



上海晨光文具股份有限公司

SHANGHAI M&G STATIONERY INC.

2020 年度企业社会责任报告

2020 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 2020” (CSR report) is the third of its kind 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 2020 to 31 December 2020

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 the Guidelines to Report Sustainability (GRL-Standards) of Global Reporting Initiative (GRI) and Guidelines on Corporate Social Responsibility Reporting for Chinese Enterprises (CASS-CSR 4.0) by Chinese Academy of Social Sciences.

Access to the Report

The report is prepared and published in simplified Chinese, and is available in both hard copy 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 by the fifth meeting of the fifth session of the Board of Directors and the fourth meeting of the fifth session of the Board of Supervisors held on 26 March 2021.

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

(I) Overview

Shanghai M&G Stationery is a comprehensive stationery supplier and an office supplies 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. Its traditional core businesses include designing, developing, manufacturing and selling writing instruments, student stationery, office supplies and other products under **M&G 晨光** brands, and it also develops the e-commerce M&G Technologies; its new businesses mainly comprise of own-operated retail stores—Jiumu Store and M&G Life, and direct office service platform—M&G Colipu.



Our mission: Make study and work more joyful and effective

Our values: Sincerity, collaboration, focus, win-win, and consumer centric

Our vision: Become a "world-class M&G"



M&G Stationery covers more than 80,000 retail stationery shops nationwide and has 441 own-operated retail stores including M&G Life and Jiumu Store. The Company launches thousands of new products every year based on the market demand. Our products are exported to more than 50 countries and regions and we have partners all over the world. The Company has maintained double-digit growth in the past decade. Its total revenue reached RMB13.14 billion in 2020, increasing 18% year-on-year.

Headquartered in Shanghai, China, the Company operates an industrial park that covers an area of 350 mu. The park is the home of China Writing Instrument Industrial Base, China Writing Instrument Center, National Industrial Design Center, and China Key Laboratory of Light Industry and Writing Instrument Engineering Technology. In 2019, M&G Stationery Laboratory was accredited by China National Accreditation Service for Conformity Assessment (CNAS), with its testing capabilities meeting global standard.

The Company invests more than RMB100 million in the design and development of product and technology every year. New products on the production line can be available in all retail shops across the country in only 7 days. Currently, the Company has more than 700 patents. M&G Stationery was awarded well recognized industrial design awards such as the Gold Ideas Medal and Red Star Medal. In 2020, the Company's anti-breakage automatic pencil won the American IDEA Design Award. The Company won four major international industrial design awards (German Red Dot Award, German iF Award, Japanese G-Mark Award, and American IDEA Award).

As a domestic brand favored by Chinese consumers, M&G Stationery is

pioneering a path of innovation in Chinese stationery from stationery products towards those with more cultural and creative elements, transforming from “Made in China” to “Created in China”, leaping from local brand to international brand, and becoming "world-class M&G".

(II) Development History

2020		<p>Brought Israeli design brand-Peleg Design to attend CIIE, announced establishment of Israel office of its global design center;</p>
	<p>M&G Stationery acquired Shanghai Axus as its subsidiary; Brought Italian painting brand-CARIOCA to attend CIIE;</p>	2019
2017		<p>Explored new retail in the industry and started the strategic transformation of “taking brand as the core and transforming from stationery to cultural and creative life”; M&G Colipu successfully acquired Office Depot (China);</p>
	<p>M&G Stationery officially listed on the Shanghai Stock Exchange A shares (stock code: 603899);</p>	2015
2013		<p>Qingcun Industrial Park was completed and the largest three-dimensional warehouse in the stationery industry in China was put into use;</p>
	<p>The first “franchise chain” project was launched in the stationery industry. At the same time, the Guangming Park was completed, and China Writing Instrument Center and China Writing Instrument Industrial Base were established, establishing the Company's leading position in the stationery industry.</p>	2008

2005



Selected as the designated stationery supplier of Boao Forum for Asia and has provided support for Boao Forum for Asia for more than one decade;



K35, the first press gel pen in China, came out after 180 days of process debugging and 17 process optimization, creating M&G classic products with ingenuity;

2002

1999



M&G settled in Liuli, Pudong, with more than 100 employees. It has successively established mold, injection, printing and assembly workshops, and the production system has begun to take shape;



The "M&G" trademark was officially launched, establishing the development path of the brand; cooperated with stationery agents across the country and established partnerships;

1997

1989



First step in start up the Company in two small bungalows in Hengshan Village, Gurao Town, Shantou;

(III) Awards in This Year

Description	Issued by
"Shanghai Brand" Certification	Shanghai Brand International Certification Alliance
First Grade Prize for State Science and Technology Progress Award issued by China National Light Industry Council (R&D and application of key technology for manufacturing pen tip and gel pen & ballpoint pen)	China National Light Industry Council
First Grade Prize for State Science and Technology Progress Award issued by China National Light Industry Council (development and industrialization of water-based ballpoint pen with regulator)	China National Light Industry Council
Contract Credit Rating Certification (2018-2019, AAA)	Shanghai Contract Credit Promotion Association

Top 100 Private Manufacturing Enterprises in Shanghai in 2020 (Ranked 9 th)	Shanghai Enterprise Confederation/Shanghai Entrepreneurs Association/Jiefang Daily
Top 100 Manufacturing Enterprises in Shanghai in 2020 (Ranked 27 th)	Shanghai Enterprise Confederation/Shanghai Entrepreneurs Association/Jiefang Daily
Top 100 Private Enterprises in Shanghai in 2020 (Ranked 39 th)	Shanghai Enterprise Confederation/Shanghai Entrepreneurs Association/Jiefang Daily
Company with Outstanding Contribution to Pandemic Prevention and Control and Work Resumption, by China Stationery & Sporting Goods Association	China Stationery & Sporting Goods Association
Golden Bee Enterprise Award	Economic Guide for Sustainable Development of the Ministry of Commerce
Charity Brand Project Award	China Charity Federation

(IV) Operation Performance

In 2020, the Company reported revenue of RMB13.14 billion, a year-on-year increase of 18%, and net profit attributable to shareholders of listed company of RMB1.25 billion, a year-on-year increase of 18%. As of the end of 2020, the Company's total assets were RMB9.71 billion, a year-on-year increase of 28%; the net assets attributable to shareholders of listed company were RMB5.19 billion, a year-on-year increase of 23%. The Company has maintained sound growth and sound asset condition.

