

## **Corporate Social Responsibility Report (2015)**

Shanghai International Group (“SIG”) is deeply aware that an enterprise’s growth is indispensable from the support of the whole society. It has never stopped rewarding and giving back to the society in diverse ways. SIG integrates social responsibility into its strategy, core business and corporate culture. While it’s making progress on reform, innovation and growth, it’s also consistently enhancing its capacity in fulfilling social responsibility, and thus making a greater impact. SIG is not only committed to public good programs such as targeted poverty alleviation, but also endeavoring to generate greater social impact at a broader and higher level, with the aim to make further contributions to the social and economic development of Shanghai.

In 2015, in accordance with the reform program of state-owned assets (SOAs) and state-owned enterprises (SOEs) of Shanghai and major strategies of the city, SIG followed the arrangements of the CPC Shanghai Municipal Committee and the Shanghai Municipal Government to accelerate its pace in enhancing its “Twin-wheel” Strategy of state-owned capital operation and investment management, make progress in promoting state-owned capital flow via its platform, expand investment management business, make new contributions to the financial factor markets, take big strides in reform and innovation, and achieve success in Party building and employee development.

## **1. Lawful Operations and High Integrity**

As a state-owned capital operating platform in Shanghai, SIG is widely followed by the public. It must operate in full compliance with the law and grow on the basis of integrity, which are its fundamental principles. It is highly dedicated to strict procedures and transparent operation in compliance with the laws and regulations, making sure every capital operation is prudent and lawful. It uses third-party evaluation as the basis for equity pricing of private companies, combines horizontal and vertical comparisons, and then publicizes the transaction value, in order to guarantee transparent pricing mechanism. Regarding the equity operations of public companies, it strictly adheres to the laws and regulations of China Securities Regulatory Commission (CSRC) and State-owned Assets Supervision and Administration Commission of the State Council (SASAC). It discloses information timely and follows required filing procedures of state-owned capital evaluation and approval. It keeps strengthening compliance via requiring all the people in the know to sign confidentiality agreements so as to avoid insider trading.

## **2. Enhance Sustainable Profitability**

The year 2015 marks the first year of SIG's official launch of the state-owned capital operations platform as it repositions itself. With the goal of achieving

“breakthrough in capital operations, progress in investment management, contribution to factor markets, and improvement in management capability”, SIG has accelerated its reform efforts. SIG has successfully completed the first case of state-owned capital operation, and established an investment management structure under the principle of “liberalizing management activities while safeguarding the capital size”. Meanwhile, it has made major breakthroughs in projects for the financial factor markets, e.g. Shanghai Insurance Exchange. It has built a more systemic governance structure, and made great success across various aspects of its operations.

The year 2015 is also a year critical to the transformation and upgrade of China’s economy. The downward pressure on the economy, volatilities in the stock and foreign exchange markets, and mounting risks in the financial market have posed significant challenges to SIG’s capital operations and investment management business. In the face of severe economic circumstances, SIG grasped the market trend, and took the initiative to facilitate transformation through growth and promote growth through reform. As a result, SIG achieved record-high total assets, net assets and total profits. As of the end of 2015, the total assets on SIG’s consolidated financial statements amounted to RMB 231.299 billion yuan, a 58.97% increase year-on-year (YoY); its net assets totaled RMB 169.970 billion yuan, a YoY growth of 66.97%; its asset liability ratio was 26.51%, down 3.53% YoY; its

asset securitization ratio reached 78.59%, a 13.35% increase YoY. In 2015, SIG's return on equity recorded 20.53%, representing a 5.79% increase YoY. Its total profits on consolidated financial statements in 2015 reached RMB 10.737 billion yuan, fulfilling 145.71% of the annual target and representing a 48.40% growth YoY. In the same year, SIG turned in RMB 1.56 billion yuan of earnings from state-owned capital operations.

### **3. Effectively Enhance state-owned capital Operations and Investment Management Capability**

Over the last year, driven by the “dual-engines” strategy of state-owned capital operation and investment management, SIG has made three major achievements:

#### **(1) Smooth start of the state-owned capital flow platform, and great success of the first state-owned capital operation project.**

**First, SIG prepared itself well for launching the platform.** SIG negotiated with Shanghai Pudong Development Bank (“SPD Bank”) to agree on the feasibility report and transaction scheme of Shanghai Trust, China International Fund Management, Tullett Prebon SITICO (China) and etc., and transferred the Party and Youth League committees and labor unions of the transaction objects to SPD Bank. SIG has basically finished the vertical integration of SPD Bank and Shanghai Trust. At the same time, following the institutional arrangement of Shanghai Municipal Government, SIG researched

the state-owned capital operations system. And based on the municipal government's overall planning of state-owned capital operation and SIG's circumstances, SIG laid out its state-owned capital operation plan and action steps.

