

SunArt

Retail Group Limited

ENVIRONMENTAL, SOCIAL & GOVERNANCE

ESG REPORT 2016



TABLE OF CONTENTS

2	Contents
3	President's Words
4	SunArt Activities
5	Financial Highlights
6	Sustainable Development Priorities
7	Environmental & Social Commitments
8	ESG Development Time line
9 - 10	Environmental Overview
11	RT-Mart Rooftop Solar Panel Program
12 - 14	Environmental Performance
15	Communication - Solidarity
16	Social Campaigns
17	Waste Management
18	Social Overview - Workplace Quality
19	Social Overview - Health and Safety
20	Social Overview - Training
21	Engaging Suppliers
22	Healthy Food Healthy Life
23	Awards and Future Commitments
24	Sustainable Development Measures



PRESIDENT'S WORDS

Dear Shareholders,

We define ourselves as a federation of autonomous companies and audacious retailers, sharing values and common beliefs, at the service of sustainable economic development.

At SunArt Retail Group we believe everyone aspires to live better: **our purpose is to improve the quality of life** of women and men.

Our values of sharing, trusting and progress are sustainable and known to everyone in the company.

To do our job, we give priority to listening, strength of the team, simplicity and performance. We act on these values with a great sense of responsibility.

SunArt Retail Group is committed to applying a precautionary approach to environmental challenges, by strongly supporting government rules, regulations and policies, to take initiatives to promote greater responsibility towards the environment, and to promote the development and dissemination of more environmentally friendly products and services.

We recognize that sustainable development policies are only sustainable if all stakeholders find them to be appropriate, and that SunArt Retail Group's responsibility to the environment is a collective concern for all, from staff to upper management.

In each stage of development, from construction to operation of our sites, we are constantly searching for innovative solutions, working alongside and in **support of government policy, to save more energy** in order to be more efficient in the fight against global warming and the safeguarding of biodiversity.

As a responsible corporate citizen, our guiding principle is to behave **ethically and responsibly in every daily activity**. In particular, the following commitments to action serve as the framework of our corporate social responsibility policies:



Aim for a better environment by reducing our carbon footprint.

Aim for better communities by engaging positively with our customers and employees, improving their quality of life helping them to live healthier lives.

Aim for a better society and increase awareness about the environment while reducing our impact on the natural environment.

We are also committed to respecting the following international standards:

- Universal Declaration of Human Rights 1948
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The OECD Guiding Principles
- The UN Global Compact

This document is not intended to replace each banner's regulations; it aspires to support and reinforce government laws, policies and regulations. It was designed to provide a framework for SunArt Retail Group business entities' existing policies and enable everyone to better understand the logic and purpose behind our commitment to corporate social responsibility.

On behalf of my colleagues, I am pleased to share SunArt's results, progress and goals regarding our environmental and social responsibilities.

Bruno, Robert MERCIER
Chief Executive Officer and Executive Director
May 26, 2017

SUNART ACTIVITIES

HYPERMARKETS

Auchan 欧尚

大润发 RT-Mart

SUPERMARKETS



STORE GROWTH

In 2016, we reached a total of 446 hypermarkets and supermarkets across China as of December 31, 2016. Our stores cover 224 cities across 29 provinces, autonomous regions and municipalities.

- A total of **446** hypermarkets and supermarkets across China as at 31 Dec 2016, covering **29** Provinces, autonomous regions and municipalities
- 79 sites were secured to open hypermarket complexes over next 3 years, of which 69 are under construction.







飞牛网
feiniu.com

In March 2015, Feiniu.com commenced its online to offline ("O2O") program by leveraging the Group's physical stores as dispatching points.

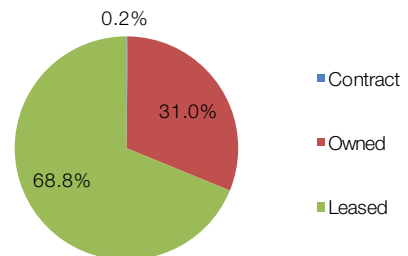
Within two months, Feiniu.com achieved nationwide coverage through this O2O program.

Over 23 million members were registered by the end of December 2016, of which close to 4.4 million were active users within half a year.

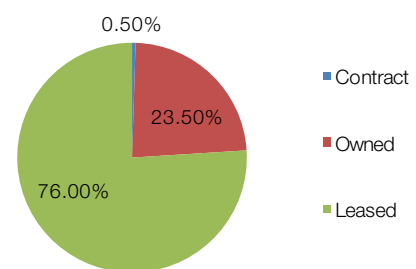
Gross merchandise volume doubled in 2016 compared to 2015. 29.1% of total GMV was generated by new O2O projects, in which 36 stores participated. In 2017, Feiniu will be launching a rapid 1-2 hour delivery service, which will encourage more stores to participate.

Region	No. of stores			GFA (sqm)		
			Total			Total
Eastern China	50	131	181	2,049,520	3,172,257	5,221,777
Northern China	6	42	48	177,594	1,028,881	1,206,475
N-Eastern China	2	44	46	55,660	1,215,729	1,271,389
Southern China	5	75	80	124,523	1,837,678	1,962,201
Central China	10	61	71	303,766	1,490,418	1,794,184
Western China	5	15	20	223,839	352,678	576,517
<u>Total</u>	78	368	446	2,934,902	9,097,641	12,032,543

GFA Breakdown



Store No. Breakdown



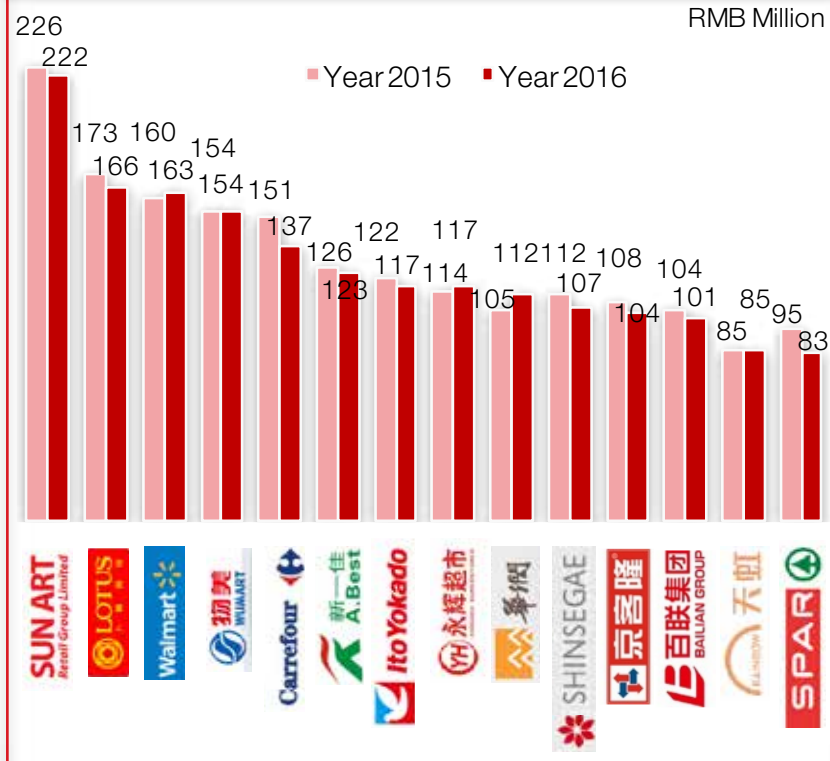
Fields China was established in 2010 in response to food safety scares in China, and helped to kick-start the online grocery shopping revolution in Shanghai.

In Apr 2015, Sun Art Retail Group became FIELDS' majority shareholder.

