



C.P. Lotus Corporation
卜蜂蓮花有限公司

(Incorporated in the Cayman Islands with Limited liability) Stock Code : 00121
(於開曼群島註冊成立之有限公司)
股份代號: 00121

*ENVIRONMENTAL, SOCIAL
AND GOVERNANCE REPORT*

2016



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C.P. Lotus Corporation

ESG Report for the year ended 31 December 2016

1 About this report

This Environmental, Social and Governance (“ESG”) Report has been prepared in accordance with the Hong Kong Stock Exchange Environmental, Social and Governance Reporting Guide (“ESG Guide”) for the period from 1 January 2016 to 31 December 2016.

1.1 Core Business of the Group

During the year ended 31 December 2016, the Group was principally engaged in retail operations in the People’s Republic of China (“PRC”), operating 61 retail stores with a total sales floor area of over 519,400 square meters and 1 shopping mall in 22 cities across 8 provinces and municipalities under the brand name “Lotus”. The Group offers fresh and pleasurable shopping experience to all customers by providing a neat and comfortable environment, an assortment of high quality and safe merchandise, and a warm and friendly service.

1.2 Report Boundary

In this report, we focus on the environmental and social policies of our retail business and offices in the PRC during the reporting period.

2 Overall ESG Strategy

We attach utmost importance to conducting business under the sustainability principles. In doing so, we observe the "3 Benefits – For the Country, For the People and For the Company" philosophy, which is aimed at creating values for the nation, community and the Group itself. Our business also stands on good governance, transparency, accountability, social responsibility, in accordance with domestic and international regulations, rules and standards.

Maintaining highest ethical standards

- We aim to maintain the highest ethical standards in the conduct of our business. We are committed to maintain the highest standard of corporate governance

Focus on health and safety

- Health and safety issues are of fundamental concern to us

Focus on product responsibility

- Supplying our customers with safe and quality products remain our top priority

Minimise environmental impact

- We aim to minimise the impact of our activities on the environment

Contribute to communities

- We make positive contributions to communities in which we operate

We strive to integrate our contribution into our business operations and to provide expertise, manpower, venue and financial supports to community projects.

3 Stakeholder engagement and materiality assessment

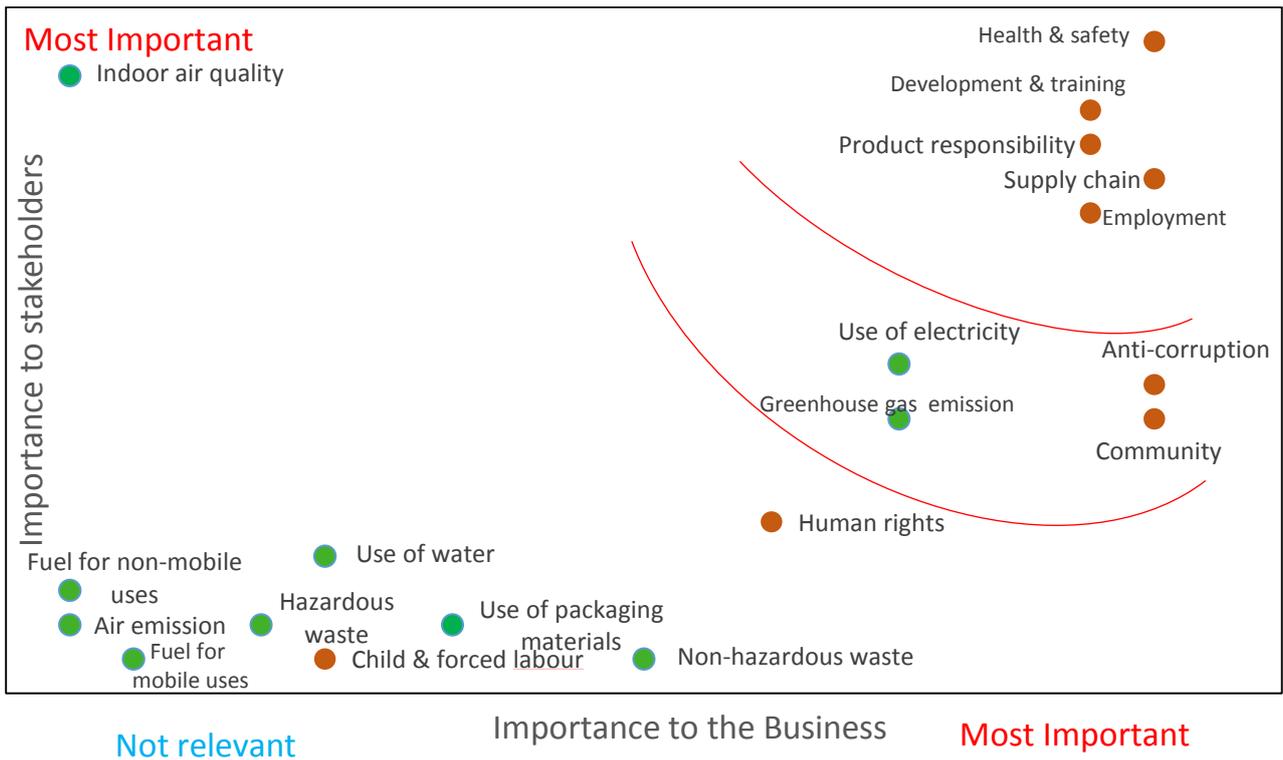
3.1 Stakeholder engagement and Materiality Assessment