**Second, SIG successfully completed the equity transfer project of JJ Shipping.** At the beginning of 2015, SIG accepted the gratuitous transfer of 47.9884% shares of JJ Shipping, arranged by SASAC Shanghai. Then SIG actively promoted the vertical integration of JJ Shipping and Shanghai International Port (Group), and delivered the first project of state-owned capital operations in October 2015.

**Third, SIG steadily facilitated the operations of other state-owned equities.** SIG had frequent communications with the target companies, intermediaries and potential investors, and actively conducted feasibility study on related projects. In addition, in accordance with the arrangement of the CPC Shanghai Municipal Committee and the Shanghai Municipal Government, SIG explored the synergies between state-owned capital at municipal and district levels, so as to play a greater role in facilitating the entry, exit, flow and transfer of state-owned capital.

**Fourth, SIG turned in all the earnings from state-owned capital operations.** SIG set up special accounts for state-owned capital operations to

better manage the earnings from state-owned capital operations. After finishing the projects, SIG turned in the equity transfer earnings and dividends in full amount, supporting the income redistribution to facilitate national socio-economic development. The earnings were then used for the municipal pension fund, receiving high acclaim from the public.

**(2) Investment management capability highly enhanced, and major increase in asset quality**

**First, SIG focused on managing the capital, and supported the transformation of its strategic investments.** SIG strengthened the synergies with its invested companies, and improved market value management of public companies and equity operations of private companies, with the aim to facilitate the entry, exit, flow and transfer of state-owned capital. In full compliance with the regulations of SASAC and CSRC, SIG brought in strategic investors through public solicitation and transferred 7.08% of its shares in AJ Corporation to JuneYao Group. As a large shareholder, SIG fully supported the listing of Guotai Junan. And when there were big fluctuations in the capital market, SIG supported its subsidiaries to increase share holdings in Guotai Junan. SIG as a LP, made investment on schedule in the first-round fund of GP Capital, first-round fund of Guohe Capital, and third-round of Sailing Capital, amounting to RMB 1.283 billion yuan, RMB 756 million yuan, and RMB 2 billion yuan in each respectively.

Second, SIG seized the opportunity to mobilize idle assets. SIG effectively mobilized a number of long-term idle assets, by means of valuable consideration, negotiated transfer, and gratuitous transfer. It dealt with the equities of Tongsheng Group and others effectively, and disposed in total 29 million legal person shares in 8 listed companies, achieving good financial outcome.

Third, SIG fulfilled its delegated responsibilities and improved its function of managing state-owned capital. In accordance with the rules and delegation scope of SASAC Shanghai and Shanghai Municipal Financial Service Office, SIG conducted pilot filing for its SOA assessment. It reported the asset evaluation of 5 projects and the valuation of 8 projects. At the same time, SIG specified the authorization, responsibilities, conditions, and procedures of financial write-offs to prepare for asset impairment.

### **(3) Continued traditional role, and major breakthroughs in building factor markets**

Entrusted to manage state-owned capital, SIG fully supported and participated in building the financial factor markets of Shanghai. First, SIG made important breakthroughs in establishing Shanghai Insurance Exchange. It supported the organizing group of Shanghai Insurance Exchange to lay out the working plan. Second, SIG provided great support for the development of Shanghai Equity Exchange. Following the guidance of Shanghai Municipal

Financial Service Office, SIG coordinated with other shareholders to perfect the rules of procedures of the Board and governance mechanism of the Exchange. And SIG worked with the Exchange to help set up CNYFAST - a financial assets exchange platform, and supported the launch of Technology Innovation Board in the Exchange. Third, SIG played a contributing role in promoting the Cross-border Interbank Payment System (CIPS) and launching National Internet Finance Association of China in Shanghai.