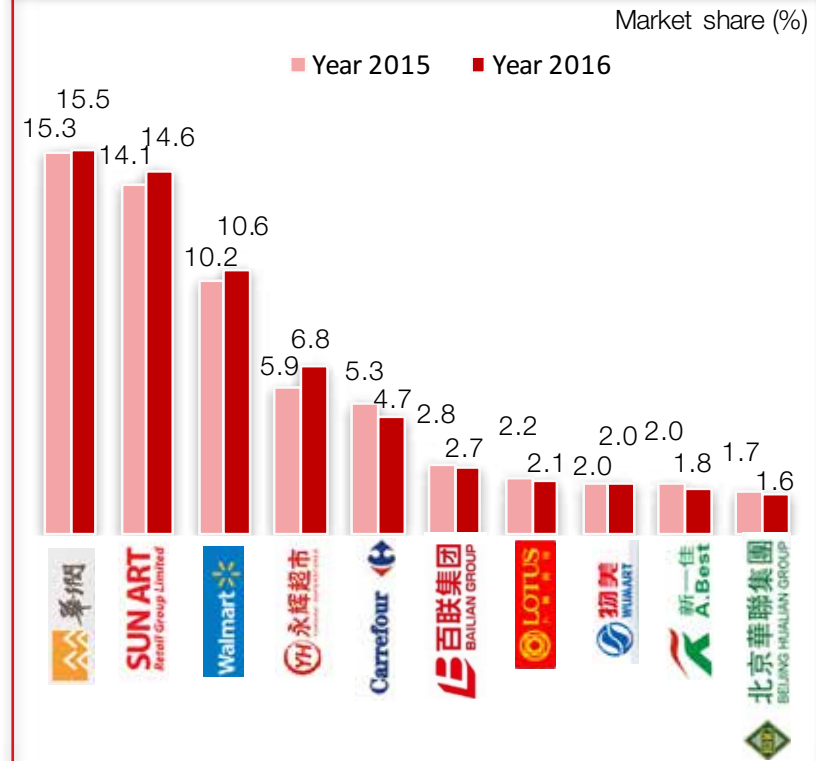
Fields is **focused on sourcing safe and tasty local products** – with minimal carbon footprint – complemented by high-quality imports from trusted brands and suppliers.

LEADING RETAILER IN CHINA

Average Sales (Excluding Sales Tax) Per Store in 2015 and 2016 in the Hypermarkets Industry



Market Share in the Hypermarkets industry 2015 and 2016



Source: Euromonitor

- (1) All 2015 numbers are the historical actual performance data and 2016 numbers are estimated based on the first half year actual performance of 2016.
- (2) The definition of Hypermarkets from Euromonitor is retail outlets with a selling space of over 2,500 square meters and with a primary focus on selling food / beverages / tobacco and other groceries.
- (3) In the hypermarkets of Euromonitor data:
Walmart including "Wal-Mart (China) Investment Co. Ltd." and "Trust-Mart Co. Ltd.";
Bailian Group including "Lianhua Supermarket Holdings Co. Ltd." and "Hualian GMS Shopping Center Co. Ltd.".

