

II. Performance of Corporate Social Responsibility

Shanghai International Group (“SIG”) attaches great importance to our performance of corporate social responsibility, and has embedded social responsibility into our business functions, strategic planning, business and corporate culture. In the process of reform, innovation and business development, we’re committed to enhancing our ability to fulfill our social responsibilities, improving our social responsibility performance, and realizing the sustainable development of our businesses.

In 2016, in alignment with the strategic planning and deployment of the CPC Shanghai Municipal Committee and the Municipal Government, SIG focused on building an efficient market platform for State-owned assets operation by international rules. We advanced the “dual-engine” strategy of both SOA operation and investment management. We explored innovative approaches for SOA operation and further raised the efficiency, and our investment management was based on the principle of liberalizing management activities while safeguarding the capital size. As a result, we’ve gained higher competitiveness. SIG has accelerated our reform and innovation, and new highlights and new initiatives have come up one after another.

1. Commitment to legal compliance and integrity

As a local SOA operating platform of Shanghai, SIG has attracted a lot of attention and concern, and exerts a lot of influence on the community, so we’ve firmly committed ourselves to legal compliance and integrity in our business conduct, reform, innovation and development. Our processes are strictly compliant with laws and meet the regulatory requirements for transparency. With the support and guidance of the Municipal Investment Decision Committee for SOA Investment Platforms and the Municipal SOA Supervision and Administration Commission, we’ve been able to strike a profitable balance between innovation and compliance, and thus our SOA operation projects have progressed steadily.

In addition to the guidelines issued by the Municipal Investment Decision Committee for SOA Operation Platforms and the Municipal SOA Supervision and Administration Commission, SIG has also strictly observed governing laws, regulatory rules of the China Securities Regulatory Commission, the National SOA Commission and other authorities, in the design and development of our operation plan for 2016. Considering our own conditions and the nature of the assets in our portfolio, as well as the macro economic conditions and the capital market reality, we have adopted an innovative combination of methods for SOA operation, including bulk transactions, centralized bidding, special asset management plans, ETF trading and equity investment. In the process of equity investment, we have insisted on a high standard of compliance, requiring all informed parties to sign confidentiality agreements and refrain from insider deals.

By the end of 2016, our equity investments had produced satisfactory results. In 2016, we paid RMB 346 million to the Municipal SOA Supervision and Administration Commission in the form of dividends for the year, which is a great contribution to the economic and social progress of the city. In addition, as requested by the Municipal SOA Supervision and Administration Commission, we promised a contribution of RMB 2 billion to the Shanghai IC Industry Development Fund to support the establishment of Shanghai as a global science and technology center and the growth of emerging industries. So far, we've paid RMB 200 million from the special SOA operation earnings to the Fund.

2. Increasing profitability

2016 is the first year of the 13th five-year plan for China and Shanghai. It is also a critical year for the strategic development of SIG. According to the requirements of the CPC Shanghai Municipal Committee and the Municipal Government, SIG has aimed at completing the functions of State-owned capital fluidity, strengthening the investment management system, extending the factors market and increasing our comprehensive management capabilities. We have continued our reform program at a faster pace with stronger confidence, and as a result, our SOA operation platform has run smoothly and the flow of State-owned capital is smooth and steady. Shanghai Insurance Exchange and Shanghai Bills Exchange, financial markets in which SIG invested, have been open.

In 2016, the global economy was still recovering slowly from the international financial crisis, and the domestic economy was in the middle of transformation and came to a new normal stage of growth where industrial enterprises are exposed to heavier financial pressure and the volatility of capital markets, the money market and the foreign exchange market. All this brought a lot of challenges to SIG. However, SIG has adapted very well to the new conditions and addressed the challenges actively. Therefore, we've released our potential and extended our market space, and improved our financial results steadily.

By the end of 2016, SIG's total consolidated assets amounted to RMB 224.093 billion, its total consolidated net assets reached RMB 168.184 billion, the consolidated asset/liability ratio was 24.95% and the total asset securitization ratio was 77.41%. In 2016, SIG's total profits on consolidated financial statements reached RMB 12.712 billion yuan. Calculating by the same method for preparing the budget at the beginning of year, SIG reported a total consolidated profit of RMB 6118 million, 142.68% of the projected result. Deducting the changes to the fair value of strategic assets including SPD Bank, Guotai Junan and China Pacific Insurance, SIG's consolidated rate of return on common stockholders' equity came to 14.34% in 2016.