#### **4. Strengthen Efforts on Resource Conservation and Environmental Protection**

Centering around building the information system, SIG continued to promote complete paperless office, so as to save energy and protect the environment. SIG completed the overall upgrade of its email system and expanded the email access channels while improving system security. SIG upgraded the network equipment in its mainframe room on Jiujiang Road, which provided core support for the parallel networks for daily work and confidentiality. SIG explored the functions of document circulation system, and developed 6 new processes including “evaluation filing circulation” and “evaluation transference circulation”, further moving towards paperless office. Apart from that, on the basis of diligence and frugality, SIG upheld resource conservation and environmental protection as the primary criteria in office equipment, vehicle

arrangement and building maintenance.

## **5. Promote Indigenous Innovations and Technological Progress**

As of now, there are few existing models in China and abroad to refer to when it comes to taking the state-owned capital operating platform as a pilot for innovation, and the transformation of SIG is a major innovation itself. Since 2015, SIG has actively been an early mover in taking measures to carry out bold innovation with speed and targeted positioning. SIG has been the first enterprise in Shanghai to spin off business assets, restructure and initiate platform operation. SIG has successfully completed the first state-owned asset transaction and basically defined the investment management structure, making it the pioneer in the transformation towards state-owned capital operating platforms in China. SIG has accumulated some experience in the development of state-owned asset platforms through exploration, practice and reflection, and has developed some preliminary and effective approaches and operation methods, providing important practice experience and typical case studies to the reform of SOEs in other provinces and cities.

In terms of specific operations management, the following are some innovative initiatives taken. **First, SIG has explored to improve the level and capacity of state-owned capital operating platform.** State-owned capital operating projects such as JJ Shipping have been progressing

smoothly, accumulating valuable experience of state-owned asset take-over and transfer for SIG. Relevant management policies and working mechanisms have been continuously improved and operation approaches have been more diversified. Meanwhile, SIG has also actively studied new approaches and paths of state-owned capital operation, exploring diversified and multi-tiered financial markets and leveraging various financial instruments including but not limited to exchangeable bond, equity swap, negotiated transfer, block trade and asset securitization to conduct stock equity operation, direct financing and market capitalization management businesses. **Second, SIG has actively explored effective ways to manage assets.** SIG has made efforts to improve the governance system of “two-level legal persons and two-level responsibilities”, to deepen the hierarchical management model and shift from managing enterprises or operations to managing capital. Meanwhile, SIG has also explored ways to map out the relations between state-owned capital operating platform, state-owned asset regulator and corporate investors, so as to explore new paths and accumulate experience for the reform of state-owned asset management system. **Third, SIG has explored innovative ways of investment and financing.** Shanghai State-owned Assets Operation Co., Ltd. (“SSAO”) under SIG has innovated the AMC business model, accelerated processing and capital turnover, tried to increase business earnings and actively extended up and down the value chain. It issued exchangeable bonds with China Pacific Insurance Company

as the underlying asset to conduct market value management via market-oriented increase or decrease in holding. SIG Asset Management successfully registered mid-term notes worth RMB 2 billion yuan with the National Association of Financial Market Institutional Investors, and issued the first mid-term notes worth RMB 500 million yuan. It innovated the term structure of the mid-term notes to “3+2” years, i.e. after 3 years, companies are entitled to a 2-year postponement or early termination, so as to increase its flexibility to the changing macro-economic circumstances.

## **6. Ensure Operations Safety**

**First, SIG accelerated the improvement on its policy system by focusing on its core business in accordance with various higher laws and regulations.** Process optimization and risk control have been enabled with the establishment of the policy system, to create more standardized, specialized and scientific operations management. In 2015, SIG abolished 14 policies, added 15 new policies and revised 53 policies in total based on its new functional positioning and development needs. Specifically, it comprehensively revised the Group charter under the guidance of the Municipal State-owned Asset Supervision and Administration Commission and the Municipal Bureau of Finance, to further define strategic goals and regulate organization behaviors, develop group-level authorization and

governance plans, map out operations management authorities, improve group authorization documents, regulate internal management processes and establish a hierarchical management mechanism.

**Second, SIG enhanced special auditing on major projects including but not limited to the auditing on accountability of SIG leadership and capital operation.** Prudent auditing was carried out on items including but not limited to the integrity and viability of policies, the effectiveness of policy implementation, the compliance of capital operation procedures. SIG's internal auditing system has been improved, with the working mechanism of auditing highlighted, auditing procedures specified and auditing management on subsidiary-level further enhanced.

