modify and optimise the project design. At the project construction stage, the Group would require the construction units including the main contractor and sub-contractors to devise a general construction plan. The Group would also hire a qualified supervision company to monitor and inspect the construction process for quality and safety assurance. In respect of the use of materials and equipment, the Group would supervise the construction units based on the requirements of the Construction Quality Management System to ensure that qualified and safe materials, components and equipment are used. The Group would also conduct sample tests or repeated tests on the materials together with the supervision company on-site. Our property business has set up a robust work reporting system. Based on the requirements of the Progress Management System, the Group would regularly track and assess the progress, quality and safety conditions as well as the difficulties and problems encountered during the construction process, and devise and implement solutions in a timely manner. The Group has set up a system on acceptance inspection upon completion and delivery management, under which comprehensive inspection would be performed on the project together with the supervision company, professional engineers and construction units in accordance with the Acceptance Inspection and Assessment Criteria for the Quality of Construction and Installation Projects and the relevant standards before the completion and delivery of a project. If necessary, the construction units would be urged to repair any defects in quality to complete the acceptance inspection process. Relevant units would also share and exchange their experiences and ideas on managing project construction quality for the purpose of improving the project quality of each property project company. As such, product quality and customer interests can be assured.

Our commitment to quality is also reflected in the reliability of our products and services. In respect of hotel operation, we emphasise on safety management and keep carrying out risk assessment, drill, training and inspection on safety matters while regularly cooperating with professional organisations to repair and maintain the access control system, security system and fire alarm system of the hotels. The Group has strengthened its effort in cleaning and sterilising hotel facilities amid the outbreak of the COVID-19 epidemic to protect the health of guests to the greatest extent possible. The Group's water supply business has established various systems, namely the Production and Operation Process Management System, the Operation Project Water Quality Management System and the Production Scheduling Management System, to manage daily production and ensure that the water supply quality of each project company is up to standard. The Group will strictly adhere to the requirements set out in the Emergency Plan for Unexpected Environmental Incidents to handle the occurrence of any abnormal conditions, such as water supply quality failing to meet the standard, in a reasonable and legal manner. The Group's tobacco business in Hong Kong conducts stringent inspection of incoming materials to ensure the raw materials meet the requirements for use. Any production issues identified will be traced instantly while any products with defects will be blocked immediately. During the year, we successfully identified quality issues in 17 batches of production.

During the reporting period, the Group's tobacco business in Hong Kong duly handled 12 complaints concerning China duty-paid market. We duly traced back to find out the origin of the problem and offered a solution satisfactory to the external parties. In order to improve the quality of property operations, the Group's property business actively engages in two-way communication and dialogues with tenants as well as discusses management services, software and hardware facilities and supporting services with tenant representatives in the form of seminars, through which we provide timely feedbacks to tenants on various inquiries. The complaints lodged by tenants are jointly handled by the property and business management department and any issues raised are promptly passed to relevant departments, such as engineering and technology departments, for action to ensure that the complaints are properly handled. By upholding the principle of "customer always comes first", the Group serves customers by strictly controlling product quality and actively handling their complaints, which enables the Group to provide customers with satisfactory products and services.

The Group highly values the importance of protecting customer information and privacy and strictly complies with the Law of the People's Republic of China on the Protection of Consumer Rights and Interests. The Group's project companies keep customer data and privacy information in our management system and put them into different categories for administration purpose. Such data and information can only be accessed by authorised personnel. The Group requires employees to keep customer information confidential and prohibit any form of divulgence by means of establishing rules and regulations, staff manual, internal communication and training. When it is discovered that customer information has been or may be divulged, the Group will immediately report, handle and rectify the case and hold relevant personnel accountable in accordance with its relevant system. For instance, the Group's tobacco business in Hong Kong puts wholesalers and distributors information under licensing management and stipulates that they are for internal use only to ensure customer information are effectively protected.

In respect of the protection of intellectual property rights, the Group's property business manages its construction design patents and trademark registrations. Specific clauses on intellectual property protection are written in the relevant contracts to explicitly set out the copyrights and rights to use of the relevant design patents and registered trademarks to ensure non-infringement of third-party intellectual property rights or trade secrets. The property business also organises talks on the fundamentals and practices of intellectual property rights to strengthen the knowledge and capability of its staff members in protecting and managing intellectual property rights. All departments under the Group's tobacco business in Hong Kong are committed to protecting the Group's intellectual property through proper collection and management of product package and design, production order, sales invoice and retail outlet pictures.

