

M&G 晨光文具

上海晨光文具股份有限公司

SHANGHAI M&G STATIONERY INC.

2019 年度企业社会责任报告

2019 Corporate Social Responsibility Report

About This Report

The Board of Directors of the Company and all its directors guarantee that, this report does not contain any false information, misleading statement or material omission, and severally and jointly accept responsibility for the truthfulness, accuracy and completeness of the contents of this report.

Dear stakeholders, this “Corporate Social Responsibility Report of Shanghai M&G Stationery Inc. for the Year of 2019” (CSR report) is the second annual CSR openly issued to the public by “M&G Stationery”. This report aims to truthfully present the CSR development and practice of the Company and reveal to our shareholders, employees, government agencies, customers and consumers, partners, local communities and other stakeholders of the Company’s CSR activities.

Reporting Period: From 1 January 2019 to 31 December 2019

Reporting Cycle: reported annually

Scope of Reporting

This report covers Shanghai M&G Stationery Inc. and its subsidiaries. For the convenience of expression, they are referred to as “M&G Stationery”, “M&G”, “the Company”, “we” or “us” etc. herein.

Basis of Preparation

This report is prepared in accordance with National Standards on “Social Responsibility Report Preparation Guidelines” (GB/T 36001-2015), “Guidelines on Corporate Social Responsibility Reporting for Chinese Enterprises”(CASS-CSR 3.0) as promulgated by the Academy of Social Science of China and “Guidelines to Report Sustainability” (G4) of Global Reporting Initiative (GRI).

Access to the Report

The report is prepared and published in simplified Chinese, and is available in both hardcopy and electronic versions. The latter may be downloaded from the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

Report Assurance

The report was approved through the twentieth meeting of the fourth session of the Board of Directors and the thirteenth meeting of the fourth session of the Board of Supervisors held on 10 April 2020.

本报告分别以中、英文编制，在对中外文文本的理解上发生歧义时，以中文文本为准。

This English version is converted from the Chinese version.

In case of any discrepancy between the Chinese version and the English version, the Chinese version shall prevail.

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I. Company Profile

Shanghai M&G Stationery Inc. was incorporated on 18 July 2008 and was listed on Shanghai Stock Exchange on 27 January 2015 with stock code 603899. As an integrated stationery products and service provider, the Company integrates the value of creativity into its products and service advantages, advocates fashionable stationery lifestyle, and provides solutions for study and work. The traditional core businesses include designing, developing, manufacturing and selling writing instruments, student stationery, office supplies and other products of **M&G晨光** and its brands, while new businesses mainly focus on developing one-stop office service platform—M&G Colipu, retail stores—M&G Life Museum and Jiumu Sundries Store, as well as the Internet and e-commerce platform—M&G Technologies.



With a sound, independent and complete operation system from design and development of brands and products, procurement of raw materials and accessories, product manufacturing, supply chain management and marketing network management to warehouse and logistics, the Company is capable of performing independent operation of business in the market.

As a highly recognized company in China's stationery industry, the Company operates in the following segments including children, students, office employees and lifestyle, with its extensive and "deep" product lines ranking top in the domestic stationery industry. For instance, with regard to pen manufacturing particularly, we have remained first among top 10 pen manufacturers in China's light industrial sector for eight consecutive years. During the recent years, stationeries bearing M&G brand can be seen even on many national high profile conferences such as APEC conferences, Boao Forum for Asia and Global CEOs' Conference.

Pursuing the mission of “making study and working more joyful and effective” and upholding the core value of “sincerity, collaboration, focusing and mutual success”, the Company has been committed to developing premium stationery products and sharpening its leading competitive edge in terms of the design and function of products through its advanced and international design team as well as by integrating the sources from global creative team and external. Moreover, the Company has, through effectively integrating of essential resources such as raw materials, technology, capital, market, talents and creativity from a global perspective, endeavored to present the whole world the product innovation and brand values of M&G Stationery.



使命
Our Mission
让学习和工作更快乐更高效
Make study and work
more joyful and efficient

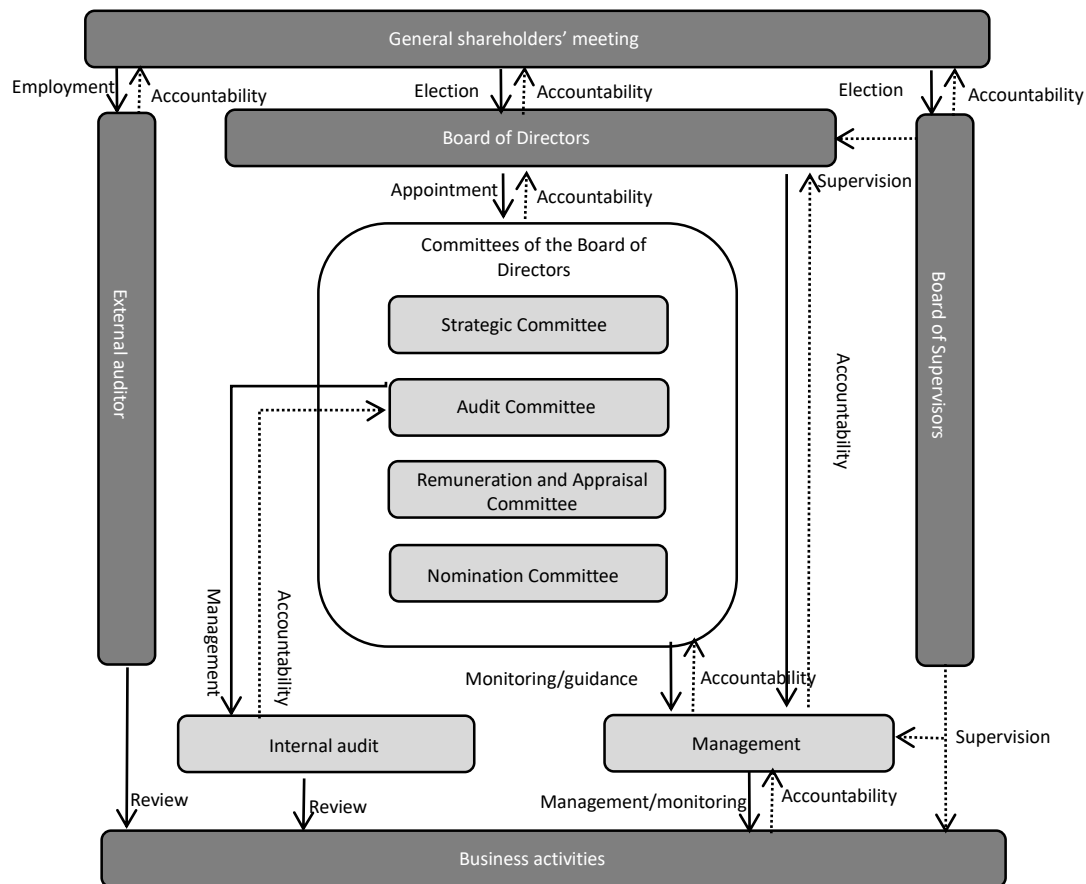
愿景
Our Vision
成为世界级文具企业
To become a world-class stationery
manufacturer and supplier