**Third, SIG further strengthened risk management by leveraging the risk management committee.** Items including but not limited to the scope of responsibilities, meeting rules, and rights and obligations of SIG's risk management committee were defined, and the working methods for various steps including document distribution, ballot signing as well as deliberation sign-off and issuance were revised with an additional step of deliberation feedbacks based on the realities, so as to make the work procedure of the committee more compliant and feasible.

**Fourth, the Party committee took major accountabilities with strict and clear-cut disciplines and rules.** SIG's Party committee highly valued the work on improving Party conduct, developing the annual work plan for implementing the major accountabilities and breaking down tasks. Each Party committee member took on double responsibilities in one role, and enhanced Party conduct and clean administration within their scope of responsibility. The SIG's Party committee strengthened discipline reaffirmation and inspection, while guiding discipline inspection departments to conduct investigation according to the procedures, and deal with confirmed violations in accordance with relevant rules and disciplines. Moreover, SIG comprehensively investigated and effectively addressed the issues in its operation and management in the context of the "Three Stricts and Three Honests" educational campaign and the inspection from the Municipal CPC Inspection Group. By the end of 2015, 41 improvement projects had been fully implemented, among which 31 projects had been completed and 10 long-term projects had reached milestones.

## **7. Safeguard the Legal Rights and Interests of Employees**

**(1) Deepen democratic management and safeguard the rights and interests of employees**

In recent years, SIG has given full play to the important role of labor unions in safeguarding the legal rights and interests of employees, aggressively promoting the development of workers' congress, collective negotiation system and allowing workers on the Board of Directors and Board of Supervisors. The open and democratic administration go hand-in-hand with the corporate reform and restructuring, day-to-day operations, and the improvement on corporate governance, so as to safeguard employee's lawful rights and interests and ensure the reform, innovation, transformation and development of SIG.

In 2015, SIG convened leaders from local labor unions and employee representatives including but not limited to the municipal advanced representatives and young representatives from the Communist Youth League to a forum to solicit ideas on the revision of the Group charter.

The revisions were made in accordance with SIG's policies, and any revisions involving the actual interests of employees were based on the inputs solicited from all employees. Revision proposals were then approved through anonymous voting in workers' conference to effectively implement the democratic procedures. SIG organized the workers' conference to review its Annual Operation Work Report in 2015, and ensured access to information, voice and representation of employees through the workers' conference.

On June 29, SIG held the fourth plenary meeting of the third workers'

conference, in which two employees were made members on the Board of Supervisors through anonymous voting, so as to further improve SIG's Board of Supervisors system and incorporate democratic management into corporate governance.

In October, SIG's labor union investigated the implementation of *the Approach to Collective Negotiation* and the *Collective Contract* developed in 2015. As a result, since the second round of collective contract signing in 2014, various units have been able to smoothly fulfill the contractual obligations, and employees have generally been satisfied with the collective contract fulfillment. On December 11, representatives from both parties in the collective negotiation held the annual negotiation meeting in 2015, which reported the fulfillment of the annual collective contract and approved the revision of Administrative Measures for SIG's Attendance and Leave Management. The inspection on the annual collective contract and the collective negotiation meeting ensured effective implementation of SIG's collective negotiation system.

## **(2) Encourage on-the-job Talent Development and Promote Employee Development**

SIG encouraged its employees to show passion and work ethics, while encouraging them to improve their skills on the job. SIG organized various

professional trainings and contests for its employees, to further inspire them to innovate and facilitate with their career development.

In 2015, SIG actively organized a contribution contest for its employees with the theme of “Developing Shanghai into an International Financial Center——System Innovation, Service Optimization and Skill Improvement of Financial Workers”. The affiliated labor union organized a marketing contest and a “One-hundred-day Labor Contest” with the theme of “Becoming Civic Pioneers and Building Civic Teams to implement the policies of the 18<sup>th</sup> National Congress”. SIG saw a number of outstanding individuals and teams, including Chen Bing from Shanghai Trust, who was awarded “Model Worker 2010-2014” by Shanghai Municipality and Yu Bing from SIG Asset Management, who was awarded “March 8<sup>th</sup> Red-banner Holder 2013-2014” by Shanghai Municipality.