We carry out stakeholder engagement periodically, through customers' satisfaction surveys as well as internal staff surveys.

In the first year in preparing the ESG report, we have engaged management team and representatives of the key regional units of our Company's operations through interviews, and customers through satisfaction survey. We have identified material ESG aspects to focus on our future management as well as disclosure in this report. Our material matters remain in the social aspect particularly in Health & Safety, Product Development and Personnel Development & Training. These are mainly associated with the provision of a healthy and safe workplace to employees as well as the quality of our products, which is the prime concern of our business. Yet we also pay attention to environmental impact of our daily operations, such as the use of electricity in our retail outlets, which has also a direct impact on greenhouse gas emissions; the indoor air quality that affects the shoppers' comfort and the maintenance of our product quality. Therefore, we strive to implement adequate measures and controls to minimize such potential ESG risks towards our business.

Based on our stakeholder engagement results, we have identified the following as material ESG issues to our Company. The aspects are prioritised and grouped into our sustainability focus areas.

Environmental	<ul style="list-style-type: none">▪ Use of electricity▪ Greenhouse gas (GHG) emissions▪ Indoor air quality (IAQ)
Social Aspects	<ul style="list-style-type: none">▪ Health and safety▪ Development and training▪ Product responsibility▪ Supply Chain▪ Employment



Social Aspects	Environmental Aspects
<ul style="list-style-type: none"> •1. Health & Safety •2. Development & Training •3. Product Responsibility •4. Supply Chain •5. Employment •6. Anti-Corruption •7. Community •8. Human Rights •9. Child & Forced Labor 	<ul style="list-style-type: none"> •1. Use of Electricity •2. GHG Emission •3. Indoor Air Quality •4. Non-hazardous Wastes •5. Use of Packaging Materials •6. Use of Water •7. Hazardous Wastes •8. Fuel for Non-mobile Uses •9. Air Emission •10. Fuel for Mobile Sources

4 Safety, Occupational Health and Environmental Policy

Our Safety, Occupational Health and Environmental (“SHE”) Policy

As a responsible employer and store operator, the Group pays great attention to the health and safety of our employees, our customers and our business partners. In addition, we also recognise we have a responsibility and an obligation to work to reduce the direct impact of our business operations on the natural environment. Our performance in SHE is an integral part of our business activities and a foundation for sustainable development. Our SHE commitments include:

- Promote SHE culture within the organisation and implement SHE policy and procedures to create a sustainable future;
- Improve the environmental quality of the workplace and ensure that the safety and health of our employees is the top priority;
- Comply with all rules and regulations relating to our business operation;
- Prevention of pollution, disease, injury and accidents;
- Provide continuous training to our employees to increase awareness and knowledge of SHE Policy and encourage participation in SHE activities;
- Explore opportunities through research and new technology to promote energy saving, resource recovery, recycling and re-use of resources; and
- Establish effective communication channel to convey the SHE policy to employees, customers, business partners and the public.