3. Increased scale and improved financial support for the real economy

In 2016, focusing on capital management, SIG encouraged the companies in which we

have investment to grow their businesses, increased investment in promoting the integration of finance and manufacturing, and gave supports to technological innovation, industrial upgrading and the real economy.

Enhancing strategic guidance and support services to stimulate the vitality and competitive of our subsidiaries. We designed and adopted a general investment and asset disposal plan that supports and drives our subsidiaries to operate and progress towards our general goal. We supported our subsidiary **Shanghai State-owned Assets Operation Co., Ltd. (“SSAO”)** to conduct a sound close-loop operation for the market value management of Guotai Junan to build a State-owned venture capital company; we supported our subsidiary **SIG Asset Management Co., Ltd. (“SIG Asset Management”)** to build a new FOF fund management platform and help it accelerate the Jinqiao project; we supported another subsidiary **Shanghai International Group (Hong Kong) Co., Ltd.** to transfer its 25% stake in Shanghai New Century Properties Company to **Shanghai Industry Investment Corporation**; and we supported **Shanghai SITICO Asset Management Co., Ltd.** to complete its organization establishment and staffing.

Giving strong support to the growth of companies it has strategically held to maximize SOA’s influence on the financial institutions based in Shanghai. SIG subscribed up to RMB 14.83 billion in the private placement of **Shanghai Pudong Development Bank (“SPD Bank”)**, and will help SPD Bank establish a branch in Singapore and therefore expand its international presence, as requested by the Municipal Government. SIG also helped **Guotai Junan Securities Co., Ltd. (“Guotai Junan”)** to increase its capital stock by supporting the public issuance of convertible bonds worth up to RMB 7 billion and its IPO in Hong Kong.

Providing support and services for the healthy growth of its industrial funds. SIG supported GP Capital to establish a parent-subsidiary fund structure to leverage its institutional drive and its size, focusing on special funds for key areas. We helped Guohe Investment Management to acquire equity in Chengchuang Capital to enrich its portfolio and product types. We also helped Sailing Capital to upgrade its investment-loan business procedures to increase its ability to tap into international markets.

Enhancing SIG’s own active investment capabilities and trying to build market-oriented asset allocation and investment models. SIG formulated goals, principles and strategies for the group’s own active investment, identifying the first batch of investment targets and conducting due diligence investigations on some key targets. **Meanwhile,** SIG led the formation of a plan to establish **Shanghai Equity Investment Fund for Technological Innovation** under the guidance of the municipal authorities to harness non-governmental funds to support the growth of tech-intensive and innovative SMEs in Shanghai. SIG joined up with Zhangjiang Group, SPD Bank and Guotai Junan to develop the scheme for fund establishment.

Leveraging its unique strengths to participate in the development of financial factor markets in Shanghai. Under the leadership of CPC Shanghai Municipal Committee and the Municipal Government, SIG actively participated in the establishment of national financial markets or functional institutions in Shanghai which require the support of local SOA. We've played a positive role in the setup of new markets or organizations or the transformation of existing ones. In 2016, SIG invested in Shanghai Insurance Exchange which has been open and Shanghai Bills Exchange which is under preparation, and continued to support the healthy development of Shanghai Equity Exchange.

4. Enhancing resource efficiency and environment conservation

Advocating resource efficiency and environment conservation, SIG enhanced its IT system development and remained active in building paperless offices. SIG paid attention to both building the infrastructure and expanding applications, focusing on the development and maintenance of various information systems within the group. Through optimizing procedures, SIG realized paperless document filing, forwarding and issuance which ensure the efficient and accurate circulation of documents within the group. SIG responded actively to the demands of various departments and units, and tried to develop and optimize the group's HR and finance payment systems. SIG completed the upgrading and maintenance of its control centers at sites on Jiujiang Road and Weihai Road, and completed the hardware and software upgrading of its WIFI system, information publicity system and document circulation system.

In addition, SIG is committed to frugality and efficiency in office administration, and meetings and reception activities are arranged under the principle of economy. We practiced strict cost control by keeping check on annual office expenses and the budget for acquiring fixed assets. SIG conducted office equipment maintenance on the condition of resource economy and environmental conservation, paying special attention to the water system, the air conditioning system and greenspace development.