SUSTAINABLE DEVELOPMENT PRIORITIES

PRIORITY

OBJECTIVE

Reduce Energy Usage



Reduce Carbon Footprint



Increase Recycling



Reduce Waste



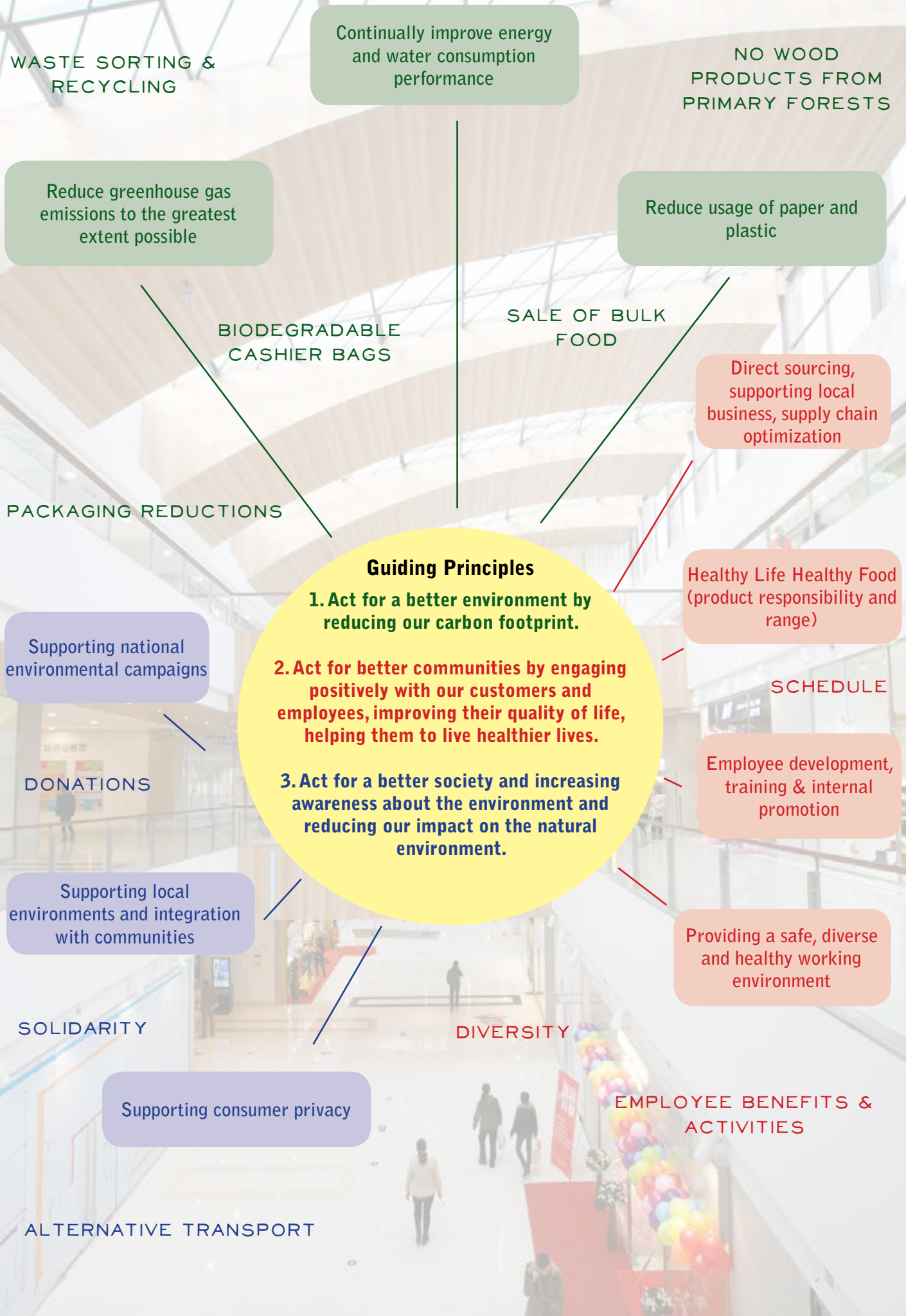
Promote Sustainable Products



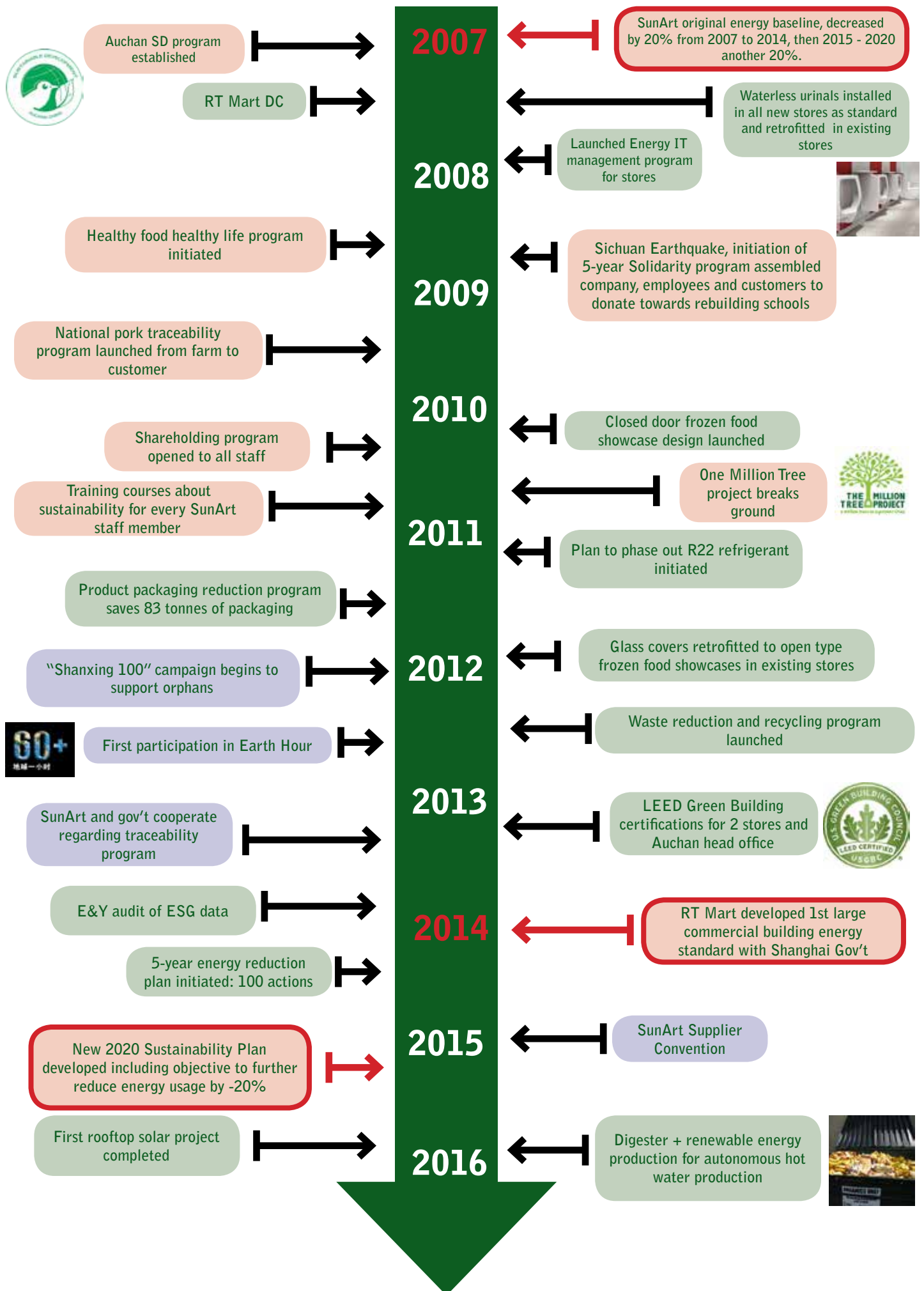
Encourage Healthy Living



ENVIRONMENTAL & SOCIAL COMMITMENTS



SUNART ESG DEVELOPMENT TIME LINE



ENVIRONMENTAL OVERVIEW

COMMITMENTS

POLICY A1: SunArt Retail Group is committed to comply with or exceed all relevant environmental laws and regulations related to both the construction and operation of our stores in the regions where we operate.

Furthermore, we recognize that we emit greenhouse gasses in each of the three scopes as defined by the international reporting framework published in the Hong Kong Government's "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong".

Scope 1 – Direct emissions: refrigeration leakage and gas consumption

Scope 2 – Indirect emissions: electricity consumption

Scope 3 – Upstream and downstream: emissions related to supply chain activities and customer transportation.

We are committed to reducing our greenhouse gas emission intensity of each scope to the greatest extent possible.

2020 AIMS

- **20% reduction in electricity intensity**
- **85% stores achieving "excellent" rating according to Shanghai Gov't Standard**

PROGRESS UPDATE

SunArt has a target of integrating 100 sustainable development measures into our stores by 2020. 51 measures have been implemented so far (see annex) and 24 additional were identified in 2016. Central to this effort has been the installation and operation of building automation systems to control our refrigeration, air-conditioning, and lighting systems in 98% of our stores, coupled with an energy management program to track and analyse our energy consumption.

We have carried out LED retrofits of our existing lighting systems and require LED in all new store design, with the **goal of 100% LED by 2018**. 86 stores were retrofitted in 2016, and currently 87% of our stores are equipped with LED.

In an effort to help reverse the destruction of the ozone layer and reduce electricity consumption of our refrigeration systems, we are phasing out R22 refrigerant in all of our stores and requiring R404A refrigerant in all new



store design since 2011. Currently 68% of stores are using R404A, with 6 stores retrofitted in 2016, and 16 planned for 2017, with the **goal to completely phase out R22 by 2030**.

In order to continue to reduce our carbon footprint, we have developed a comprehensive on-site energy audit program and energy **efficiency plan to reduce our energy intensity by 20%** over the next 5 years, as compared to 2014 levels. **Currently 65% stores' LFL energy consumption per unit area have reached "Excellent Grade"** and 35% stores are "Reasonable Grade" according to Shanghai Government Standard.

Our major source of emissions is refrigerant leakage, and as such, we have been working to improve our refrigerant leakage management system by continuously improving our refrigeration alarm centre processes.

ENVIRONMENTAL OVERVIEW



SunArt stores use large quantities of water every day for customer and staff bathrooms, cleaning, food processing and to run air conditioning systems. Auchan has implemented a number of measures to reduce this water usage over many years.

After carrying out a successful trial project in 2007, SunArt implemented waterless urinals in the men's bathrooms as the standard for all stores.

During the design phase of every new store, **SunArt selects only the highest efficiency plumbing fixtures** to minimize water usage. This includes toilets in bathrooms that require less water to flush than traditional fixtures.

SunArt Retail Group is committed to achieving sustainable reduction of raw material consumption by implementing continuous improvement processes concerning the reduction and recycling of packaging according to relevant government regulations.

In order to limit our impact on the surrounding environment of our stores, we have targeted four areas of local environmental impact:

- **Waste water pollution treatment**, with an emphasis on the cleaning and maintenance of grease traps
- Encouraging the use of alternative transportation by our customers by **providing free bus services** in each city we operate in, and providing ample bicycle parking
- Ensuring that our buildings are designed such that there is **no noise pollution**
- Limiting night time light pollution by ensuring all outdoor **lighting is on an automatic schedule** that adjusts to the seasons.

We carry out **annual environmental audits** internally that checks our performance in terms of water pollution, air-discharges (CKVS), waste management, noise management, and Legionella risk management. We also ensure that all of our wood-based own-brand products do not come from primary forests and are not contributing to deforestation.