Key financial indicators	2020	2019	Year-on-year increase or decrease (%)
Operating income (RMB)	13,137,745,727.18	11,141,101,364.44	17.92
Net profit attributable to shareholders of listed company (RMB)	1,255,426,655.27	1,060,083,625.03	18.43
Total assets (RMB)	9,709,908,436.32	7,565,115,311.74	28.35
Net assets attributable to	5,193,568,712.05	4,201,500,384.99	23.61

shareholders of listed company (RMB)			
Basic earnings per share (Yuan/share)	1.3558	1.1523	17.66
Weighted average ROE (%)	26.91	28.17	-1.26

(V) Responsibility of Communication

The value obtained by M&G Stationery comes from recognition and support of the stakeholders. The Company has insisted on establishing an effective communication mechanism to build close contact with various stakeholders, building a sound communication platform for the stakeholders to conduct more active exchange and communication with the stakeholders through the Company's official website, official Weibo, official WeChat, shareholders' general meetings and other forms. We listen to expectations and demands of various stakeholders and incorporate the feedback into the Company's decision-making process.

By referring to its business strategy, industry standards, and corporate social responsibility standards at home and abroad, M&G Stationery has identified major issues of corporate social responsibility that may affect the Company or the stakeholders. In the future, we hope to conduct annual stakeholder interview to gather issues of concern from various parties, and to determine the Company's annual major issues of focus with reference to the laws and regulations, hot social issues and industry trends. The Company will continue monitoring the appropriateness of the issues and make timely amendments.

Stakeholder	Issues of concern	Way of communication	Expectation
Government	1. Operating performance 2. Products and services 3. Social responsibility	Site visit Consultation and Q&A Request information and assessment	Strengthen social responsibility construction, actively cooperate with the government, and promote local economic development and construction
Shareholder	1. Corporate	Periodic/interim	The management can strive for the

	governance 2. Operating performance 3. Social responsibility	report Performance briefing General shareholders' meeting	best interests of the shareholders and investors and achieve the Company's sustainable development goals
Consumer	1. Products and services 2. Brand image 3. Social responsibility	Satisfaction survey Promotions After-sales service	Provide more considerate products and services and make the operation process more environmentally friendly
Supplier/distribution partner	1. Operating with integrity 2. Supply chain management 3. Products and Services	Supplier selection Dealer training Feedback	Maintain a close and solid cooperative relationship, practice social responsibilities together, and achieve sustainable development goals
Employee	1. Legitimate rights and interests 2. Talent cultivation 3. Career development	Remuneration and benefits Employee training	The Company can continue caring for employees, protecting employees' rights and interests, and improving employee benefits
Media	1. Operating performance 2. Brand image 2. Social responsibility	Company official website Press releases	Play a leading role in the industry and encourage more peers to shoulder social responsibility
Community	1. Operating performance 2. Poverty alleviation and relief	Public services Volunteer services	While driving local development, enhancing communication and exchanges with community residents through holding more community activities
Environment	1. Energy saving and emission reduction 2. Clean energy 3. Ecological protection	Restrict the use of hazardous substances Reduce carbon emissions Carry out environmental protection publicity activities	The Company strictly controls the use of hazardous substances in the production and actively assumes the responsibility of reducing greenhouse gas emissions

II. Environment

(I) Carbon Emission

The Company adhered to the concept of environmentally-friendly and low-carbon development, actively practiced energy conservation and reduction, and took environment protection and sustainable development promotion as its inescapable responsibility.

According to an inspection made by carbon inspection organization in 2020, the carbon emission of the Company in 2019 was 57,773tons. In 2020, the Company continued making efforts in cost reduction, efficiency increase, and energy saving improvement: (1) the photovoltaic power generation in Guangming Park was put into full use; (2) the photovoltaic power generation in Qingcun Park was started and connected to the grid in the second half of the year; (3) the waste heat was recovered from air compressors in Guangming Park; (4) the leakage of compressed air in Qingcun Park was improved; (5) the energy saving of water pumps was improved. It is expected to reduce electricity consumption by 5 million kWh throughout the year and reduce carbon emissions by 3,940tons.

In view of the increased energy consumption caused by growth of the Company's product, and the impact of the pandemic in the first half of the year, total carbon emissions of the Company in 2020 decreased by 5% to 55,528tons.

(II) Energy Consumption

In order to implement the deployment of "dual control" of total energy consumption and intensity of CPC Shanghai Municipal Committee and Shanghai Municipal People's Government, and to achieve the energy consumption "dual control" goal in the "13th Five-Year" plan, in accordance with the Circular of Shanghai Municipal Development & Reform Commission on Printing and Distributing the Priority Work Arrangements for Energy Conservation and Emission Reduction and

Tackling Climate Change in 2020, the control target of Shanghai Municipal Commission of Economy and Informatization on total energy consumption and intensity in 2020 was that the value-added energy consumption per unit of the industry above the designated scale would be reduced; the increased energy consumption is expected to be kept below 1.7 million tons of standard coal, preferably below 1.4 million tons.