价值观
Our Value
真诚 协作 专注 共赢
Sincerity / Collaboration /
Focus / Winning Together /

II. Compliance, the Cornerstone of Corporate Governance

(I) Corporate governance

During the Reporting Period, the Company, in strict compliance with laws and regulations such as Companies Law, Securities Law and Code of Corporate Governance for Listed Companies, as well as regulatory documents issued by China Securities Regulatory Commission regarding the governance of listed companies, has continuously optimized the corporate governance structure, established sound internal control system, standardized the business operation and improved the corporate governance practice, to ensure there are rules and policies to follow and therefore prevent operation risks and effectively guarantee the legitimate rights and interests of all shareholders of the Company.



In 2019, we held 5 board meetings, 4 supervisors' meetings and 2 general shareholders' meetings. The general shareholders' meeting, Board of Directors, Board of Supervisors,

the management as well as independent directors perform functions in a regulative manner. By virtue of the strict segregation of powers and duties as well as the inter-collaboration amongst authority body, decision-making body, supervisory body and executive body, the general policies of the Company is very effective in preventing the abuse of power.

Subordinated to the Board of Directors, the Strategic Committee, Audit Committee, Remuneration and Appraisal Committee and Nomination Committee perform their respective functions in strict compliance with respective implementing rules. In 2019, 5 meetings were held by the Audit Committee, 1 meeting by the Strategic Committee and 1 meeting by the Remuneration and Appraisal Committee. With their professional expertise, all these committees have played positive roles in improving the business operation and promoting best practice.

The independent directors of the Company, in compliance with “Rules on the Functioning of the Board of Directors”, “Guidelines on the Performance of Duties by Independent Directors” and other applicable regulations, have exercised discretionary review over the deliberation and decision making procedures regarding the appointment of Company officer(s), the use of the raised funds and related party transactions etc. and expressed their independent professional opinions. They have effectively fulfilled their duties, ensuring the Company operating in a regulative manner and gaining quick growth.

(II) Compliance with laws and policies

Legal compliance is fundamental to business operation. M&G Stationery highly emphasizes risks management during operation and continuously promotes policy establishment and culture building for compliance to ensure its stable operation. In 2019, the Company held 9 training sessions for legal compliance, including 3 sessions related to compliance in advertising activities, 1 session for employment contracts, 4 sessions for intellectual property and 1 session for barcodes management.

In addition to relevant workplace training, the Company has established sound anti-

fraud policies and encourages whistle blowing on any fraud. The Company has entered into “Procurement Integrity Agreement” with all suppliers during the year. Hyperlinks for whistle-blowing on any frauds are available at the obvious place on the M&G Cloud integration platform and OA information system. The Company makes posters to promote anti-fraud on a regular basis. Generally, the posters are publicized at a place with large people flow in the Company as well as in each branch. After putting up, we usually have a regular checking for the situation of the poster. If missing, we will replace it with a new one. Any employees and external interested parties with direct or indirect business connection with the Company may whistle-blow any actual or suspected fraudulent behavior conducted by the Company and its employees by means of whistle blowing hot-lines, email, correspondence etc. Furthermore, the Company promotes anti-fraud to all employees and suppliers by means of WeChat official account platform and corporate WeChat platform of the Company.

(III) Internal control

The Board of Directors of the Company has established sound and effective internal control system in compliance with “General Guidelines on Enterprise Internal Control System” and its interpretations as well as other regulatory requirements governing internal control, with the Board of Supervisors overseeing the establishment and implementation of internal control system by the Board of Directors. The management shall be responsible for directing and coordinating the day-to-day running of the Company. The Company has established sound and complete internal control policies and procedures which give detailed specification on such issues as significant business decisions at corporate level, investing and/or financing activities, related parties transactions, assets management as well as approval process, limits of approving authority and pertinent responsibilities pertaining to payments to third parties and expense reimbursement.

Meanwhile, instructed by the Audit Committee subordinated to the Board of Directors, the Audit Department of the Company has conducted independent audit and

appraised on the effectiveness and efficiency of the design and implementation of internal control system. There was no significant internal control deficiency detected during the year of 2019. The Company, upon the detection of other deficiencies through internal audit work, proactively analyzes the underlying reasons for deficiencies and works out correction plans in which responsible employees and deadlines for correcting deficiencies shall be specified for prompt follow-up and monitoring on the correction, therefore ensuring the effectiveness of the internal control system. Moreover, based upon the above, the Company continuously improves the internal control environment through sustained optimization of internal control processes and pertinent supporting system. The Company continuously promotes the management team's awareness in compliance via various means to further ensure the effective implementation of internal control system and processes. The Company fully discharged its social responsibilities while maintaining sound business operation in compliance with laws and regulations.