RT-MART ROOFTOP SOLAR PANEL PROGRAM



RT-Mart Yangpu store rooftop solar panels

ADVANTAGES OF THE SOLAR POWER PROJECT

1. **No investment required**
2. Each store will **save approximately RMB 100,000 in electricity costs** per year, and approximately RMB 30,000 per year in additional rent.
3. RT-Mart is able to **charge a rental fee of RMB 3/m²** to the solar panel company for the use of their roofs, paid annually.
4. After a project is complete, **the local power bureau will give a discount of 10%** on the electricity price for the store, further reducing our electricity bills.
5. We maintain a connection to the power provided to the city, reducing the risk of power outages.
6. The solar panel project is considered a “green building” project by the government, and so we qualify for “green building energy reduction subsidies”, the amount of which depends on the city. In Shanghai, it is a **one-time subsidy of RMB 1,400,000**
7. Rooftop solar panels will absorb heat that normally is absorbed by the roof itself, reducing the amount of time and energy the existing air-conditioning systems must use, which will further reduce our electricity bill.

2020 AIMS

- **20% renewable energy by 2020**

In 2015, RT-Mart began a project to install **rooftop solar panels** at as many stores as possible over the next 3 years. This project was rolled out for SunArt in 2016.

RT-Mart is installing two types of systems: flat-roof type and car-park type. Flat-roof type systems are installed on existing roofs with suitable galvanized steel board roofing material. Car-park type systems will be installed on structures that are erected above existing outdoor rooftop parking lots. In both cases, **we charge the solar panel company RMB 3/m²** in rent for the use of our space.

Both types of systems will be connected to the city power grid, so that the stores first use the power from the solar panels. If the power generated is not enough, the store will automatically take power from the existing grid as a supplement. If there is a situation where the solar panels produce more than the store can use, this excess electricity will be fed back into the grid.



In 2016 we completed 4 rooftop solar retrofit projects in the Eastern China region. We are on track to complete 32 more of these projects in 2017, and are working with our construction partner to develop project plans country-wide, and complete our detailed 2 year construction plan.

We currently have a 2,950 kW capacity of solar powered electricity across these 4 stores, covering 22,549 m² of rooftop space. We produced 2,804,350 kWh of electricity by the end of 2016, saving 2,190 tonnes of CO₂.

ENVIRONMENTAL PERFORMANCE

COMMITMENTS

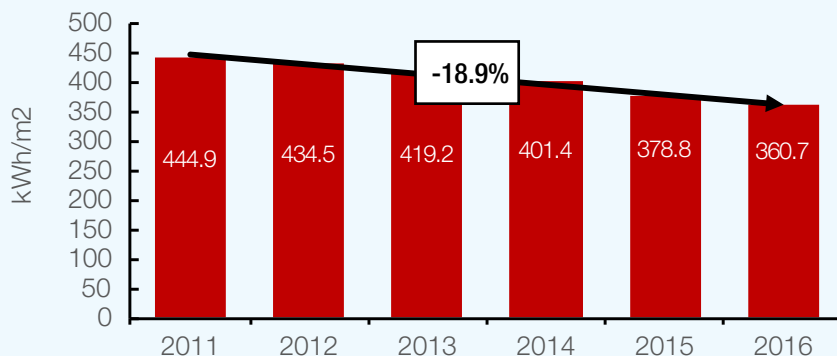
POLICY A2: SunArt Retail Group is committed to continually improving our energy performance and reducing our water consumption, which will be determined from measurable results related to efficiency, the ratio or other quantitative relationship between an output of performance and an input of energy or water, and consumption, the amount of energy or water consumed.

Resource management shall be practiced in all areas of the company's operation. The main objective is to use energy and water efficiently and to provide energy and water security for the organization, both immediate and long range, by:

- Utilizing energy and water throughout the company's operations
- Incorporating energy and water efficiency into existing equipment and facilities, as well as in the selection and purchase of new equipment
- Complying with government regulations
- Putting in place an energy and water management program to accomplish the above objectives

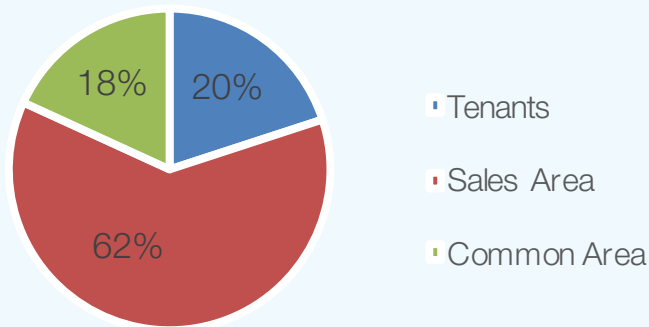
In addition, we are committed to achieving sustainable reduction of raw material consumption by implementing continuous improvement processes concerning the reduction and recycling of packaging according to relevant government regulations. This commitment applies to both upstream, via the quantitative reduction of packaging own-brand products, and downstream, by implementing waste management programs for our hypermarkets and warehouses.

STORE ELECTRICITY CONSUMPTION SUMMARY



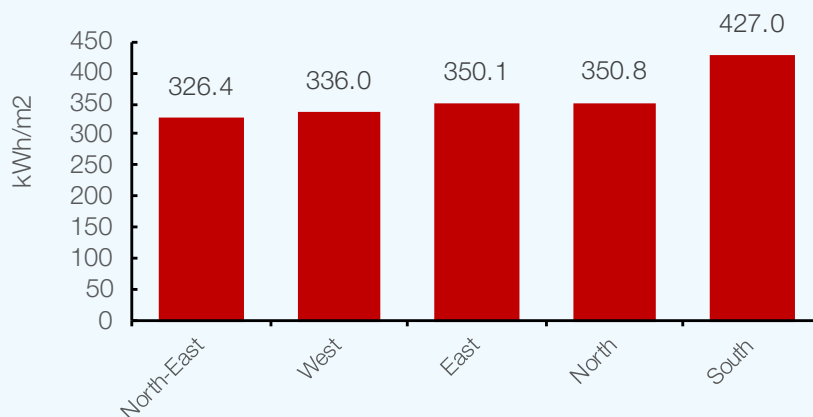
From 2014 to 2016, we saw a decrease of 4.8% in our sales area electricity consumption. We use sales area electricity consumption as our main KPI when determining our electricity performance over time, as it reflects the areas of stores in which we have the most control for implementing energy efficiency improvements.

HYPERMARKET BREAKDOWN



This graph shows how energy is consumed in our hypermarkets. Our sales areas consume 62% of our electricity. Our shops are occupied by tenants.

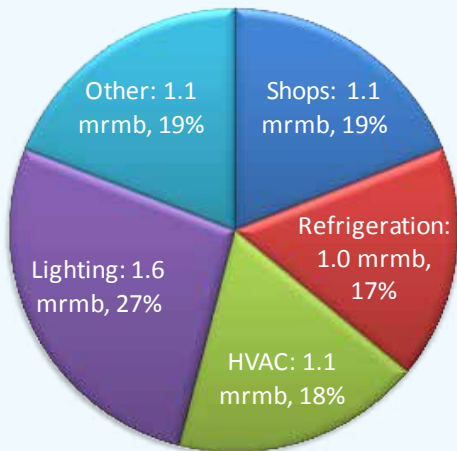
REGIONAL BREAKDOWN



Due to higher temperature and humidity the southern region has the highest average energy intensity.