In 2020, the total annual consumption and intensity control targets of M&G Stationery are shown as below:

Company name	Target of total energy consumption (Tons of standard coal)	Target of energy intensity		
	Target value	Target value	Description of intensity indicator	Unit of intensity indicator
SHANGHAI M&G STATIONERY INC.	17,385	0.051	Energy consumption per unit output value	Tons of standard coal/RMB10,000

(III) Clean Energy

The Company actively promoted clean energy construction. It has successively constructed photovoltaic power generation projects in Guangming Park and Qingcun Park, which has been fully connected to the grid for power generation with a total capacity of 8MW. The photovoltaic power generation in 2019 was 4.14 million kWh, which reduced carbon emissions by 3262t/CO₂. The estimated power generation in 2021 is 8 million kWh, which can reduce carbon emissions by about 6300t/CO₂. Due to the large amount of electricity consumption of the Company, the carbon quota system used the historical emission method. The photovoltaic energy was not enough to offset the Company's carbon emissions and reduce the carbon emission relatively.

(IV) “Green” Factory

In accordance with the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes, the Law of the People's Republic of China on Energy Conservation and other laws and regulations, the Company upheld the concept of sustainable development and implemented the policy of protecting the ecological environment and conserving resources.

The Company attached great importance to environmental protection: the landscaping rate of the plant was relatively high; the plastic raw granular edges did not produce solid waste or environmental pollution after going through smashing, re-granulating and recycling process; the carton leftovers used for packaging were classified and sold to the local recycling station and then recycled into paper.

The Company strictly prohibited hazardous recycled waste materials during production, didn't produce volatile gases that are harmful to human health. Domestic waste water was handled as required by local government. In daily management, the Company strengthens the monitoring and handling of "three wastes" and ensures that they are discharged as per the requirements to reduce the impact on the environment.

(V) “Green” Products

1. Environmentally-friendly materials

Breakthroughs have been made in the R&D and manufacturing of food-grade watercolor inks, which have greatly improved the safety performance of children's arts products and guaranteed the health of the consumers; the domestic lead-free materials were developed to manufacture and process the pens, which ensured the safety of core materials and made contribution to the environmental protection of China; the national key research and development plan project, New Environmentally-friendly Materials for Writing Instrument, is being carried out smoothly and research on a number of sub-

topics have been completed.

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 set to be favored by the market. Hence pen manufacturing sector will certainly need 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 could also translate into 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 reduce non-environmental friendly raw materials to prevent harm to human health arising from heavy metal as lead, VOC emission will be reduced, reducing energy consumption while bringing social and ecological benefits.

2. Recyclable materials

The Company advocated longer usage products by using consumables that are easy to be replaced to reduce waste as well as using the refill that is more durable and has large capacity.

In recent years, the recycling of waste products has increasingly attracted the concern of the government and all sectors of the community. The promulgated applicable laws and regulations have set higher requirements for recycling. A quality division team of the Company is set up to recycle the waste products according to the prescribed process.

(VI) “Green” Operation

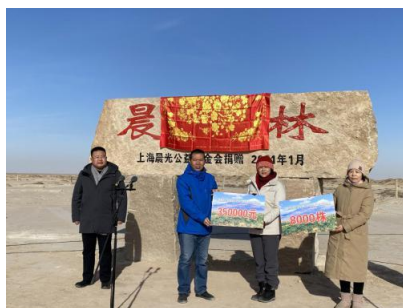
The Company’s centers and departments of perform their duties to implement the idea of environmentally-friendly operation. The Production Center is responsible for management of continuous energy conservation and reduction, clean production, and

environmental protection, to maximize conservation of natural resources. The R&D Center is responsible for research and promotion of new energy conservation processes and technologies. The Equipment Engineering Department is responsible for supervision and management of energy use and the statistics on energy data to help factories to make improvement. Equipment Engineering Department proposes energy conservation and emission reduction plans and organizes the implementation of such plans. The Infrastructure Department is responsible for environmental assessment of new projects to ensure to satisfy the environmental protection needs of production and living resources.

In addition, the Company played an active role in advocating environmentally-friendly office, encouraged employees to develop low-carbon lifestyle from work and life, took advantage of World Environment Day and other opportunities to organize environmental protection activities, advocate practices of green lifestyle, and enhance environmental awareness of employees and the public.

(VII) Environmental Protection Actions

At the end of 2020, M&G Charity Foundation cooperated with Red Cross Society of China Gansu Branch and Qingsuo Public Welfare Development Center to establish a haloxylon ammondendron forest in Minqin County, origin of one of China's four major deserts. With an initial investment of RMB350,000, all the donations will be used to plant nearly 900 mu of haloxylon ammondendron in 2021.



Axis Stationery, a subsidiary of M&G, ensured safety and quality, improved manufacturing process, reduced waste and maximized use of existing resources.

In order to reduce the consumption of satinwood (a 2nd level state protected wood

species) for making pencils, Axus Stationery introduced the usage of fast-growing poplar in producing pencils in 2009. From logging to the cultivation of forest, Axus Stationery expanded its environment awareness to upstream and downstream industrial chain . It has thousands of mu of raw material timber forest bases in China.



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)



III. Society

(I) Product Responsibility

1. Design and R&D

With its excellent design concept, the Joy-Shaking Pen of M&G Stationery won the German iF Design Award; M&G's self-developed automatic tape-cutting holder won two international awards - the German iF Design Award and the Red Dot Award; M&G's anti-breakage automatic pencil won American IDEA Award. The Company was awarded four well recognized industrial design awards.