(IV) Operation performance

In 2019, the Company recorded an operation revenue of RMB11,141,101,400, representing an increase of 30.53% as compared to the corresponding period of last year. The net profit attributable to shareholders of the listed Company amounted to RMB1,060,083,600, representing an increase of 31.39% as compared to the corresponding period of last year, while net profit attributable to shareholders of the listed company after deducting non-recurring profit and loss amounted to RMB1,005,188,000, representing an increase of 34.13% as compared to the corresponding period of last year.

As at the end of 2019, total asset of the Company amounted to RMB7,565,115,300, representing an increase of 33.25% as compared to the corresponding period of last year. The net asset attributable to shareholders of the listed company amounted to RMB4,201,500,400, representing an increase of 23.18% as compared to the corresponding period of last year. The Company has maintained healthy and rapid

growth with sound operation in asset.

Key financial indicators	2019	2018	Year-on-year increase or decrease in the current period (%)
Basic earnings per share (Yuan/share)	1.1523	0.8770	31.39
Basic earnings per share, net of non-recurring gains and losses (Yuan/share)	1.0926	0.8146	34.13
Weighted average ROE (%)	28.17	26.16	Increase of 2.01 percentage points
Weighted average ROE, net of non-recurring gains and losses (%)	26.71	24.30	Increase of 2.41 percentage points

(V) Taxation obligation

Taxation compliance has always been considered by the Company as basic requirement of performing social responsibility and reciprocating local community. The Company has, in strict compliance with applicable taxation laws and bylaws, performed its legal obligation of timely and full settlement of tax liabilities arising from bona fide business activities. In 2019, the total tax payment amounted to RMB676 million in compliance with applicable taxation laws and its tax credit rating was Grade A.

(VI) Awards to the Company

Number	Description	Issued by
1	Model corporate for safety operation for 2018	Political and Legal Affairs Sub-Commission to CPC Committee in Shanghai
2	Fortune top one hundred entities within Fengxian District of Shanghai for the year of 2018	People's Government of Fengxian District of Shanghai

3	Title of "Outstanding Employment Enabler" of Qingcun Town for the year of 2018	CPC Committee of Qingcun Town of Fengxian District of Shanghai/People's Government of Qingcun Town, Fengxian District of Shanghai
4	Title of "Top Ten Taxpayer in Terms of Average Tax Amounts per Mu" of Qingcun Town for the year of 2018	CPC Committee of Qingcun Town of Fengxian District of Shanghai/People's Government of Qingcun Town, Fengxian District of Shanghai
5	Title of "Top Ten Taxpayer in Terms of Total Tax Amounts" of Qingcun Town for the year of 2018	CPC Committee of Qingcun Town of Fengxian District of Shanghai/People's Government of Qingcun Town, Fengxian District of Shanghai
6	Title of "Social Charity Award" of Qingcun Town for the year of 2018	CPC Committee of Qingcun Town of Fengxian District of Shanghai/People's Government of Qingcun Town, Fengxian District of Shanghai
7	Title of "Extraordinary Innovation Award" of Qingcun Town for the year of 2018	CPC Committee of Qingcun Town of Fengxian District of Shanghai/People's Government of Qingcun Town, Fengxian District of Shanghai
8	The Second Prize for State Science and Technology Progress Award issued by China National Light Industry Council for the year of 2018	China National Light Industry Council

9	The Third Prize for State Science and Technology Progress Award issued by China National Light Industry Council for the year of 2018 (in connection with the development and commercialization of mechanical pencils)	China National Light Industry Council
10	Top one hundred enterprises in China's light industry	China National Light Industry Council
11	Documented into the book of "Finding the Invisible Champion among Chinese Manufacturers" (Shanghai volume)	The People's Publishing House Liberal Arts Division/Shanghai Municipal Commission of Economy and Informatization
12	Top ten enterprises within the sub-sector of cultural and education supplies pertaining to light industry sector in China	China National Light Industry Council/China Stationery & Sporting Goods Association
13	Top ten pen manufacturers in light industry of China	China National Light Industry Council/China Writing Instrument Association
14	The Gold Medal for China International Stationery Exhibition (CISE) within China's cultural and education sub-sector for the year of 2019	China Stationery & Sporting Goods Association

III. Focus on Sustained Improvement of Stakeholders' Satisfaction

(I) Returns to shareholders

Emphasizing reasonable returns to our investors, the Company maintains ongoing and stable dividends policies to fully safeguard the benefit of minor investors. Pursuant to “Notice Regarding Further Implementation of Cash Dividend Distribution by Listed Companies” and “Regulatory Guidance No.3 of Listed Companies — Cash Dividend Distribution of Listed Companies” issued by the China Securities Regulatory Commission, the Company has formulated a “three-year dividend distribution plan (From 2017 to 2019)”. The Company distributes dividends in cash or shares, or cash-and-shares, and if the Company satisfies the conditions for cash dividends, priority should be given to profit distribution by means of cash dividends. During the recent three years, the cash dividends paid by the Company have accounted for over 34% of net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements, which ensured the investors sharing the business results.

Year for dividend distribution	Amount of dividends distributed per 10 shares (RMB) (inclusive of tax)	Amount of cash dividends (RMB) (inclusive of tax)	Net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements for the year (RMB)	Percentage of the net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements (%)
2019	4	368,000,000	1,060,083,625.03	34.71
2018	3	276,000,000	806,847,308.41	34.21
2017	2.5	230,000,000	634,040,991.46	36.28

(II) Investor relations

Investor relations are vital to a public listing company. Firstly, a listed company usually actively manages the relations with investors through ongoing communication of information to investors, which allows the investors to keep up with the development of the Company and coordinate with and support its development. Secondly, proactive investor relations management may, to the greatest extent, avoid the undervaluation of the share price of a listed company and reflect its true value in the market. Last but not least, proactive investors relations management may help to improve the goodwill of a listed company and build trust with the investors, thus facilitating the business development.