5. Promoting institutional innovation and model transformation

Currently there are few successful models for transforming the SOA operation platform, so it is a major innovation, or a ground-breaking task, for SIG to realize platform upgrading and transformation. In 2016, SIG took bold and firm steps to try new approaches, and has developed some valuable insights and a system of good practices concerning SOA operation, active investment and market-oriented governance. The innovative approaches and practices include;

A multi-layer performance management system. Based on comprehensive surveys inside and outside the group, and considering its operating reality, SIG introduced overall performance management, building up performance review systems for headquarter offices and enhancing the all-process management for performance review. Meanwhile, in alignment with its corporate strategy, SIG advanced the performance evaluation reform of its subsidiaries, covering the evaluation of new business performance, the

application of review results, incentives based on the performance review results and the market orientation of businesses. SIG encouraged its subsidiaries to implement a layered and differentiated incentive system to widen the incentive gap between levels of review results and maximize the motivation effect of the incentive system. For secondary subsidiaries, SIG encouraged the set-up of teams for whom performance goals and incentives are linked, and allowed employees and businesses to grow together and share both risks and benefits.

Supporting SSAO to upgrade and transform the AMC business. SIG encouraged its subsidiary SSAO to focus on the market trends and analyze the changes, and develop new initiatives accordingly to gain new edges and enhance its core competitiveness. The subsidiary won the bid to become a major secondary investor for securitizing the non-performing assets of China Merchants Bank, getting actively and further engaged in the design of the product structure and establishing itself as the asset service advisor. It means that it has reached the front line of asset management and a leader of asset management innovation. It also built the basis for strategic headquarter-headquarter partnership between SIG and CMB, which improved the asset handling capabilities of the company. Most importantly, this deal broke down the dominance of the four national asset managing companies in securitizing non-performing asset and became a model for other local asset managing companies, increasing its influence in the national market.

Supporting SIG Asset Management to build a parent-fund management platform. SIG lent support to its subsidiary SIG Asset Management to conduct pilot programs to build a parent-fund platform as a means to upgrade the industrial fund eco-system and accelerate the shift to the new model focusing on managing the capital through good practices and market system development. SIG started with institutional innovation, and developed professional and market competitiveness focusing on equity structure, HR mechanisms and investment principles. Product innovation involves breaking down the traditional barriers between product types and generating two parent-fund classes: funds within the platform and transferrable shares of in-stock products which form a big industrial eco-system. This innovation has led to the direct interconnection between private capital and financial capital, and created valuable business resources like a bigger product repertoire than separate single funds.

6. Safeguarding operations

Completing the administration system to improve the overall management of the group. Considering the evolving landscape, SIG reviewed its overall governance system and built up a new practical governance system and accessory rules that support its strategic goals. SIG further improved the control system for invested businesses and the licensing control programs, adding or updating rules for investment management, financial management, HR, internal auditing and general administration affairs. After the amendment, the new governance system includes 14 chapters with 162 articles: 23

articles for basic administration, 65 articles for general administration, and 74 articles for other administration. All the articles have been compiled and distributed.

Building a sound internal control system to enhance risk management. SIG further improved the working mechanisms of its risk management committee, enhancing the committee's role in reviewing and controlling key transactions and the group's capabilities for identifying and handling major risks. SIG strengthened the identification of potential risks in its operation procedures, especially in the weak links like post-investment management, wealth management and bond investment management and inside information management, and enhanced risk control through rule development, procedure supplement and special inspection. SIG paid more attention to internal audit as a means of review and evaluation, focusing on economic audits on officials, enhancing special audits on asset quality, operation performance and key operating activities, reinforcing the correction and tracking of issued identified through auditing, and conducting regular audits on overseas investment companies.

Preventing operating risks through strict early warning. On the basis of stabilizing the overall size of the group's liability, SIG tracked closely the liabilities of its subsidiaries, especially the total size, structure and terms of their debts, to prevent liability risks. SIG also paid close attention to the changes in the macro economy environment such as policies and economic tendencies, made prudent arrangements for financing and capital allocation to safeguard the group's capital sufficiency, control capital risks and increase the capital returns. SIG strictly controlled investment risks, fully considering its financial capacity and funding guarantee. SIG paid close attention to the fluctuation interest rates and exchange rates and other financial risks, actively resolving any possible clustering of systemic risks. SIG also paid close attention to changes in national tax laws and regulations, careful assessing the effects on the our operations and adopting corresponding counter measures.