The Company advocated environmentally-friendly design and proposed simplified design and colorless design. Simplified design refers to simplifying parts, reducing mechanical processes, conserving energy, reducing carbon emissions, colorless design refers to using colorless plastics, avoiding colored printing to the extent possible, and minimizing the use of toner which is harmful to earth.

2. Manufacturing advantage

The Company has raw material formula and production process with intellectual property rights, greatly enhancing the percentage of home-made raw materials and finished products. The Company was recognized as a national high-tech enterprise since 2010. The Company hosts the National Industrial Design Center, China Key

Laboratory of Light Industry and Writing Instrument Engineering Technology, Shanghai Writing Instrument Engineering Technology Research Center, and other national, provincial and ministerial level technology centers. The testing laboratory of the Company obtained CNAS certification qualification.

The Company benefits from experience of large-scale manufacturing accumulated from past years, in-house mold capability, reliable supply chain, sound quality control system and adoption of various information management systems. The Company has the capability of large-scale manufacturing with high quality control standard. Its product quality has won general recognition and favorable comments from consumers. The Company promotes the application of intelligent manufacturing technology in the production and inspection, and applies machine vision technology in various key links to improve the efficiency. The Company sets itself as a model for transforming the stationery industry towards a leaner manufacturing model.



3. Chemical safety

(1) Safety of raw materials

The Company provides consumers with high-quality products, also takes on social responsibilities. The Company pays close attention to consumers' health and safety requirements for products. The Company uses environmentally-friendly materials throughout the product life cycle, ensures products satisfy domestic and foreign standards on environmental protection and safety. All student stationery produced by

the Company meet China's mandatory safety standard, General Requirements for the Safety of Student Supplies (GB21027-2020), including maximum limit for 8 types of migratable elements (see Table 1 below for details). In addition, our children's arts products meet maximum limit requirements for 19 types of migratable elements as set out in the EU's most advanced environmental protection standard EN71-3 (see Table 2 below for details).

Table 1 Maximum Limit of Migratable Element

Unit: mg per kg

Product name	Maximum limit of element							
	Antimony Sb	Arsenic As	Barium Ba	Cadmium Cd	Chromium Cr	Lead Pb	Mercury Hg	Selenium Se
Artistic oil painting stick, crayon, watercolor paint, eraser, correction fluid, correction tape, correction paste, correction pen; watercolor pen, fountain pen, ink ballpoint pen, gel ink ballpoint pen, waterborne ink ballpoint pen, marker pen, whiteboard pen, highlighter pen, pencil, printing ink/ink, lead; printing, brushing and painting parts of student supplies that are touchable	60	35	1000	75	60	90	60	500
Colored clay	10	10	350	15	25	25	10	50

Table 2 Migration Limits of Toy Materials

Element	Migration limit
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	Category I mg/kg	Category II mg/kg	Category III mg/kg
Aluminum	5625	1406	70000
Antimony	45	11.3	560
Arsenic	3.8	0.9	47
Barium	1500	375	18750
Boron	1200	300	15000
Cadmium	1.3	0.3	17
Trivalent chromium	37.5	9.4	460
Hexavalent chromium	0.02	0.0005	0.2/0.053
Cobalt	10.5	2.6	130
Copper	622.5	156	7700
Lead	2.0	0.5	23
Manganese	1200	300	15000
Mercury	7.5	1.9	94
Nickel	75	18.8	930
Selenium	37.5	9.4	460
Strontium	4500	1125	56000
Tin	15000	3750	180000
Organotin	0.9	0.2	12
Zinc	3750	938	46000
The migration limit of hexavalent chromium for Category III toy materials (scratchable toy materials) has been revised as per Commission Directive EU2018/725. The new limit (0.053mg/kg) took effect on 18 November 2019. Before such date, the 0.2mg/kg limit applied.			

(2) Supplier management

During the site audit before the introduction of new suppliers, the Company investigated whether the supplier has obtained environmental assessment procedures, documents and approvals relating to its pollution source, and checked and confirmed in approval form.

(3) Safety management

According to the Regulations on the Safety Management of Hazardous Chemicals promulgated by the State Council, in the safety management of hazardous chemicals, the Company should adhere to the principle of “safety first, prevention-focused, and comprehensive management” and strengthen and implement the principal responsibility of enterprises.

The Company's various departments performed their duties of raw material safety management. The Technical Center is responsible for the safety list of raw materials. The Quality Control Department is responsible for the safety inspection of raw materials. The Procurement Center strictly implements quantitative procurement of chemical hazardous chemicals and designated storage. The Safety Management Office strictly controls the flow of hazardous chemicals.

(4) Product recall

In order to strengthen management of recall of defective products, eliminate possible damage caused by defective products, and guarantee the personal and property safety of consumers, the Company formulated and enforced the Management System for Product Recall in accordance with the Product Quality Law of the People's Republic of China and Management Measures for Recall of Defective Consumer Goods and other laws and regulations.

(II) Stakeholder

1. Consumer

The Company always puts customers first and is committed to providing customers with better services, enhancing customer service experience, continuously strengthening service innovation, enriching service channels, and protecting the rights and interests of the consumers.

(1) Satisfaction survey

Winning customer satisfaction is our relentless pursuit of products and services. The Company performs satisfaction surveys on service, product quality, operation and customer loyalty on a regular basis. This helps the Company learn customers' feedbacks and improve its service quality. Meanwhile, the Company actively regulates its behavior around competition, protects consumers' rights, prevents unfair competition and combats fake and shoddy products.

(2) Product quality

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 and after sales service. The Company strictly complies with national standards and 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 product quality meets applicable standards and continuously improve customers' experience.

(3) After-sales service

Shanghai Consumer Council has been making efforts to establish cooperation with enterprises, a complaint mechanism is built to enable consumer disputes to be settled first. Through the "12315" system, Shanghai Consumer Council sends the complaint information to the complained enterprises timely, so that the enterprise can know and handle the complaints in the first time.