4.1 Environment

The Group is committed to build a better environment by adopting an environmental-friendly approach in its business operation through reduction of resource use and environmental emissions. The Group is committed to comply with all applicable environmental laws and regulations in conducting our business and we are committed to environmental management.

Examples of Initiatives conducted in 2016:

Use of electricity

- Energy saving by the use of LED lights in all retail stores
- Purchase of energy efficient refrigerators
- Participation in the “Earth Hour” activity

Greenhouse gas (GHG) emissions

- Gradual replacement of trucks to ‘National IV’ emission standard
- Use of environmental friendly toilet paper
- Saving of office paper by printing on double sides

Indoor air quality (IAQ)

All our offices and stores maintained good air quality through regular cleaning of air-conditioner and strict banning of smoking in the indoor areas.

Others

- Explore opportunities through research and new technology to promote energy saving, resource recovery, recycling and re-use of resources
- Recycle and reuse of tray, basket and packaging film
- Recycle of battery and old electric appliances
- Procurement of biodegradable plastic bags
- Implementation of ISO14000 standard in Huangxi store in Guangzhou
- Implementation of measures to reduce noise in stores under decoration

Compliance status

During the year, we were not aware of any non-compliance with any relevant environmental regulatory requirements that may have a significant impact on the businesses of the Group.

4.2 Health and Safety

We are committed to providing a healthy and safe workplace to employees. The SHE policy is communicated to all employees. Relevant trainings were organised in the year to improve our employees' awareness on health and safety. Regular checks on the supermarkets were carried out and relevant certifications in compliance to relevant laws and regulations were obtained. Regular body check and medical insurance were provided to our workers. During the year under review, the Group enhanced sanitary inspection across its headquarters building, stores and office premises; and we also installed direct-drinking water and disinfectant spray in the head office so as to ensure a good work environment for its employees. There was no serious work injury cases reported in 2016.

We provide for our own logistics arrangements and we closely monitor and record fuel consumption and safety performance of our fleet of trucks and delivery tools and equipment.

Compliance status

During the year, we were not aware of any non-compliance with any relevant health and safety regulatory requirements that might have a significant impact on the business of the Group.

5 Employment

5.1 Human Resources Policies

As at 31 December 2016, the Group had a total of approximately 13,970 employees, of which 1,260 were head office staff and approximately 12,710 were employees of the stores and distribution centres. Equal opportunities principles are applied in all employment policies, in particular to recruitment, training, career development and promotion of employee. Remuneration and benefit packages of employees are structured on market terms with regard to individual responsibility and performance. All eligible employees are enrolled to a defined contribution mandatory provident fund scheme or social insurance scheme. Other employment benefits are awarded at the discretion of the Group. Special care is given to employees in need, including special holiday and office arrangement for pregnant and after-birth employees.

The Group promotes fair competition in its recruitment and promotion procedures and prohibits discrimination or harassment against any employee on their gender, age, marital status, religion, race, nationality, disability or any status protected by law. Our Code of Ethics, which applies to all our directors, officers and employees, has key focus on anti-discrimination. In 2016, we did not identify any material non-compliance or breach of legislation related to equal opportunities.

We value employee's satisfaction and encourage our staff to provide feedbacks. We have channels in place such as call centre and "Lotus listen and care" for our employees to express grievances and complaints which will be well-handled according to the predetermined procedures to ensure equality to all employees.

The Group prohibits the employment of child and forced labour. During the reporting period, there were no reported instances on child labour or forced labour, nor was there any on discrimination or harassment incident.