In 2019, the Company cooperated with institutional investors' survey, including through on-site manner, telephone conferences and WeChat Group, on a regular basis. The Company has filed with Shanghai Stock Exchange as required and publicized at SSE E-Interaction. The Company each year holds two survey reception sessions, during which the management usually answer queries relating to the market in order to enhance transparency and creditability of the Company. All queries raised by shareholders via Internet platform were appropriately replied. Moreover, the Company has, in consecutive years, held public reception conferences to deliver answers to questions concerned by the investors for safeguarding the interests of Company's shareholders as a whole.

(III) Information disclosure

The Company has, pursuant to "Rules Governing the Listing of Stocks on Shanghai Stock Exchange" and other relevant regulatory requirements, actively discharged its obligation of disclosures, promptly disclosing relevant information fairly and ensuring the correctness and completeness of the disclosed information. Any significant events and resolutions shall be promptly released by the Company, and disclosed at the designated press media, including "China Securities Journal", "Shanghai Securities News", and "Securities Times".

In 2019, 31 interim announcements were released and 4 regular announcements were officially released in professional due care. We regularly report the insider registration and promptly file, therefore eliminating any insider trading and ensuring that all the investors can access the information of the Company equally. The Company was valued as “A” level in terms of disclosure of company information during 2018 and 2019.

(IV) Consumer rights protection

The Company has formulated a series of strict, internal policies on quality control and manufacturing procedure control, including the procurement of raw materials, product manufacturing as well as after sales service. Furthermore, the Company strictly complies with national standards and/or industrial standards in controlling manufacturing procedures. In the absence of applicable national or industrial standards, the Company will adopt the internal standards to ensure that the quality of the product can meet applicable standards and continuously improve customers’ experience. Through pre-sale market research and guided by customer orientation policy, we follow up the demands of customers to understand their requirements on the products and thus improve customer satisfaction. Meanwhile, the Company actively regulates its behavior when competing with its competitors so as to protect the consumers’ rights and interests while preventing unfair competition and combating fake and shoddy products.

In order to improve its consumer services, the Company has formulated related procedures, including (1) appraisal for customer satisfaction procedures whereby pre-defined and effective appraisal methods are employed to identify the extent of customers’ satisfaction and evaluate the performance of quality control system, which shall be subject to subsequent improvement based upon the result of appraisal; (2) Procedures of monitoring the responsiveness to customer needs whereby any complaints filed by customers can be effectively controlled to eliminate recurring troubles and cater for customers’ needs.

IV. Collaboration-Full Collaboration with Partners

(I) Supplier's rights and interests

By taking advantage of unique supply chain, the Company can act quickly to the changing market in every link, including data collection, R&D and product design, procurement, manufacturing and distribution. The Company was the first in the industry to introduce a scientific supplier evaluation and grading system and to establish a professional supplier management team as well as SQE team, with a view to constantly boosting suppliers' performance and developing strategic partnership.

The Company maintains long-term partnership with suppliers by respecting their lawful rights and interests as well as preserving their intellectual property, confidential and proprietary information. Moreover, the Company has continuously optimized the procurement process and system and implemented fair and unbiased supplier appraisal system to nurture a positive business environment for suppliers. Last but not least, the Company has appropriately performed its contractual obligations in order not to prejudice the lawful rights and interests of suppliers. In order to prevent commercial bribery and other forms of unfair competition in part with the suppliers, the Company has entered into "framework agreement on the transparency to preserve financial probity during procurement cycle" with suppliers whereby the lawful rights and interests of both parties are preserved and business partnership relations are not prejudiced.

(II) Distributor's rights and interests

The Company has, through years of research and practice in establishing marketing channels, set up a distinct marketing regime named as "M&G partner pyramid style marketing". By taking advantage of powerful influence of M&G brand, extensive stationery product lines, ongoing training of business management mode as well as the unique system of regional exclusive dealership, the Company has further

strengthened business partnership with distributors of all tiers.

By adhering to the core value of “top-down input of resources” and “top-down sharing of operating profit”, M&G Stationery has cemented a stable business ecosystem whereby both distributors and M&G Stationery can achieve win-win outcome.

“Top-down input of resources” shall refer to the business mode whereby distributors of each tier shall, under the umbrella of the centralized marketing system of the Company and within the scope of their responsible regions, be responsible for the administering of the distributors of lower tier, expansion and maintenance of end marketing channels, as well as investing on manpower, capital, hard and software etc. In that case, M&G has dramatically reinforced the control over and penetration into marketing channels. Moreover, through centralized training, implementation of appropriate control mechanism, KPI management, establishment of corporate culture, standard marketing procedures, M&G Stationery has forged a very competent and high-performing sales team.

“Top-down sharing of operating profit” shall refer to the business mode whereby business partners of each tier can earn all guaranteed operating profits under the mechanism of uniform pricing strategy channeled down from the Company. In that case, distributors of all tiers are motivated to develop the markets within the scope of their authority and responsibilities.

As at the end of 2019, the Company has 35 tier-one distributor partners (provincial level), approximately 1,200 tier-two and tier-three distributor partners, covering over 85,000 retail stationery shops.



V. Innovation-Development and Manufacturing of better products

(I) Research & development capacity

The Company has developed “entire design system” covering the whole process ranging from consumption value design, product design, product mold development to brand image design, and adopted trend-, theme- and experience-oriented development model to develop new products from all categories based on consumer insight.

Boasting a powerful research lab subordinated to technology center, the Company has taken the lead in tackling various technical difficulties, including those incorporated in the “thirteenth five-year plan” project. Meanwhile, M&G industrial park is also the home to China writing instrument industry base, China writing instrument center, national industry design center and China key laboratory of light industry and writing instrument engineering technology.

The Company each year pours into approximately RMB 100 million in the design and R&D of new products and technology currently possessing over 700 patents. M&G Stationery has been awarded with such heavyweight product design medals as Gold Ideas Medal and Red Star Medal. In 2019, M&G Stationery was awarded three international product design honors, including 2019 German iF Product Design Award and Good Design Award (G-Mark) awarded to the design of “Enjoy Writing” gel pen and German Red Point Medal awarded to metal bookmark bearing quintessence of Chinese culture.