To make better use of the mechanism, the Company has developed an after-sales service system to designate departments and personnel to handle consumer complaints. Relevant personnel log in to the 12315 complaint handling system daily to check the Company-related complaint information, contact consumers timely within one working day after receiving the complaint, record the content of the contact, and try to coordinate and settle with consumers within 15 working days. If settlement can not be reached, relevant personnel will patiently communicate with and explain to consumers, trying best to make the consumers satisfied.

(4) Privacy protection

The Company fully respects the privacy of customers, strengthens the management and protection of customers' information security to prevent data from being disclosed, safeguard rights and interest of consumers.

2. Supplier

(1) Collaboration and win-win

With the idea of partnership in its business operation, the Company has strived to build a high standard supply chain ecosystem.

The Company keeps upgrading the management for supply chain, and has information collaboration, inventory optimization, financial support, quality and order management, performance optimization to help supply chain partners to be stronger, improve consistency and operation capability of our supply chain partners.

(2) Fairness and integrity - anti-corruption

The Company has established a procurement system with fairness and integrity. The Company held regular supplier meetings, strengthened exchanges and cooperation with suppliers, and realized the stable development of cooperative relations. The Company has established and improved relevant systems and strengthened cash management and financial risk control to ensure the safety of assets and funds, protects the legitimate rights and interests of suppliers.

In order to enhance sense of integrity of the Company's personnel, the Company strictly follows the applicable national laws and regulations to supervise the business conduct of its personnel, prevent commercial bribery, implement public bidding, implement transparent procurement, and eliminate improper transactions such as favoritism, fraud, black-box operations, and commercial bribery to protect the legitimate interests of the Company and suppliers and maintain a favorable business environment.

(3) Shared responsibility

The Company requires its suppliers to pass the quality management system (ISO 9001), environmental management system (ISO 14001) and occupational health and safety management system (ISO 45001) certification, and urges suppliers to enhance their awareness of social responsibility and make them aware that the implementation of social responsibility is good for the sound development and long-term interests of themselves. This encourages suppliers to implement corporate social responsibility management and improve corporate operating philosophy.

3. Distribution partner

(1) Collaboration and win-win

Based on the characteristics of stationery products and the current status of stationery consumption in China, the Company has established a targeted sales model that focuses on regional distribution, complemented by direct sales, direct sales in large stores, KA sales, online sales and overseas distribution, and has taken the lead in the domestic stationery industry to carry out brand sales management and franchise management of large-scale retail shops.

The Company has a strong first-mover advantage and leading advantage with its wide and deep coverage of its distribution network in stationery industry, and the efficient management of the distribution system. As of 2020, the Company has 36 tier-1 (provincial) partners across the country, covering tier-2 and tier-3 partners and key accounts in 1,200 cities and more than 80,000 retail shops.



(2) Continuous optimization

The Company performs customer satisfaction surveys every six months to identify the real needs of customers and incorporate them into the Company's service goals. Based on the feedback and suggestions from the Customer Satisfaction Survey Form submitted by the customers, we will subdivide the relevant information and make targeted solutions for different customers to make up for the service deficiencies, meet customers' personalized service needs, and provide customers with more comprehensive and better services.

(III) Human Resources

The past achievements depend on the efforts of every M&G employee and the

future success requires hard work of more M&G employees. Talents are the most valuable asset for the future development of the Company. As the Company grows, it will provide more opportunities for its partners. We advocate values of sincerity, collaboration, focus, win-win, and customer-centric. We are committed to providing everyone with opportunities and space for sustainable development and creating ideal conditions and environment for realizing value of life.

1. Basic rights and interests

The Company has established a complete recruitment mechanism and remuneration and welfare system in strict accordance with the Labor Law of the People's Republic of China and other laws and regulations. It respects, protects and safeguards the basic rights and interests of every employee.

The Company upholds the principle of fairness and justice, recruits employees based on job requirements, eliminates gender, age, and geographic discrimination. The Company adheres to the "people-oriented" philosophy and manages labor relationship as required by laws. The labor contract signing rate is 100%. At the same time, the Company offers old-age insurance, medical insurance, work injury insurance, unemployment insurance, maternity insurance as well as housing provident funds for its employees in accordance with applicable national and local regulations.

2. Development of talents

M&G Stationery aims to build a world-class team with 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.

The Company provides employees with various forms of training, including but not limited to the following:

(1) New employee training system

It not only helps new employees to adapt to the new environment and new jobs,

but also facilitates the recognition of new employees to M&G Stationery's corporate culture and enhances their sense of responsibility and mission.



(2) Professional ability training system

M&G Stationery provides systematic vocational training for production backbone to improve their professional quality. 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) Management ability training system

M&G Stationery provides a series of management trainings for managers at all levels to systematically improve their competence. This assists 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 with a consistent management style and management philosophy.



3. Vocational development

M&G Stationery offers competitive remuneration package to its employees in its industry, 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, well-rounded management talents as well as highly professional technocrats playing a leading role.

4. Communication channels

The Company advocates a culture that is transparent, with clear division of responsibilities and with active communication. It encourages an equal and unimpeded dialogue among employees and between employees and their superiors. Employees can propose reasonable suggestions or opinions to the Company through the channels and ways such as superior and subordinate interviews, human resource center, the Company's suggestion box, opinion survey organized by the Company through contact information released by the Company.