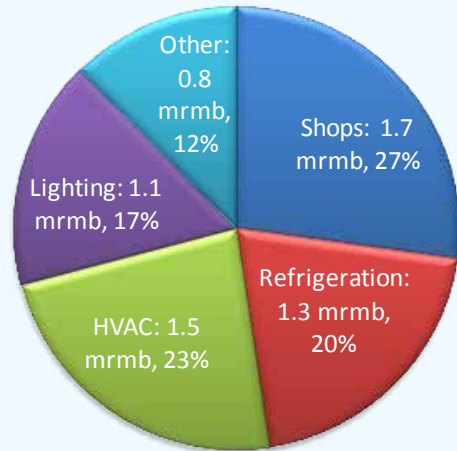
ENVIRONMENTAL PERFORMANCE

RT-MART BREAKDOWN BY SYSTEM



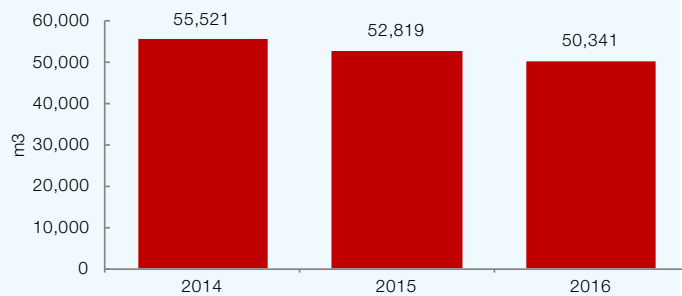
This graph shows estimated average electricity consumption per store by system for RT Mart stores.

AUCHAN BREAKDOWN BY SYSTEM



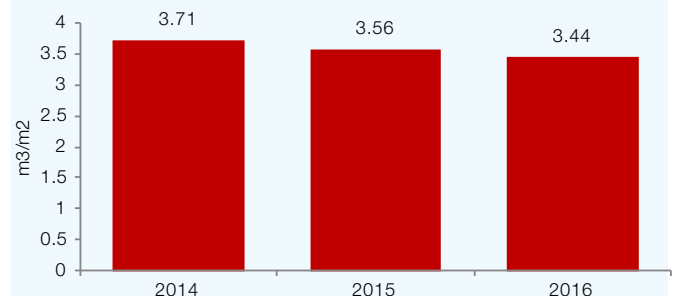
This graph shows estimated average electricity consumption per store by system for Auchan stores.

WATER CONSUMPTION BY STORE



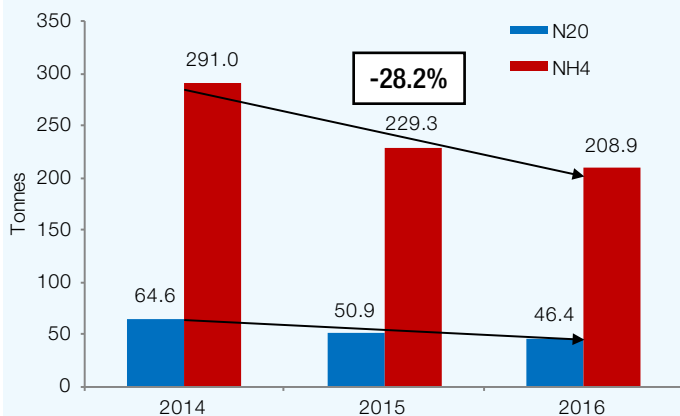
Our total water consumption per store decreased by 4.7% in 2016.

SALES AREA WATER CONSUMPTION



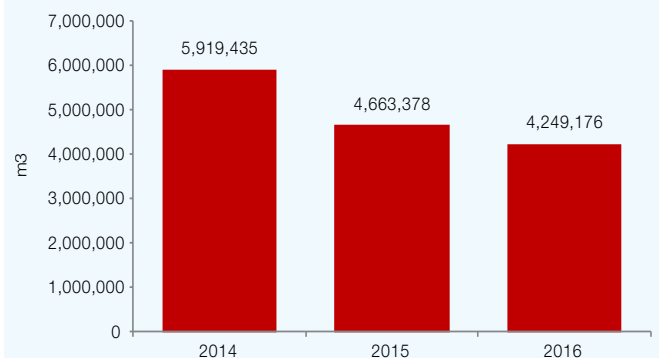
Our sales area water consumption per m² decreased by 3.4%.

DIRECT EMISSIONS



Direct emissions of nitrous oxide and ammonium from the burning of gas on site for the heating and cooking of a portion of our hypermarkets decreased by 28.2% from 2014 levels. This is mainly due to switching a number of stores to electrical cooking and heating appliances.

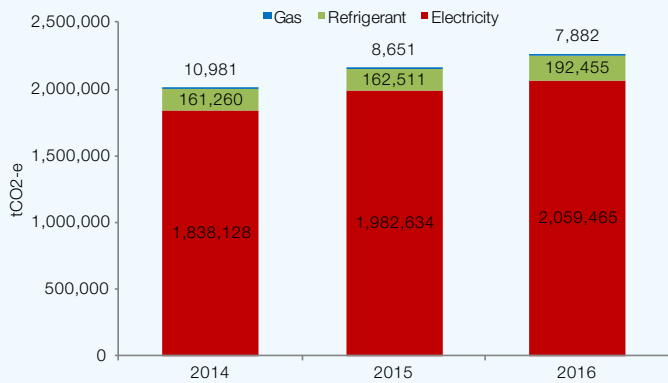
GAS CONSUMPTION



Total gas consumption decreased by 8.9% in 2016.

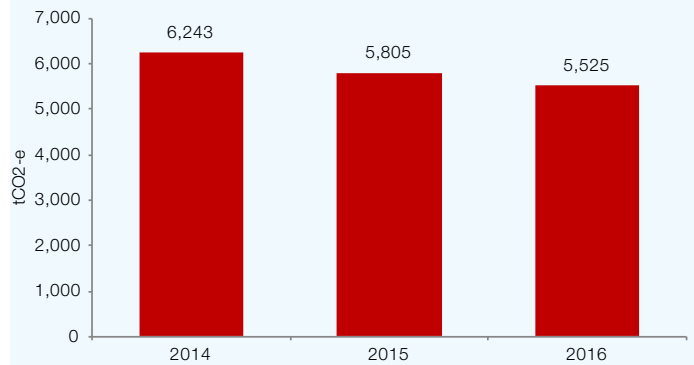
ENVIRONMENTAL PERFORMANCE

TOTAL CO2 EMISSIONS



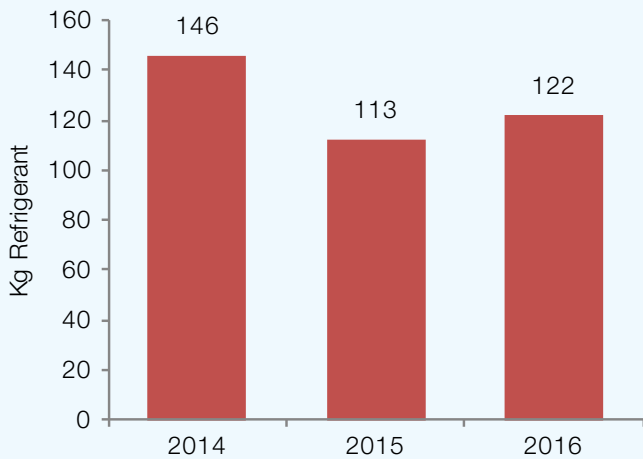
As the total number of SunArt stores increased from 371 to 409 in 2016, we saw our total CO2 emissions increase by 3.9%. The breakdown of emissions by source can be found in the above graph.

CO2 EMISSIONS PER STORE



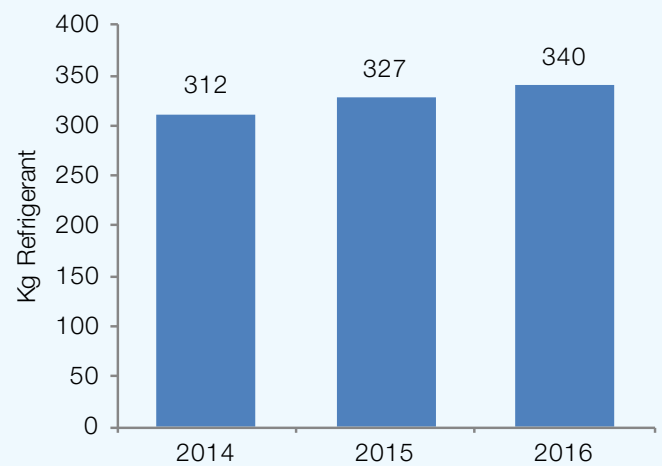
Our average emissions per store decreased by 4.8% in 2016.