(II) Manufacturing capability

The Company uses the brand manufacturing model that combines sales-based production, independent production and OEM outsourcing production, develops independent systems for raw material procurement, as well as product manufacturing and selling, and has established its brands in the market with advantages of the whole industry chain in designing, researching and developing, manufacturing and selling stationery.

With large-scale manufacturing experience accumulated over the past few years, independent mold research and development capability, stable supply chain system, sound quality control system and adoption of several information management systems, the Company has reached sound manufacturing and quality control level under large-scale manufacturing with product qualification ratio as high as 99.96%.

Moreover, the Company has grasped the core technology of writing instrument in nib, ink and its matching, developed self-owned mold development technology, and participated in preparation of national standard and industry standard for several products. The product design center of the Company was acknowledged as a “state level industrial design center”.



(III) Quality control

The Company always highly valued the quality of products to achieve greater customer satisfaction. By consistently adhering to requirements as prescribed in ISO9001:2008 quality control mechanism, the Company has upgraded the quality of products and supporting service on an ongoing basis.

1. Establishment of quality control mechanism

Both production quality control department and OEM quality control department have been established and subordinated to the production center of the Company to jointly conduct the control and inspection of the products. The Company has set up quality surveillance network throughout the whole business cycle covering supplier management, raw material procurement, manufacturing process, finished goods inward as well as control over OEM products.

The Company has, in strict compliance with the requirements of ISO9001:2008, compiled and maintained 40 types or so of quality control documentations, including quality control manuals, program files, regulatory documents, quality control plans, authentication documents and records etc. By availing itself to all these procedures, the Company has enabled the effective implementation of the quality control system and strengthened the monitoring of the quality control system.

2. Standard quality control process

The Company has constructed well-defined quality inspection mechanism, mainly

including:

- (1) Control over the received raw materials, i.e. to inspect on the quality of the received raw material, parts and accessories. Moreover, in consideration of particular nature of the materials and under certain circumstances, the Company may appoint third party quality inspectors to conduct quality inspection on sample basis in compliance with GB2828.
- (2) The Company has, in compliance with quality standards prescribed in ISO9001:2008, formulated process quality inspection policies to incorporate all workshops and production procedures into the total quality management regime.
- (3) The quality control process on the finished goods comprises the inspection on the received finished goods and OEM products manufactured by third party(ies).
 - ① Inspection on in-house made finished goods: The Company shall conduct 100% full inspection on the exterior appearance and function of all in-house made goods.
 - ② Inspection on OEM products manufactured by third party(ies): All OEM third party manufacturers are required by the Company to supply pre-batch production samples for comprehensive inspection by both the products quality control department and craftsmanship departments. Trial production in small batches shall not commence until the samples have passed the inspection. Finally the batch production in large quantity shall commence once the trial production products have passed the inspection by the products quality control department of the Company. Once the production is over, formal sign-off upon inspection shall be conducted in compliance with pre-defined standards set by the Company. Only the finished goods that have met the quality standards can be received and later delivered by the Company.

The quality inspectors' team of the Company shall not only inspect, monitor and control the quality of products along the industrial chain, but also conduct PDCA inspection on the whole quality inspection system itself so as to harness continuous improvement in the quality of both in-house products and outsourced products as well as the effectiveness of the quality control system itself. By adopting the foregoing quality assurance system, the Company is well ahead of its majority of its counterparts

within the sector in terms of product deficiency ratio.

(IV) Testing capability

After approximately one year of deliberation, the testing laboratory of M&G Stationery has been officially awarded the accreditation certificate of China National Accreditation Service for Conformity Assessment (CNAS), which indicates that the testing capacity and testing results of and from the testing laboratory of M&G Stationery has gained mutual multi-laterally acknowledgment by its counterparts in 101 countries worldwide. As the unique accreditation body that issues the most authoritative certificates to inspection labs, CNAS also tops its counterparts in terms of timelines of review and demanding standards applied during review.

Upon the acknowledgment from the CNAS, M&G Stationery has not only possessed the testing capacity of the highest standards at home, but also will be eligible for conducting accreditation jobs and having access to bi-lateral and/or even multi-lateral international exchange with its overseas counterparts. The test report issued by M&G Stationery will, within its capacity of accreditation, can be deemed internationally binding and authoritative.



M&G Stationery has as always advocated research, development and innovation on its own. The in-house testing laboratory is the critical success factor of quality assurance in terms of its technical capacity. What's more, the testing laboratory is shouldered with the responsibilities of formulating applicable standards in a bid to usher Chinese

stationery products into a new era. M&G Stationery will remain committed to reinforcing the strength and capacity of the laboratory while optimizing the quality control regime on an ongoing basis. In addition to ensuring the quality of products, the laboratory will help to drive further research, development, and innovation by taking advantage of its cutting-edge testing capacity in pursuit of the goal of carving the name of “China made refills” with more pride.

(V) Workplace safety

In order to ensure workplace health and effectively respond to unsolicited accidents, the Company has formulated such institutionalized workplace guidelines as “Control Policies on Workplace Safety”, “Policies on Workplace Safety Related Training”, “Control Policies on Fire Prevention Practice” and “Precautionary Plans against Typhoon, Flood and Lightning Strike” etc. Moreover, the Company has taken such initiatives to prevent any potentially hazardous risks from impacting the workplace safety as including pre-employment orientation on workplace safety, upgrade of such fire-fighting and fire prevention devices as well as ad hoc or recurring inspection on workplace safety etc.

In 2019, there were no accidents in connection with workplace safety reported pursuant to “Ordinance on the Investigation and Reporting of Workplace Safety Related Accidents” issued by the State Council.