Connecting disciplinary enforcement with business growth. SIG's CPC committee attached great importance to embedding its disciplinary enforcement into the governance system and the internal risk control system, and connecting official integrity with business risk control. The CPC committee took anticipative and innovative disciplinary measures to adapt to new business circumstances, adopting new methods and approaches. For example, for major bidding projects or business transactions, the monitoring link was moved up front, which is a means to enhance risk control for key business areas and links, and is also part of the institutional improvement efforts aimed to regulate business conducts and safeguard business growth.

In addition, SIG continued to update its information systems to ensure its operation stability and information safety. We steadily advanced the building renovation and equipment testing and upgrading of the site at 15-1 No. 1 East Zhongshan Road.

7. Safeguarding the legal and legitimate rights of employees

(1) Increasing transparency and democracy of corporate governance

In 2016, SIG continued and improved its employee congress, collective consultation mechanism and employee board of directors and supervisors, and advanced the democracy of corporate administration under which the management and the employees share insights, create mutual value and share benefits.

An effective employee congress. In March 2016, SIG had its employee representatives review the work report of the management for 2016. In June, SIG held the 5th session of its third employee congress where the management reported the progress of collective consultation and the performance of collective contracts, and a new employee board of supervisors was elected. Our subsidiary SIG Asset Management also held an election for its employee congress. The equity transfer of Guorong Xinmin Property was discussed by the employee congress to ensure transparency and allow our employees to understand and comment on our decisions.

Powerful consultations. In October 2016, SIG's employee union and HR department put up an inspection task team to review the performance of collective contracts for the year, and studied the feasibility of supplementary medical policies and health-enhancing projects for employees and submitted the results to be discussed by the joint meeting, or collective consultation, of the CPC committee, the corporate management and employee representatives. On November 21, SIG held its collective consultation where the management and employee representatives agreed that the supplementary medical insurance plan and health-enhancing leave will take effect as of Jan. 1, 2017, which was then reviewed by the executive meeting and passed by all employees by secret ballot.

Building an employee board of directors. At the 5th session of the third employee congress, the employee board of directors was elected, so SIG has an employee board of supervisors and then an employee board of directors, and both boards would attend the board meetings of SIG and participate in the decision-making process on behalf of all employees.

Continuous improvement. In October 2016, as requested by the Municipal Trade Union for the Financial Sector, SIG's employee union conducted a survey of the participation of employees in corporate governance to detect remaining problems. This has led to continuous improvement.

(2) Promoting employee and business growth at the same time

In 2016, SIG conducted a whole range of activities and utilized various channels to encourage our employees to grow and make contributions to the growth of business. For this purpose, SIG improved the training system, integrated training resources and recognized excellent performance.

Improving the training system. SIG further completed the training system so that it has

come to cover executives, future leaders, key business operators and frontline employees. At the same time, SIG conducted tailor-made training activities for different people with different needs to improve their business and management competence for their specific position.

Integrating training resources. SIG promoted the integration and sharing of training resources within the group to create collaborative effects. Utilizing internal and external resources, we organized a great variety of training events. In partnership with China Executive Leadership Academy Pudong, we offered a themed training program for future leaders and key business operators who learned new theories and broadened their vision. We also offered a training program for new employees to help them understand and adapt to their new environment.

Highlighting outstanding employees. In 2016, SIG continued to build platforms where outstanding performance and employees are highlighted and recognized. We have a HR Highland program, an excellence review program and an innovation and excellence competition program in full alignment with the development of Shanghai international financial center, and through these programs, we continued to encourage our employees to improve their performance. In 2016, we recognized a number of advanced individuals and units with honorary titles like Shanghai Financial Leaders and National Model Units.

(3) Creating harmony between employees and the management

In 2016, SIG managed to solve real and practical issues for our employees and create harmony between the employees and the management as part of our efforts to build a positive corporate culture.

Heart-warming activities. During traditional Chinese festivals, SIG remembered and visited our employees in difficulty and some retirees. SIG's employee union has a set of employee assistance rules, including giving special allowance to 18 employees including hospitalized employees, bereaved employees and maternity employees, which amounted to RMB 48,000. All this has warmed up the hearts of our employees who are therefore much better motivated.