REFRIGERATION LEAKAGE R404A



By implementing a comprehensive refrigerant management program in 2013, including an automated leak detection system, we are able to closely monitor, track, and identify causes of our refrigerant leaks. In 2016, we saw an 8.4% increase in R404A leakage. This was mainly due to 10 of our stores' refrigeration systems undergoing energy efficiency retrofits, which required a refrigerant charge after completion. However, in 2016 Auchan China's total leak rate was still around 16%, below the industry standard leak rate of 20% per year.

REFRIGERATION LEAKAGE R22



R22 refrigeration systems were installed in older SunArt stores back when those stores were first opened. Because of their age the leak rate of those older stores has actually increased. However, these R22 refrigeration systems are being progressively upgraded so they use more modern refrigerant types.

COMMITMENTS

POLICY A3: We are committed to reduce our impact on the environment and natural resources in the following ways:

- Reduction of paper and plastic consumption.
- Supporting protection of ocean biodiversity and healthy aquaculture practices.
- Supporting local environments.
- Supporting national environmental campaigns.

AIM

Work with our staff, customers and suppliers to promote environmentally and socially responsible campaigns

PROGRESS UPDATE

PLANTING TREES

We work with local organizations to plant trees in areas of need to both fight against desertification and help remove CO2 from the atmosphere.

Staff Action

Local Planting Day - On March 12th of each year, each store plants a tree on their own site.

Company Action

We are an active participant in the **Million Trees Project**, having worked with them for the past 6 years and have planted 13,500 trees in Inner Mongolia. The forest has been planted in Nugusitai, Keerqinzuoyihou Qi, Tongliao City in Inner Mongolia. We planted 2.4 hectares of trees in 2016, reaching a total of 11.28 hectares

Working With Customers And Suppliers

We develop commercial campaigns with our suppliers (Coca-Cola/Unilever) to collect funds from customers through the sales of products to support the greening of over 700,000 m2 in Gansu Province, helping to combat desertification.

Auchan Forest 欧尚公益林

位置: 2016-1林地; Location: Plot 2016-1;

面积: 36亩; Size: 2.4hectares

树种: 樟子松 Tree species: Pines

GPS 坐标 / Coordinates:

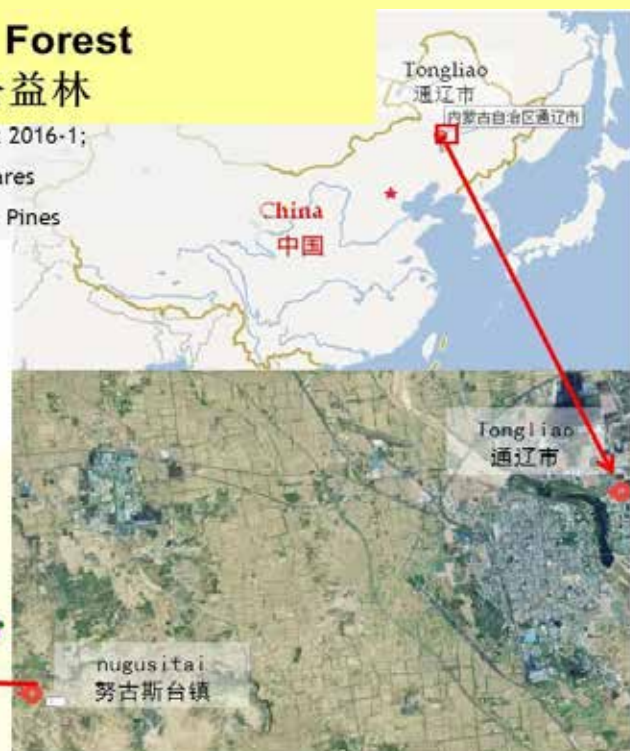
N43 25.298 E122 21.695

N43 25.329 E122 21.737

N43 25.171 E122 21.833

N43 25.152 E122 21.775

N43 25.298 E122 21.695



PROGRESS UPDATE



SunArt supporting schools in need with the Shanxing 100 program



IT-course in a rural school before Netspring



Netspring Green IT Classroom



Computers directly given by an enterprise to a rural school with no support

Water Purification

We work with our suppliers to **promote environmentally and socially responsible campaigns**, for example working Coca-Cola to donate a portion of proceeds from their products towards the construction of water purification facilities in areas of need in China. Last year we raised RMB 326,000 for this fund and purchased 8 water purification systems.

Supporting Orphans

We engage our customers to contribute to the greater good by setting up “Compassionate Public Engagement” stands for the **“Shanxing 100”** campaign, where we collect care packages and donations which are then delivered to elementary schools in need on the Qinghai-Tibet plateau. This activity is hosted by the China Foundation for Poverty Alleviation and we have participated for the past 5 years. Last year we raised RMB 948,400 that went towards the purchase of packages of warm clothes, and artistic supplies for their school programs.

Donating Computers To Schools

We work with **Netspring**, a social enterprise that supports rural education and helps vulnerable groups by setting up IT classrooms using refurbished electronic equipment. 2,300 computers will be donated to them by SunArt between 2015 - 2017, with 421 of our donated computers installed in schools in 2016.

National Campaigns

Consumer Day

We participate in this national campaign in order to raise awareness of consumer rights. During this day we work with local governmental bodies throughout the country in order to provide information to consumers about both the work that is being done to provide safe and trustworthy products, as well as providing an avenue for them to share their complaints.

Earth Hour

We participate on March 28th of each year to communicate the importance of environmental protection to our customers and team members.



No Car Day

During the week of September 22nd, we participate in No Car Day activities promoting exercise and raising awareness of pollution from vehicles, as well as organizing a bicycle race.



WASTE MANAGEMENT

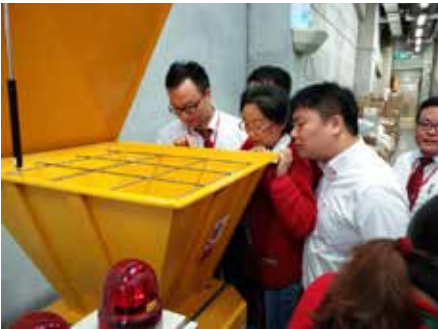


AIM

Reach 85% recycling rate by 2020

Managing Waste

In 2011, our Auchan banner tested a **nation-wide waste sorting program** to reduce the amount of our solid waste that is diverted to landfills. The waste reduction initiative was then adopted by our RT-Mart banner in 2013, and has helped RT Mart improve our average store recycling rate from **28% in 2011 to 62% in 2016**.



Bio-Digester and Renewable Energy Production

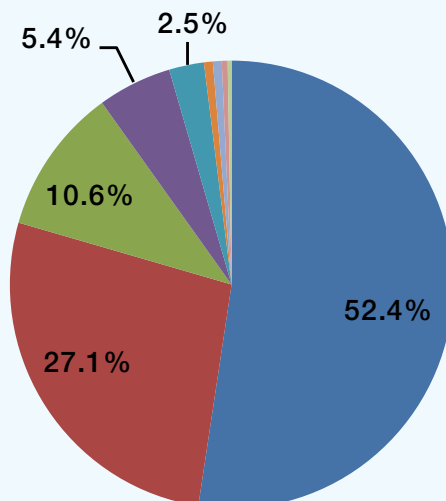
In 2016 the Auchan's Haimen store installed an **organic waste digester that recycles organic waste to produce energy and fertilizer**. The organic waste from the fresh product department is sorted and put into a base station that feeds the digester. The entire digestion process is integrated in a container-sized module located outside of the store. The equipment currently **processes 700kg of waste and produces 630 kWh of energy every day**. This energy is used to heat water for use in the store. This process reduces the mass of non-recycled waste produced by the store by around 70%. We expect the implementation of this technology will enable us to hit our target of 85% recycling rate by 2020.