VI. Employee Care- People Oriented, One for All and All for One

(I) Protection of lawful rights and interests of employees

In strict compliance with the “Labor Law” and other relevant laws and regulations as well as social security laws and bylaws, the Company covers old-age insurance, medical insurance, work injury insurance, unemployment insurance, maternity insurance as well as housing provident funds, so as to provide a healthy and safe working and post-job environment for employees and effectively safeguard their lawful rights and interests. In addition, the Company has formulated its control policies on workplace safety. We conduct training with regard to safety to increase safety awareness, and regularly conduct safety inspection, fire-fighting rehearsals to identify and avoid potential safety hazards..

(II) Talent training and development

Generally, M&G Stationery aims to build a world-class team with highly ethical, dedicated, and high-quality employees. To support the rapid growth and effective operation, the Company has built a mechanism for selecting and developing self-motivated and self-disciplined talents.

M&G Stationery offers competitive remuneration package to its employees within the industrial sector, and is also consistent in promoting and facilitating the promotion of those highly competent employees who match the culture of M&G Stationery and take the ownership of responsibilities. By establishing multiple channels of vocational development and forging an employees’ team of different skill levels, M&G Stationery has remained an enabler of outstanding professionally competent employees while focusing on the development of generic management talents, multi-savvy management talents as well as highly professional technocrats playing a leading role.

1. Development of talents

A slew of workplace training modes are available to employees of the Company, including new staff orientation, pre-employment training, workplace site training, special skills training and other forms of training whereby:

- (1) Mechanism of training the potential executives will enable the managers of all levels to receive trainings on the improvement of management skills so as to assist the Company in forging an executive team boasting combined skill sets in business operation, management and leadership, who will in future direct the Company in a more institutionalized, orderly and effective way while reflecting the Company's culture in terms of uniform management semantics, management style and management philosophy.
- (2) Mechanism of professional skills development will enable the backbones of the manufacturing team of M&G Stationery to receive complete vocational training and improve their professional acumen. By nurturing the corporate culture of coaching, the technical expertise handed down from years of business development can be passed to less experienced employees, who will in future form integral part of technocrats' team boasting excellent professional competence and official recognition.
- (3) The "M&G Sailing to Future MT" project will enable new graduates to be developed into a competent talent boasting the potential of future leaders, who will be aligned to the development objectives of the Company with respect to their strength. The operation of the MT project is very instrumental to attracting talents who possess the potentials of the most competent future leaders to maintain sustained competitive edge of M&G Stationery. Moreover, the MT project will have strategic impact on the Company's business whereby the Company will be able to identify, develop and retain competent talents at lower costs and spawn employees' strong sense of affiliation to the Company arising from reciprocation.

2. Vocational development

Diversified channels and tools of vocational development are available to employees

of the Company according to their job functions categorized into executive, functional and technical gateways.

(III) Caring for employees and corporate culture

Cozy and joyful working environment and relaxation facilities are made available to each employee of M&G Stationery. One can find within the Company's premises such facilities as fabulous office buildings, book bars, gym, indoor basketball square, training classroom, employees' dormitory, canteen etc. Moreover, the Company will regularly hold such inter-employees recreational activities as sports events, art festivals, weekend parties etc. for employees to choose according to their personal interest so as to enable employees to balance between work and life.

1. During the M&G sporting season, sizeable sports events are held amongst all M&G employees where the value of "joyful sporting activities make healthy life" is advocated. By holding sports events amongst all employees, they will be given a chance to put into full play their physical potential while interacting with other team members so as to highlight their team cohesion and collective sense of pride.



2. M&G art festivals enable employees to showcase their soft art-related skills. Art festivals are held in-house to promote M&G culture while enriching the spare-time life of employees whereby employees are able to enhance their taste of art and culture and lubricate cross-department communication. Moreover, art festival is a theatre at which M&G Stationery and soft talents of employees are showcased to enhance cohesion.

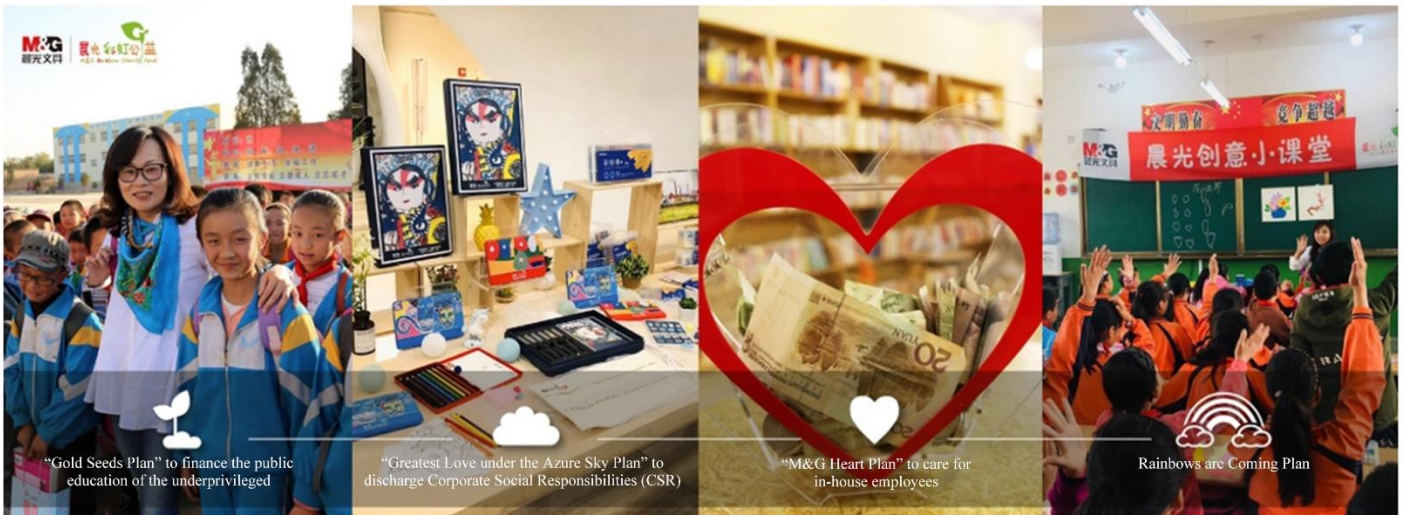


3. As a vital form of holding recreational activities amongst employees, the M&G Society is also a theatre for nurturing sense of ownership and affiliation of employees towards M&G Stationery. Summarily, employees are enabled to showcase their alternative skills via such a wonderful theatre of M&G Society, which in turn helps to put forward M&G culture of harmony and health.