5. Welfare system

Employee care is the basic guarantee for the sound growth of employees and the sustainable development of the Company. Through the care of employees, the Company

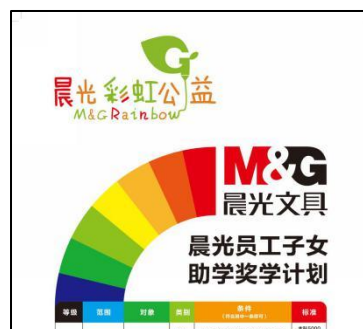
aims at cultivating a more positive attitude of employees, creating a more harmonious team atmosphere, enhancing team cohesion, innovation and execution, and promoting the realization of corporate strategic goals.

(1) Office and entertainment

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 neat office buildings, book bars, gym, indoor basketball square, training classroom, employees' dormitory, canteen etc. The Company regularly holds inter-employees recreational activities as sports events, art festivals, weekend parties etc. for employees to choose according to their personal interests, for a better work and life balance.

(2) M&G Heart Plan

M&G Rainbow Charity established the M&G Heart Plan to provide employees with medical subsidies for major illnesses and outstanding scholarships. Any employee that is eligible can apply for subsidies from the Company and recipients are required to complete a total of 3 hours of volunteer service in the next year. In 2020, a total of RMB80,000 in cash was granted under the M&G Heart Plan.



6. Work 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 2020, the safety training organized by the Safety Office covers safety benchmark training, special operation personnel training, plan drill training, KYT activity training, heatstroke prevention and flood prevention training, attracting more than 5,600 participants. The pre-employment orientation on workplace safety provided by the HR Department and each branch is completed before the new employees are formally employed. The routine safety training responsible by each branch is carried out at least twice a month with registration record to cover all front-line employees. In 2020, 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.

(IV) Charity

M&G Stationery is committed to making joint efforts with governments, communities and non-governmental organizations to boost the economic development of the business locations, improve the quality of life of residents, continue carrying out charity and public welfare undertakings, and promote the harmonious development of the community.

In September 2015, M&G Stationery established the M&G Rainbow Charity Special Fund. M&G Rainbow Charity has performed a number of public welfare activities for rural education, such as "Gold Seeds Plan", "Rainbow Creative Classroom", "Rainbow is Coming Plan", and "Kids of the Stars". As a leader in the stationery industry, M&G Stationery hopes to spread the concept of kindness to more children through its influence and believes that in the future, they can also spread the love and stories and make contributions to the society.

In 2020, the Company donated RMB3 million to establish "Shanghai M&G Charity Foundation", and hoped to conduct more public welfare undertakings in the future and better integrate social responsibility into corporate development strategy. In 2020, M&G Stationery donated stationery and cash worth around RMB6 million for public welfare undertakings.

1. Pandemic containment

Since the beginning of 2020, the whole country experienced a smokeless battle. Countless heroes have devoted themselves to the front line to protect the health and safety of the Chinese people. The Company has also endeavored its best to provide support. The Company's subsidiary, M&G Colipu, moved fast and overcame difficulties to advance to Wuhan, opened a special line for pandemic prevention materials, gave priority to providing protective materials to the frontline of pandemic prevention. In addition, M&G Colipu leveraged its own channel advantages, boosted supplies of products and transport for epidemic prevention and control. The Company's subsidiary, M&G Office also took quick action to shorten the development cycle and launched

office pandemic prevention products within two weeks. M&G Rainbow Charity donated 70,000 masks to Hubei at the start of a new semester, and donated pandemic prevention kits worthy of RMB400,000 to schools, that could be used by about 10,000 persons.

2. Poverty alleviation

The year 2020 is the last year of poverty alleviation and M&G Rainbow Charity has not been absent on the road to alleviate poverty. After initial success of the country, the focus next is on preventing the return to poverty and continue laying emphasis on rural education and rural revitalization. Poverty alleviation begins after education improvement. Education is a bridge linking the countryside and the city. Only a sound education can present children a bright future. Since September 2015, the Gold Seeds Plan has been launched in 32 poverty-stricken counties in 14 provinces and 100,000 Gold Seeds stationery gift packs worth more than RMB27 million were donated. In the past five years, we have allocated more than RMB2.5 million to the underprivileged teachers and students. Furthermore, we follow the national poverty alleviation strategy, provide stationery gift packs to rural schools across the country, and pass the concept of public welfare to partners. Now, there are 11 branches of Rainbow Charity in China and each branch is led by the general manager of the regional partner, who is responsible for assisting the local governments and social organizations in public welfare activities.

(1) Poverty alleviation - Gold Seeds Plan

In 2020, M&G Rainbow Charity donated 9,650 gold seed packs amounting to RMB2.32 million, covering 10 provinces, benefiting more than 10,000 teachers and students.

(2) Post-poverty alleviation - Spring Bud Program

At the end of 2020, Shanghai M&G Charity Foundation reached a partnership with Shanghai Children's Foundation, donating RMB150,000 as the living subsidies for 100 female college students in Yunnan Province. The Spring Bud Program is a rescue

program for out-of-school girls initiated by China Children and Teenagers' Fund. M&G Stationery responded positively and made a contribution to girls' education in China.

3. M&G Rainbow Creative Classroom

M&G Rainbow Charity found that creativity is the foundation of quality-oriented education and reading and art education play an important role in awakening and shaping children's personality and aesthetic perception. M&G Stationery has rich resources and experience in cultural and creative fields. Making use of these advantages, Rainbow Charity has established "M&G Rainbow Creative Classroom". As of 2020, a total of 30 creative classrooms have been established.



4. Rainbow is Coming

Rainbow Charity is actively working with other like-minded partners to use its advantages to exert collective influence. The social innovation brought about by collective influence can benefit several parties. In recent years, Rainbow Charity has been actively involved in rural education in China, hoping to make quality education also available for children in remote areas.