Preventing Waste

Supporting government policy, we push our own brand products to minimize the amount of packaging in their design. This resulted in a 70% decrease by weight, equivalent to resulting in a **reduction of 112 tonnes of paper**. The minimization of packaging materials has been incorporated into the design of all new product lines since. We also stopped providing plastic bags for free in all of our stores in 2008, as required by law, and took this a step further by ensuring the bags **that we sell are made of biodegradable materials**.

TOTAL WASTE BREAKDOWN



Cardboard	52.4%
Organic	27.1%
Customer	10.6%
Paper	5.4%
Plastic	2.5%
Oil	0.7%
Metal	0.6%
Styrofoam	0.4%
Dangerous materials	0.3%

COMMITMENTS

POLICY B1: SunArt Retail Group provides compensation and benefits to all full time employees in accordance with Chinese laws, regulations and requirements. The compensation and benefits policies shall refer to other provisions of local laws and regulations as applicable.

SunArt Retail Group's compensation and benefits mechanism focuses on establishing a high performance working environment, which takes into account life work balance, inspires colleagues to achieve our common goals, and to share in the company's success through profit sharing programs.

SunArt Retail Group accepts every individual's job application, regardless of whether the applicant has relatives in the company or not, on the conditions that the applicant has no direct superior-subordinate relations with his or her relatives, and the terms and conditions of employees will not be impacted by his or her relatives. Kinship employees cannot simultaneously work in a department that is related to the company's interest.

SunArt Retail Group employees have a rated working time of 40 hours a week and at least one day a week to rest. If a local labour department has special provisions for the rated working time, the company shall be in line with the government regulations. Working hours also include training and department meetings.

Employee overtime shall not be more than 3 hours a day, 36 hours a month.

AIM

Ensure all employees to be “responsible, enthusiastic, and highly regarded”

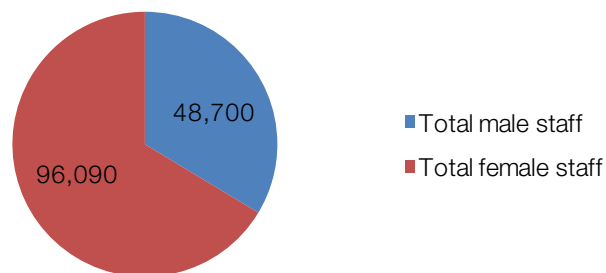
PROGRESS UPDATE

Diversity

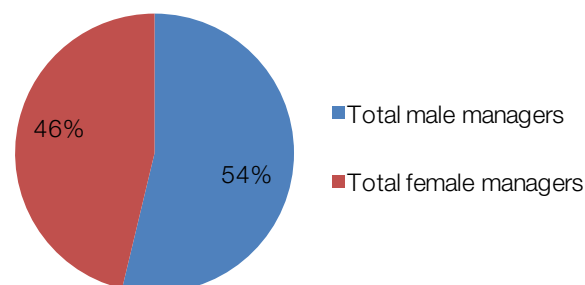
We strive for gender equality in both our staff and management positions. In 2016, **female managers accounted for 46%** of all managers, and we expect this number to exceed 50% in the next two years.

Currently, 5% of our employees are over the age of 50, up from 1.1% in 2014, as part of our initiative to provide jobs to the elderly in our local communities. Offering jobs to disabled people is one of our core social responsibilities, and we currently employ 2,047 people with disabilities. Our stores and headquarters have established and maintained long term cooperation with local associations of disabled individuals throughout the country, through which we hire a steady stream of new employees. Our goal is to support the integration of disabled people in the community, and **reach 4% of our team.**

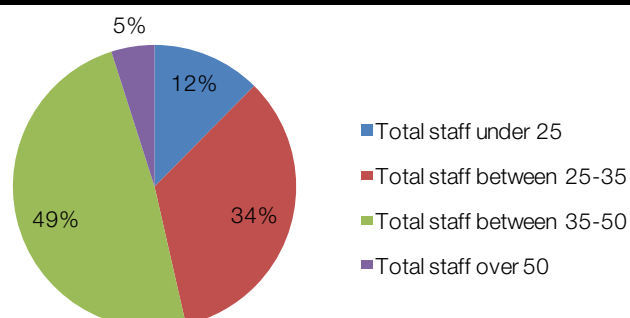
GENDER BREAKDOWN



MANAGER BY GENDER



AGE BREAKDOWN



COMMITMENTS

POLICY B1: SunArt Retail Group provides compensation and benefits to all full time employees in accordance with Chinese laws, regulations and requirements. The compensation and benefits policies shall refer to other provisions of local laws and regulations as applicable.

SunArt Retail Group's compensation and benefits mechanism focuses on establishing a high performance working environment, which takes into account life work balance, inspires colleagues to achieve our common goals, and to share in the company's success through profit sharing programs.

SunArt Retail Group accepts every individual's job application, regardless of whether the applicant has relatives in the company or not, on the conditions that the applicant has no direct superior-subordinate relations with his or her relatives, and the terms and conditions of employees will not be impacted by his or her relatives. Kinship employees cannot simultaneously work in a department that is related to the company's interest.

SunArt Retail Group employees have a rated working time of 40 hours a week and at least one day a week to rest. If a local labour department has special provisions for the rated working time, the company shall be in line with the government regulations. Working hours also include training and department meetings.

Employee overtime shall not be more than 3 hours a day, 36 hours a month.

PROGRESS UPDATE

Safe and Healthy Working Environment

According to the relevant welfare policies of the national laws and regulations, full time employees receive various insurances, meal allowances, vacation, employee discounts, profit sharing and other benefits.

We have **invested nearly RMB 2 Million in the improvement of our safety equipment**, including the adoption of automatic protection equipment.

We provide opportunities for our employees to participate in recreational activities such as yoga, jazz, basketball, and football. We have also established a staff restaurant, to which all employees receive a food allowance. In addition, employees receive discounts in our stores.



We carry out **annual engagement surveys** of our employees to better understand their views and requests in the development of employee benefits. These surveys are confidential, and resulted in the formation of 168 “round table employees”, whose purpose is to help implement the required changes.

SOCIAL OVERVIEW – TRAINING

COMMITMENTS

POLICY B1: The maximum working hours shall not be more than 11 hours a day, 50 hours a week.

Employees are required to have at least 11 hours of rest between two workdays. An employee who has to work overtime until the next morning shall be arranged to rest for the following day.

At SunArt Retail Group, we consider our employees to be our most precious resource; hence we attach great importance to our employees' welfare. According to the relevant welfare policies of the national laws and regulations, full time employees receive various insurances, meal allowances, vacation, employee discounts, profit sharing and other benefits. SunArt Retail Group has always placed the individual at the heart of its concerns and it is in this light that we renew our commitment to respect all individuals.

SunArt Retail Group's goal is for employees to be "responsible, enthusiastic and highly regarded". To achieve this goal, its businesses are committed to promoting diversity, encouraging personal development, employing participative management methods, ensuring good quality working conditions and sharing the fruits of our success.