### **(3) Care for Employees with a People-oriented Approach**

By creating a staff family, SIG cares for its employees with a people-oriented approach in order to improve group cohesion. SIG conducted the “Caring” campaign to care for the health of its employees, organized regular annual physical check-ups and specialized symposiums on health advises. It built various facilities including a reading room, a ping-pong room and a gym. It maintained good services in the employee canteen and created a good work environment.

SIG cares for vulnerable employees and has continued to organize caring activities. In 2015, SIG developed a plan to help and subsidize vulnerable employees, to institutionalize, standardize and normalize the alleviation efforts. A good caring atmosphere was created through a series of activities to care for vulnerable employees through the “warm winter and cool summer” campaign, as well as student subsidies.

SIG actively cares for female employees by organizing annual physical check-ups for them, organizing various activities on March 8<sup>th</sup>, and visiting pregnant female employees. SIG has established a development platform for female employees and organized activities to select March 8<sup>th</sup> Red-banner Holders and March 8<sup>th</sup> Red-banner Teams, so as to select advanced female role models and encourage all female employees to be actively committed to the development of SIG.

SIG organized a variety of cultural and sports activities to improve the health of its employees, enhance team-building and increase team cohesion. SIG's labor union has various cultural and sports groups such as badminton team and photography association and organizes activities including yoga, Tai hi and jogging. SIG encourages its employees to participate in various activities organized by the upper-level labor union and has been awarded the annual “Advanced Organizer of Cultural and Sports Activities” in the financial sector

## **8. Engage in Public Welfare**

When the earthquake struck Ya'an in Sichuan Province, SIG's party committee and labor union jointly initiated the disaster relief and donation campaign called "Helping Ya'an Go Through the Disaster", in which individual group leaders made donations.

The SIG Employee Fund was joint established by SIG and Shanghai Charity Foundation to award outstanding middle-school and primary-school teachers and students in Mingshan District of Ya'an City. In 2015, the fund completed the issuance of the second batch of student subsidies and awards for outstanding middle-school and primary-school teachers and students in Mingshan District of Ya'an, benefiting 100 teachers and 200 students in total. The donation campaign fully embodied the selflessness and dedication of SIG employees as well as its good corporate culture.

Since the municipal CPC committee and the municipal government deployed a new round of integrated rural poverty alleviation campaign in 2013, SIG Party committee has attached great importance to targeted poverty alleviation in Situan Township of Fengxian District, and promoted various targeted poverty alleviation activities centering around development, livelihood improvement

and service for the people. On January 15, prior to the Chinese New Year, the group leaders led a delegation to visit the nursing home in Situan Township, meeting some senior citizens and checking the delivery of SIG's donation. In addition, they went to the homes of the villagers in Yuyang Village of Situan Township to visit some elderly people plagued by poverty and diseases. The group leaders brought them cotton quilts and goods for the Chinese New Year, had a cordial talk with them and expressed new year wishes on behalf of SIG.

SIG's Communist Youth League committee organized young Youth League representatives to go to the Weihai neighborhood committee on West Nanjing Road in March, the "month of young volunteers", to give out fruits and consolation money. SSAO actively participated in community programs and regularly visited widowed seniors on pension in Xujiahui neighborhood, vulnerable families and subsidy-receiving students. Establishing itself as a role model enterprise, SIG Asset Management visited vulnerable families of the Party members in Shengping neighborhood, a unit of community-level joint Party building. The company also participated in the campaign on "Leifeng Day" with the theme of "Everyone learns from Leifeng to spread love along West Nanjing Road", organized Party members and Youth League members to volunteer in the library on West Nanjing Road and help sort out new books, and do cleaning work. The company was given the annual "Fumin Award" of West Nanjing Road at the Party building work meeting of West Nanjing Road in 2015.

Bearing in mind the idea of “serving the community”, SSAO sent its top employees to participate in the “Learn from Lei Feng” community serving activities, providing advisory services to local residents on family asset allocation. The “One-hour Volunteer Group” of SIG Asset Management participated in the landscape greenery planting campaign and “one-hour volunteering” activity in Shanghai Welfare Children Hospital. Employees from Crowne Plaza Shanghai Xiayang Lake went to China Welfare Institute Nursing Home and helped the seniors with difficulty in walking to visit the spring-time Bei Jing Park on wheelchair, and went to Zhujiajiao Special Education School to spend time with the students there.