(1) Jack Ma Foundation

In 2020, we continued working with the Rural Teachers and Principals Program initiated by the Jack Ma Foundation to fund rural teachers to carry out teaching programs for the third consecutive year. In 2020, we donated stationery worth RMB2.15 million to 100 village teachers and 20 village principals to facilitate the teaching of the rural teachers.

(2) Shenzhen One Foundation

Since 2019, it has reached a partnership with One Foundation to create charitable

kits with artistic style. The charitable kit is composed of a variety of daily necessities and materials to keep children warm during the winter. In 2020, the Company also provided One Foundation 50,000 boxes of artistic oil painting sticks that were worth RMB860,000, so that children could be immersed in creative life after their basic living needs were satisfied.

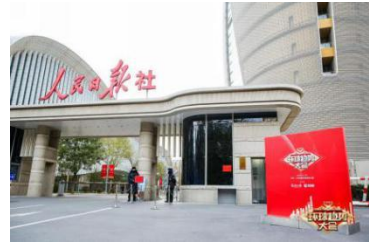
(3) Tiktok Charity

On the occasion of Teacher's Day in 2020, Rainbow Charity and Tiktok Charity jointly launched a teacher's day event, giving full play to the advantages of companies to attract social concern to rural education. During the event, it received more than 2 billion clicks and views in total, effectively using new media to play the power of public welfare, fulfilling social responsibilities, and manifesting brand power.



5. Kids of the Stars

In 2020, M&G Rainbow Charity continued investing RMB300,000 in cash to support the creative training for children with autism and organized competitions to select outstanding works. In 2020, the Company developed four public welfare products, and the profits from the products were used in the project operation. Additionally, we also provided bonuses for outstanding works of young authors and held visits and lectures, in the hope that they can integrate into society. It also helps create a new public welfare mode of teaching people to fish. Works from Kids of the Stars were exhibited in major domestic exhibitions.

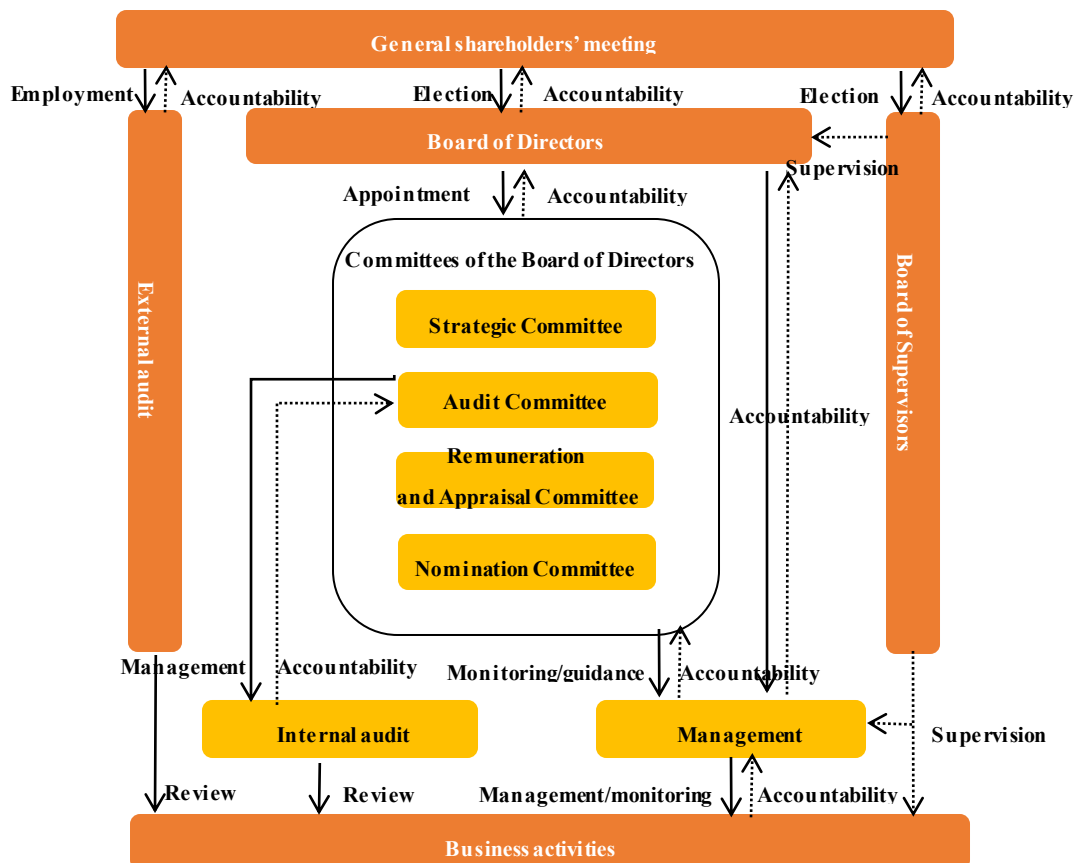


IV. Governance

(I) Corporate Governance

1. Governance system

M&G Stationery has been committed to optimizing the Company's internal governance structure and enhancing the corporate governance. The Company, in strict compliance with laws and regulations such as Company 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, and based on its actualities, has established a strict three-board operation system and a clear decision-making authorization system. Besides, the Company has strengthened the construction of the internal systems, providing basic system guarantees for corporate governance, preventing operating risks, and protecting the legitimate rights and interests of all shareholders.



In 2020, the Company held 6 general meetings of the Board of Directors, 5 meetings of Board of Supervisors and 2 meetings of shareholders. 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.

The Board of Directors of the Company consists of 7 directors, including 3 independent directors. 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) 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.