VII. Sincerity-Helping the Underprivileged and Transmitting Love

M&G Stationery has, since the commencement of business, incorporated social responsibilities into the development of business activities and committed itself to tapping on such public welfare activities as public education, charity events and financial support to poverty relief etc. Kicking off in September 2015 as endorsed by Shanghai Charity Foundation, the special fund of M&G rainbow public welfare (hereinafter as “M&G rainbow charity”) financed a slew of public welfare projects featured by the brand of M&G Stationery, including the “Gold Seeds Plan” to focus on caring for juveniles whose parents are migrant workers, “Greatest Love under the Azure Sky” to draw public concern with such special group as those suffering from autism, “M&G Hearts Plan” to care for in-house employees and “Rainbows are Coming Plan” to advocate charity and public welfare in collaboration with NGOs.



1. “Gold Seeds Plan” to finance the public education of the underprivileged

The “Gold Seeds Plan” project v. 2.0 experienced a takeoff during the year of 2019 when the charity activities purporting to promoting M&G brands take in new forms other than mere donation of supplies, including the donation of M&G rainbow creative classroom, renovation of village school campus etc.

(1) Donation of stationery kits: more than 11,000 stationery kits were distributed under the “Gold Seeds Plan” for the year to enable more than 500 teachers to receive indispensable pedagogic tools.



(2) M&G rainbow creative classroom plan: during the year of 2019, M&G donated creative classrooms for 10 village schools and over 12,000 books, 50 student’s desks, 300 student’s chairs, 50 book cabinets and more than 10 types of children’s fine art creative supplies coupled by both online and classroom training sessions for teachers.





(3) Financial assistance to the underprivileged teachers and students: 50 teachers received financial aids amounting to RMB100, 000 and 128 students were awarded with scholarship for outstanding students amounting to RMB58,400 during the reporting year.

2. “Greatest Love under the Azure Sky” plan

Debut of charity project titled as “The Kids of the Stars: Coordinated by Shanghai Promotion Center for City of Design, the articles hand made by the “Kids of the Stars” were on display at the 24th International Hand-made Articles Exhibition held in Milan of Italy in 2019 and applauded by international children and their parents. Moreover, during the 40th anniversary of Shanghai-Milan design education forum, the charitable stationery kits were exchanged between the representatives of the two cities as a token of heralding a new era of friendship between Shanghai and Milan.



3. “M&G Heart Plan” to care for in-house employees

In 2019, “M&G Rainbow Charity” continued to finance the study support and scholarship of employees’ minor offspring and provide financial aids to employee suffering from serious diseases to resolve and relieve the problems of further studies of the underprivileged employees’ kids and poverty arising from unsolicited serious diseases contracted by in-house employees. Aggregate RMB140,000 of financial aids and charitable scholarship were disbursed to qualifying employees. Moreover, 6 charitable medicare service events were accessed by qualifying employees for the benefit of approximately 300 headcounts.

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4. Charitable activities under “Rainbow is Coming Plan”

Initiated and sponsored by “M&G Rainbow Charity”, both the employees and business partners of the Company participated in various charitable activities to showcase the positive energy of M&G peers.

- (1) Three-hour charitable donation in petty cash simply from your fingertips: A charitable activity was held by the Company in Songjiang District of Shanghai amongst in-house employees where 300 employees donated petty cash to charity group and collect the token of loving hearts;
- (2) The journey of an egg: The Company officers and employee volunteers etc. launched a charitable walk within Shanghai to collect the token of loving hearts and conducted charitable auction on charitable supplies at the final destiny 50 kilometers away from the starting point of the walk;
- (3) Village based education commissioner of Jack Ma plan was attended by M&G staff to study the current status of village based education by site visit to village school in collaboration with partners of Alibaba and without disturbing the day-to-day full-time jobs.
- (4) Public welfare course: Employees, by taking advantage of their specialties, voluntarily offered interesting arts courses for children in remote rural area.



In addition to launching various charitable activities, “M&G Rainbow Charity” donated 50,000 pieces of oil pastel packed in charitable kits in collaboration with Shenzhen ONE Foundation during the year of 2019. “M&G Rainbow Charity” will, in continued partnership with Shenzhen ONE Foundation, extend partnership in donating charitable students’ bags and colored pens to reinforce the influence of M&G Brand. We firmly believe that we will be even more socially responsible in terms of charity with more parties partnering with us.

VIII. Mutual Benefits-Adhering to Green and Sustainable Development

(I) Awareness of environmental friendliness

Bearing in mind the awareness of sustainable development, the Company highly values and advocates green policy, making sure it is effectively implemented in its business activities. The Company endeavored to forge an environmentally friendly manufacturing plant and took active part in and coordinated the environment preservation activities to respond to state strategy of sustainable development. Moreover, the Company advocated sustainable consumption to nurture the culture of being green and endeavored to reduce the emission of carbon dioxide so as to preserve our mother earth.

1. Green production

The environmental design and the recurring use of environmentally friendly materials are encouraged.

(1) Environmental design

- ① Simplified design: simplified parts, reduced mechanic procedures, reduced energy consumption and lowered emission of carbon dioxide;
- ② No tinting in design cycle: application of color-free plastic while doing best to avoid the use of colored printing, reduced application of polluting color powder to preserve earth.

(2) Recurring use of

- ① Such consumables as replaceable refills;
- ② Ink and refill in large volume due to their extended durability to reduce depletion.

(3) Pollution-free material

- ① Breakthrough in the development of fully edible colored ink has significantly enhanced the health and safety of the fine art supplies used by children.