SOCIAL RESPONSIBILITY

As an established listed company with a strong presence in the society, SIHL is committed to build a rapport with the local communities and fulfill our social responsibilities. In 2020, we promoted our social responsibility work mainly through supporting art education, helping the poor, promoting knowledge on the use of water and fighting the COVID-19 epidemic. The Group combines corporate brand development with proper use of corporate resources and innovates the pattern of charity and public welfare activities. By voluntarily initiating various public welfare activities, the Group gains first-hand experience in consistently paying attention to support art education, helping the poor, promoting knowledge on the use of water and fighting the COVID-19 epidemic to fulfil its mission of, giving back to the society. Major social responsibility activities carried out during the year are as follows:

Art education is beneficial to the intellectual development of kids in their personal growth. Therefore, the Group hopes to develop their interests in arts to bring a positive impact to their growth. The Arts for Kids charity branding campaign was launched jointly by the Binjiang U Center of the Group and Longhua Welfare and Arts with a vision to "inspiring the kids to strive for progress through arts and culture". During the reporting period, the Arts for Kids campaign followed its success in 2019 and explored on three topics of Chinese arts, meaning of life and archaeology with kids in a diversified, joyful and interactive manner.

In terms of poverty alleviation, during the reporting period, the Group arranged its staff to participate in various charitable activities, such as the Fitness Walking Event for Staff Members in Xuhui, blood donation, computer donation, flood fighting support and poverty alleviation. In response to the low blood collection and ongoing blood demand under the COVID-19 epidemic, the Group's water supply business organised a blood donation in March. In May, the business donated computers and living supplies to the organizations in the Community to further promote social development. In November, a campaign for the purchase of caring apples was launched to boost the income of farmers by means of consumption and poverty alleviation, enabling farmers to fully embrace the care and warmth of the Group. The activity was well-received by local residents, which in turn strengthened our business reputation. The Group also worked together with charitable organisations to support the underprivileged. During the reporting period, the Group donated RMB200,000 to the Shanghai Charity Foundation to directly help the people in need.

The Group actively communicates with local residents to understand their needs, listen to their voice and pay attention to their livelihood. During the reporting period, the Group organised a group visit event called Serving the Grassroots of Xuhui to Satisfaction to allow local residents to voice their opinions and suggestions to the Group's project companies. Furthermore, the Water for Thousands of Households volunteer service team, comprising the subsidiaries of the Group's water supply business, was formed to raise the awareness of residents on water consumption. Since its establishment in 2017, the volunteer service team has provided services to 24 residential communities in the downtown area of Weifang in Shandong, which are either established communities and newly developed communities or communities with the most reported issues, such as Dayou Residence and Yinquan Square. The team visited these communities for more than 300 times between May and November, during which time it provided real-time household support services, promoted water consumption guideline, answered questions about water services and water charge and assisted in registering water services. The volunteer service team is accredited as the Best Volunteer Service Organisation in the Selection of the Four Most Excellent (Best) Advanced Promotion Campaign in Weifang City of Shandong Province in 2020, which shows that the team is fully recognised by local government authorities and well-received by the general public. The water supply company also concerns about water consumption of new enterprises in the industrial park where its project is located, such that it can understand the sewage volume and water quality of the park in a timely manner, which in turn allows it to duly make adjustments in response to changes in water volume and quality that enable it to meet the water supply standard.

The COVID-19 epidemic continued to bring different kinds of pressure to the community. As a responsible and committed enterprise, the Group showed its support by offering rent waiver and donating relief supplies to the community during the epidemic to help them overcome the hardship. One of the subsidiaries of the Group's water supply business responded to the call of the community by joining the volunteer team to perform temperature checks on citizens on the street. The Group's water supply business also has another subsidiary rushing on securing water supply for mobile field hospitals. After the outbreak of COVID-19, the anti-epidemic supplies were in tight supply at one point. The Group's property business actively procured protective supplies such as face masks, disinfectant alcohol and sanitisers for donation to the communities and subdistricts where the Group was operating. The Group also donated face masks to the students of Shanghai SUD Hope Primary School. The Group's tobacco business in Hong Kong strictly complied with the anti-epidemic regulations of the government and the region to strengthen its promotion to employees in all production bases and workplaces on fighting the epidemic as well as reinforce its effort in internal cleaning and disinfection. Anti-epidemic supplies were distributed to employees to keep them and the community safe.

We believe in giving back to the society. In the future, the Group will keep engaging in activities such as optimising business environment, facilitating community water supply in summer, community joint construction, alleviating poverty in villages and towns, participating in volunteer services and external corporate communications while actively involving in social welfare, assuming social responsibility, enhancing corporate image and demonstrating corporate brand influence. As the COVID-19 epidemic is still raging, the Group will continue to strictly comply with the anti-epidemic measures laid down by the government and community, conduct employee health and epidemic prevention education, strengthen our cleaning and disinfection effort and distribute anti-epidemic supplies to employees, with the aim to protect the health of employees and maintain our normal production and operation.

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.