Subordinated to the Board of Directors, the Strategy Committee, Audit Committee, Remuneration and Appraisal Committee and Nomination Committee perform their respective functions in strict compliance with respective implementing rules. In 2020, the Audit Committee convened 5 working meetings, the Nomination Committee 2 working meetings, the Strategy Committee 1 working meeting, and the Remuneration and Appraisal Committee 1 working meeting, giving full play to its professional role in promoting the business management and standardized operations of the Company.

2. 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. In 2020, the Company's internal control system has been basically sound and no defects or abnormalities that have significant impacts on corporate governance, operation management and development have been found.

The Company has focused on the construction of internal management risks and internal control system, continuously optimized and improved internal control business processes and concerned supporting systems, continuously improved the internal control environment, strengthened training and publicity, to enhance the awareness of risk and risk control of the personnel at all levels, including the management. Meanwhile, the Company has improved the efficiency of risk management audit and emphasized the substantive elimination or reduction of risks so as to avoid the recurrence of internal control defects. In addition, the Company has made efforts to fundamentally solve problems by virtue of IT means or process improvement, ultimately improving the internal control management.

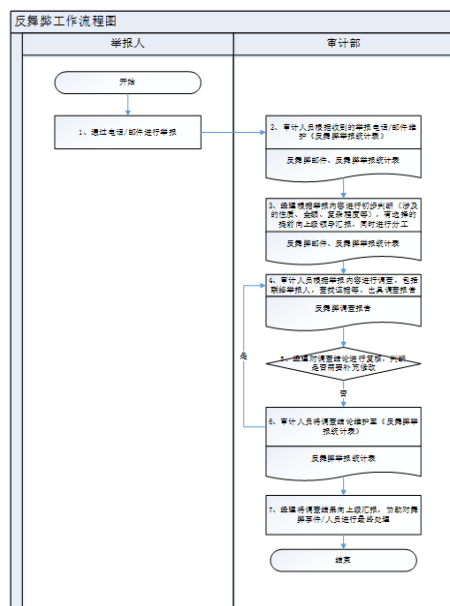
(II) Corporate Conduct

1. Compliance with laws and regulations - anti-corruption

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. The

Company organized relevant personnel from functional departments to participate in compliance training from time to time. In 2020, 13 legal and regulatory trainings including advertising compliance training, product labeling compliance training, and intellectual property compliance training were provided.

In addition to relevant training, the Company has established a sound anti-fraud system and set up a dedicated telephone line and email to encourage reporting fraud. On the prominent positions of M&G Cloud Integration Platform and OA, the Company has placed links to publicize the ways to report fraud. The Company produces anti-fraud publicity posters on a regular basis, which are posted up in the areas with large flow of people in the Company and in each branch factory. The posters are checked regularly. In case of any loss, additional posters will be posted up.



The Company has signed the Procurement Integrity Agreement with its employees, external companies, and all annual suppliers, which also covers the way of reporting. 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 or email 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.

2. Tax responsibility

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 2020, the Company paid about RMB700 million tax as required by laws. According to the 2020 tax payment credit evaluation results of the tax service, the Company's tax credit in 2019 was rated as Level A.

3. Dividend return

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 2020 to 2022)”. 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 have increased year by year, accounting for over 30% of net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements, which ensured that the investors share 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	Percentage of the net profit attributable to the ordinary shareholders of the listed company in the consolidated financial statements (%)
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			(RMB)	
2020	5	463,713,800	1,255,426,655.26	36.94
2019	4	368,000,000	1,060,083,625.03	34.71
2018	3	276,000,000	806,847,308.41	34.21

4. Investor relations

On 1 March 2020, the new Securities Law was formally enforced, providing greater protection for investors. It is self-evident that strengthening investor protection is of great significance to the long-term stable and sound development of the capital market. How to improve the initiative and consciousness of all market participants for investor protection is the key to further improve the investor protection in the market. For listed companies, investor relationship management is not only essential to strengthen investor protection, but also important to continuously improve the investor protection, form a benign interaction with investors and maximize the overall interests of the Company.

In 2020, the Company held annual performance briefings to communicate with investors through offline, online, telephone and other ways to answer the investors' questions, and regularly publish them through SSE E-Interaction. All queries raised by investors 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.

5. Information disclosure

The Company, in accordance with the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, the Administrative Measures for the Disclosure of Information of Listed Companies and other laws and regulations, has improved the Company's information disclosure management system and strictly implemented the relevant regulations on information disclosure, guaranteeing the authenticity, accuracy,

completeness, timeliness and fairness of the Company's information disclosure. In addition, the Company also actively cooperated with the securities regulatory authorities of China to further strengthen the Company's information disclosure through system construction, comprehensively elevated the quality of information disclosure, and enhanced the transparency of information disclosure, contributing to the effectiveness of the whole capital market.

In 2020, 40 interim announcements and 4 regular announcements were made. We have registered the insider information relating to major issues and promptly filed, therefore eliminating any insider trading and ensuring that all the investors can access the information of the Company equally. The Company's information disclosure in 2019-2020 was rated by the Shanghai Stock Exchange as Grade A.

V. Outlook

With the economic development of China, residents' income has increased rapidly, the middle-income population has continuously expanded, and consumption upgrading. Consumers have raised higher requirements for products and services, and attached more importance to quality and famous brands, presenting personalized, diversified and high-end consumption.

Facing 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. 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.

The year 2020 marks an extraordinary year. Everyone faced a number of challenges. M&G Stationery remained true to our original aspiration and kept our mission firmly in mind and strove to contribute to the society. The pandemic may slow down the pace of society, but will not stop it. In 2021, M&G Stationery will continue remaining true to our original aspiration and pressing forward. With its unique advantages in the stationery industry, M&G Stationery will continue to assume social responsibilities, fulfill corporate responsibilities, and continue to make contributions to education, charity, poverty alleviation, and development of rural education in China.