Creating a pleasant working environment. In 2016, SIG's head office, our subsidiaries SSAO and SIG Asset Management set up health programs in their office sites, linking up health examination facilities through the Internet and IOT to offer their employees free health examination choices and meet their specific needs. The head office has a reading room, a ping pong room and coffee makers on each floor of the office building. SSAO has a "reading corner", and SIG Asset Management has a fitness room and a reading room, which make the working environment relaxing and enjoyable.

Taking care of the mental and physical health of employees. In 2016, SIG continued to improve the health insurance scheme for our employees which includes social insurance, commercial insurance and mutual aid insurance offered by the Municipal Trade Union. As requested by the Municipal Trade Union and the Municipal Trade Union for the Financial Sector, SIG helped every employee obtain a trade union membership card which includes identity information, entitlement to basic insurance, discounts for

trade union services and some financial services. We also organized an annual medical check and health lectures for our employees, especially pregnant employees.

Sweetening the recreational time of employees. In 2016, SIG organized a great variety of recreational events as part of our corporate culture program, including galas, sport games, knowledge contests, reading and movie watching sessions, field visits, leadership camps, chess and poker games, fishing and photography competitions. We have a photography society, a badminton team and a yoga club which spread the philosophy of healthy life plus pleasant work and help to shape the positive, healthy and harmonious corporate culture. In 2015, SIG was cited as an advanced unit for organizing recreational activities in the financial sector.

8. Active engagement in social charity

In 2016, to fulfill our corporate social responsibility, SIG actively participated in a number of social charity programs like directed aid for rural residents, aid for poverty-stricken students, blood donation and volunteering services. It is a means to support social progress and also a way to reinforce the socialist core values of our employees. It will therefore create a good image and a favorable social environment for SIG.

(1) Aid program for the rural residents in Fengxian District

According to the Opinions of the CPC Shanghai Municipal Committee and the Municipal Government for Enhancing Support for the Rural Areas, SIG started an aid program for helping the rural residents in Situan Town, Fengxian District. In 2016, we invested RMB 5 million in this aid program. In the meantime, we invested 5 million in our existing aid program for the rural residents in Chongming County (now a district) as requested by the Municipal SOA Supervision and Administration Commission.

According to another opinion requesting aid from urban CPC organizations to support rural development, the CPC committee of our subsidiary SIG Asset Management Co., Ltd., a national and Shanghai municipal model unit, entered into a partnership with Yuyang Village of Situan Town, which is a relatively poor village of the town. The company will put in no less than RMB 50,000 each year to support the village's development. In 2016, SIG's CPC organizations as a whole invested nearly RMB 2 million in developing old age homes and clinics and giving allowance to the poverty-stricken people.

(2) Directed donations in partnership with Shanghai Charity Foundation

Since 2010, SIG has made donations to Shanghai Charity Foundation for six straight years. In 2016, we donated RMB 3 million to SCF. In addition, together with SCF, we organized a charity auction in the name of "Love under the Blue Sky: Let Hope Fly" and the money raised was used to support the education and employment of the children of migrant workers in Shanghai.

(3) Active engagement in the aid program for poverty-stricken students

All units and CPC organizations of SIG are committed to helping both the old and the young in need. We visit senior citizens who live alone, help poverty-stricken students to complete their education, and show our love and care for the kids in welfare centers. In recent years, SIG has offered scholarship to students in the mountainous areas in Ya'an of Sichuan Province, joined in the establishment and running of hope schools in Labo Town of Yunnan Province, given donations to welfare centers in Shanghai as well as helping poverty-stricken and families. These are important channels for us to perform our corporate social responsibility, which is part of our corporate culture.

(4) Offering volunteering services in various forms

SIG has been providing volunteering services through various channels to spread love and advocate mutual help. In 2016, SIG had 11 employees who donated blood. Our subsidiary SSAO joined hands with a private primary school in a Loving Tree program, and sent its competent staff members to the community to offer services including family asset allocation advise. SIG Asset Management is also actively engaged in community services for which it won a special community service award from the West Nanjing Road sub-district governing committee, and donated RMB 2,000 to the elderly care program of SCF Jingan Branch. SIG's employee union installed a number of facilities in Situan Town of Fengxian District as part of its directed aid program to improve the public infrastructure there. Youth league members of SIG have a special volunteering service program entitled "Helping the Society, Lighting up Youth", including visiting the poverty-stricken people in their community, taking part in the annual event of Zhenyi Center for Children's Mental Development, an NGO, and joining in the development program for children with autism called "Taking Care of Little Painters from Stars".