- ② The development of lead-free materials and their application in making pen points has ensured the health and safety of essential raw materials so as to contribute to the course of environment protection.
- ③ With the smooth progress of R&D project on New Environmentally Friendly Materials for Writing Instrument enshrined under the state thirteenth five-year plan, quite a few sub-topics have passed the research stage.

Due to the increased demand for enhanced environmental friendliness and quality of pens imposed by overseas nations, pens of enhanced environmental friendliness and diversified functions are bound to be the darling of the market in future. Hence the pen manufacturing sector will no doubt call for the rollout of nascent environmentally friendly materials in making pens. With the progress in research and development of lead-free materials, the Company is endeavoring to enhance the overall technicality of our pen manufacturing sector, which will be translated into increased profitability and added value of products. In that case, we will be able to accelerate our speed of transformation from a mass pen manufacturer to a premium pen manufacturer. With the commercialization of nascent lead-free materials, the Company will place less reliance on non-environmental friendly raw materials in the upcoming years. In that case, any harm to human health arising from such heavy metal as lead will be brought under control and the volume of VOC emission will be reduced to reap both social and ecological benefits.

Moreover, botanic plants abound within the factory premises, indicating that the Company highly values environment preservation. During the production process, the plastic raw granular edges did not produce solid waste or environmental pollution after going through smashing, re-granulating and recycling process; paperboard edges for package was recycled and sold to local recycle stations for recycled paper. The Company has not admixed any harmful recycling waste in its production, so no volatile gas that is harmful to the health of human beings was produced. Besides, domestic wastewater was disposed in accordance with sewage treatment regulations set by the local government.

2. Business activities under the green policies

The roles and responsibilities of each department of the Company in terms of environment preservation are that:

- (1) Production center shall be responsible for continuous control of energy consumption, clean production as well conducting “6S” control procedures so as to maximize the usage of natural resources.
- (2) R&D center shall be responsible for the research, development and marketing of nascent energy-saving craftsmanship and technology.
- (3) Equipment and engineering department shall be responsible for monitoring and administering the consumption of energy by means of energy related data collection, analysis and comparison with those provided by the production center so as to help to improve craftsmanship. The Company shall, based upon the data of energy consumption, work out proposal for energy saving and emission reduction for further implementation.
- (4) The infrastructure construction department shall be responsible for conducting environmental feasibility studies against new construction projects in a bid to ensure that any resources to be inputted into the new project shall meet the requirements of environment preservation.

The Company has from time to time instilled into employees the awareness of environment protection and advocated the application to workplace. For example, employees are encouraged to turn off the light after work, use both sides of each sheet of paper as well as use voice-controlled and/or sensors energy saving facilities for the purposes of energy saving. Moreover, the Company has also encouraged consumers at large to take steps to preserve environment by instilling into the public its awareness of environment preservation via such media as newspapers, magazines and Internet and by holding onsite environment preservation events.

(II) Action for environment protection

In 2019, the Company successfully acquired Axus Stationery (Shanghai) Company Ltd. (hereinafter as “Shanghai Axus”). As an enterprise awarded with the title of state level hi-tech company, Shanghai Axus boasts prominent competitive edge within the sub-sector of wooden pencil and cutting edge advantage in technical research and development in segmented products with overseas distribution channels covering over 80 countries and region(s). Shanghai Axus currently owns more than 50 patents covering the formula of pencil lead, formula of paint coating, timber production and processing and equipment of pencil production and a domestically and internationally prestigious wooden pencil brand named MARCO.

Shanghai Axus has as always pursued the belief of understanding, cherishing and caring trees, which has been translated into the production of wooden pencils under MARCO brand. It has been well acknowledged by the public that Shanghai Axus has spared no effort promoting environment protection. Improvements have been made with respect to craftsmanship of manufacturing MARCO pencils so as to mitigate the consumption of resources and maximize the usage of readily available resources without compromising the safety and quality of products.

No tropical timber is applied during the production of MARCO pencils without appropriate authentication. Moreover, in order to reduce the consumption of satinwood (a type of scarce wood under state protection of the second level) during the production of pencils, Shanghai Axus trail blazed the industry sector through the introduction of nascent craftsmanship whereby the Company could replace satinwood with fast-growing poplar in producing pencils and put the new technology into production in 2009. Shanghai Axus has established three timber processing centers to harness the supply of raw material for pencils production adjacent to each of the three fast-growing poplar forest zones at Yili of Xinjiang Autonomous Region, Changbai Mountain of Jilin Province and Siyang of Jiangsu Province. Shanghai Axus has fully translated the awareness of environment preservation into the entire industrial chain starting from logging to the cultivation of forest.



Protection of ecologic environment
No application of timber from trees grown
at tropical rain zones in production process

(Identification token applied on timbers from non-tropical rain forest)



IX. Outlook

As indicated in report of the 19th CPC National Congress, China's economy has shifted from a high-speed growth stage to a high-quality development stage with innovation as the main driver. Facing the consumption upgrade and the change in demand among the young generation, M&G Stationery will embrace these challenges, upgrade its branding, products and channels, as well as maintain momentum for high-quality growth. At present, M&G Stationery is a pioneer on the innovation path in Chinese stationery industry, completed a stunning transformation from Made in China to Created in China.

Looking ahead, M&G Stationery will, as always, focus on premium quality and pursue constant innovation in response to the changing demand of consumers. The Company will also develop itself into a well recognized brand with global competitiveness and boost the healthy and sustainable development in the industry, helping a sustainable and high-quality growth in China.

Strive for greatness through a small pen. As a socially responsible company in China, M&G Stationery has actively fulfilled social responsibilities since its beginning, combined social responsibilities with corporate development. During 2019, M&G Stationery has made efforts to boost various patriotic activities, online and offline, like "Young Pioneers Gathering" and "Travel with the National Flag" and other events. Furthermore, its efforts to improve public welfare also involve education, charity, poverty alleviation and other fields. Looking forward in 2020, M&G Stationery will continue to fulfill our public value, as always care about and support the development in public interests, culture and education.