The Group respects the right of association and ensures employees enjoy the freedom of joining trade unions. We did not identify any material breach of any right to exercise freedom of association and freedom of joining trade unions in 2016.

5.2 Development and Training

We encourage sustainable learning of our employees through coaching and further studies. In-house trainings and online learning materials are provided to all employees. Sponsorships are provided as an initiative for further studies by application. In 2016, the Group had organised various training seminars to employees, including the following:

- Orientation training
- Provision of training for job planning, job skills and case studies of previous non-compliances
- Training on code of ethics
- Training specifically designed for merchandise team to improve their negotiation skills

5.3 Anti-corruption

We are strongly against corruption among the Group's activities and procurements. One of the guiding principles highlighted in our code of ethics is "ethics and integrity". We have whistle-blowing channels for our staff to raise suspected corruption cases. In the reporting period, three material misconduct cases were identified, two through whistle-blowing channel and one discovered through internal routine operation audit procedure. Appropriate disciplinary actions had been taken against the personnel involved. We have since further strengthened our internal prevention mechanism and control.

6 Supply Chain Management

We work closely with the product suppliers on all environmental and safety affairs, especially on food safety. Regular meetings are held to facilitate two-way communication. While we have taken into account some areas of ESG on our suppliers, such as food safety controls, we have yet to establish a more comprehensive system to take into account their environmental and social risk during the suppliers' performance assessment.

7 Product Responsibility

'Our promise' including:

- Quality Fresh Food;
- Great Price;
- Fast and friendly check out;
- Great shopping experience.

Quality

We are committed to provide quality services to our customers.

- 48 of our retail stores and all distribution centres are certified of their service on ISO 9001 Quality Management System
- Monitor temperature of food during transportation
- Quality management team to
 - ensure food safety and destroy food that does not meet safety standard
 - perform regular site inspections to various stores

Privacy Protection

- Employees signed confidential agreement to protect customer data privacy
- Adopted a policy to manage the user authorisation for accessing the Lotus ERP system

During the year, we have maintained active dialogue with the customers by conducting satisfaction surveys periodically with the purpose of identifying potential areas for improvement. We are not aware of any material non-compliance relating to product safety.

8 Community Investment

The Group encourages employees to actively get involved in corporate social responsibility activities. During the year, we committed to the community through the followings:

- Pink Spring activities to promote love and care to women in need
- continued to work with primary schools in Shanghai on The "Lotus Heart: Smart Kid, Good Kid" program which was designed to nurture their sense of responsibilities towards the society and the family
- celebrated Children Day with local communities
- Lotus Love Foundation continued to help employees or their family members who are in desperate financial need either caused by illness, death or natural disasters

Appendix I: Hong Kong Exchange ESG Disclosure Table

ESG Guide	Material Aspects	Description	Page No.	Remark
Environmental				
A1	Emissions	Policies relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Compliance with relevant laws and regulations that have a significant impact on the issuer	5	“Environment – SHE Policy”
A2	Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.	5	“Environment – SHE Policy”
A3	The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources.	5	“Environment – SHE Policy”
Social				
B1	Employment	Policies on employment and compliance with local laws and regulations that have a significant impact on the issuer on the following aspects: - Compensation and dismissal - Recruitment and promotion - Equal opportunity and anti-discrimination - Trade Union participation - Other benefits and welfare	7	“Employment – Human Resources Policies”
B2	Health and Safety	Policies on providing a safe working environment and protecting employees from occupational hazards and compliance with relevant laws and regulations.	6	“Employment – Health and safe working environment”
B3	Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	7	“Employment – Development and Training”
B4	Labour Standards	Policies and Compliance with laws and regulations on preventing child and forced labor.	7	“Employment – Human Resources Policies”

ESG Guide	Material Aspects	Description	Page No.	Remark
B5	Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	8	“Supply Chain Management”
B6	Product Responsibility	Policies and compliance with relevant laws and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	8	“Product Responsibility”
B7	Anti-corruption	Policies and compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.	8	“Employment – Anti-corruption”
B8	Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	8	“Community Investment”



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