Finally, SunArt Retail Group is committed to treating everyone with consideration and fairness within the company. In particular, we promote the integration of people with disabilities and promote gender diversity at all levels the company.

POLICY B2: SunArt Retail Group is aware that the improvement of working conditions in our businesses is a pursuit that requires daily action. We are committed to ensuring that all employees work in a healthy, safe and risk-free environment, and comply with all relevant government laws and regulations.

To help achieve this goal, each entity has a risk prevention process in place with the aim of reducing workplace accidents and ensuring that employees are prepared to handle emergencies in the workplace.

POLICY B3: SunArt Retail Group places the individual at the heart of our priorities. We act for the fulfilment of our employees, via the development of professional skills and improvement of employability, with a focus on training and internal promotion.

POLICY B4, B5: SunArt Retail Group is attentive to social conditions when creating purchasing policy by requesting all suppliers to sign and commit to the company's Code of Business Ethics, which is derived from China National Labour Regulations. In this way we share our commitments on social responsibility and respect for the environment.

Before introducing new suppliers, we audit the firms' qualifications and licenses, conduct site visits to assess the firm's quality and safety compliance. For perennial partners, sampling checks are held regularly or irregularly.

AIM

Provide 6 days of training per employee per year

UPDATE

Our objective and belief is that every employee can become an expert in his or her field after going through our training. We ensure that all supervisors have one rotation in the head office each year, and employees receive a minimum of four hours of training each month, according to their job description. **In 2016, we exceeded our goal of training amount, reaching an average of 9.8 days of training per employee per year**



In the head office, our supervisors receive training to open new stores, learn specific skills, how to promote employees, re-orientation for when they move from one store to another, as well as a potential director training track.

All employees receive annual environmental protection training, with the goal of integrating this into their daily work and lives.

Two examples of outside training include our relationships with the Lianyungang Technical College, who provides training for professional bakers and delicatessen workers, and the Wuhan Institute for clothing who trains experts in clothing design.

We have systems in place to ensure safety training is carried out on a regular basis as well. We carry out practical exercises with our staff, follow up to ensure understanding, and have implemented a proactive initiative to ensure a safe working environment.

ENGAGING SUPPLIERS

COMMITMENTS

POLICY B6: Food quality, service quality and the safety of our consumers are long-term priorities for the SunArt Retail Group, and an indispensable component of our policies. The company and employees shall strictly comply with all relevant laws and regulations concerned with quality and safety, as well as the company's quality management policies and operational specifications.

SunArt Retail Group is committed to ensure the highest possible level of traceability throughout our supply chain.

SunArt Retail Group works hard to deliver fair information and to be sincere about the offer and characteristics of the products and services we deliver, in order to enable customers to choose knowingly and in a reasoned way the products and services they need. If a customer is unsatisfied with their purchase, they have the option to return it for a refund or exchange within a specified period of time.

SunArt Retail Group is committed to respect the privacy of our consumers, and as such, complies with all laws regarding the protection of computer files and any kind of personal data.

POLICY B7: SunArt Retail Group prohibits any fraudulent practice or act of corruption in any form whatsoever, including extortion and bribery.

Employees are prohibited to offer, promise, give, solicit or secure, directly or indirectly, a bribe or other improper advantage. (cont. next page)

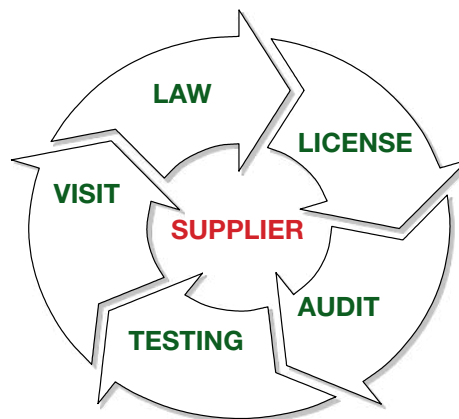
AIM

Support and develop local products and ensure quality to create a true difference for SunArt which builds confidence and continuously guarantees consumer satisfaction.

PROGRESS UPDATE

Working with SMEs

We recognize the importance of helping to support small and medium size enterprises (SMEs) in our local communities, and as such have programs and procedures in place to help in their development. We offer **sales guidance** for innovative SMEs who possess intellectual property rights and independent production capacity but who lack sales channels. For example, we hold quarterly business reviews during which we go over performance, profits, promotion resources, logistics and other operational matters so that we can provide guidance in any of these areas that are lacking.



We also help SMEs to **reduce transportation costs** and accelerate their sales by providing them access to our Distribution Centres (DC). In the case where their sales volume is not high enough yet, we adjust our logistical support according to the capacity of delivery and management ability of suppliers, gradually expanding the scope of cooperation by region.

Lastly, we provide help to SMEs in their **development of new products**, supporting them in procurement cost savings, and seeking out win-win opportunities in their operations. We help **strengthen their food safety awareness** by communicating the latest national laws and regulations, and help to simplify procedures to accelerate the introduction of new products of manufacturers whose brand has been assessed as a “number one local brand”.

Every year, we hold a SunArt supplier convention. An average of 300 suppliers attend, and topics such as ethics, license audit quality processes, and SunArt DCs are communicated and discussed.

COMMITMENTS

The acceptance or offering of gifts and other benefits by employees personally, whether direct or indirect, is, in principle, prohibited.

POLICY B8: SunArt Retail Group is committed to act as a positive contributor to local communities around our stores, to be an actor of integration, relaying national campaigns and responding to emergency situations.

As a responsible corporate citizen, SunArt Retail Group aims to be close to its customers and integrated into the social and economic fabric of local communities where our stores operate.

We ask all employees to deal honestly and fairly towards all customers and business partners. Similarly, SunArt Retail Group encourages each employee to exercise mutual respect and trust towards any person with whom he or she comes into a professional relationship with.

AIM

Sell 1500 Healthy SKUs, 5% of market share

PROGRESS UPDATE

We are continuously developing and proposing new ranges of products that are either organic, fortified, have no sugar, no salt, or no fat. Today, we have **a total of 868 SKUs** that fall into these categories, with a market share of 0.95%.

We have also set up an “organic vegetables” area in the FP division. As a result, customers are given more choices in choosing healthy food. At the same time, **we are committed to providing consumers with safe food** and set in place strict food safety regulations.

We maintain strict **accordance with all food safety laws and regulations set by the government**. We go to the source, our suppliers, and carry out audits and factory visits. In order to promote fairness and authority, our company has **joined together with the Chinese Chain Association** on the development of their “license platform”, reviewing licenses and product reports.

We have established a food product tracking system, set in place to cater to different national standards for different products. For example, batch inspection reports for infant formula are collected and stored at



the time of receiving. Fresh produce (nationwide), beef and lamb (Shanghai), vegetable (Shanghai), fresh water crustaceans (Shanghai) are aligned with the government traceability management platform's requirement for carrying out traceability. In the future, all goods can be traced using Chinese Chain Association's upcoming tracking platform, realizing industry wide tracking of goods, and sharing as well as using of big data.

**GMO qualified rate:
95%**

Furthermore, we have established a **“Food Safety Training” system**. Every year, each district's product quality control personnel, company employees (both at head office and stores), and suppliers are asked to participate in a training of laws and regulations, case precedents, and other related food safety knowledge training.

AWARDS & FUTURE COMMITMENTS

AWARDS

LEED Projects

Auchan's Wuxi Changjiangbei store was the first building of its kind in China to achieve LEED EB (Existing Building) certification in late 2012. In early 2013 the second Auchan store, Wuxi Lihu, also achieved LEED EB certification.

In November of 2013, Auchan's Head Office building in the Yangpu District of Shanghai successfully achieved LEED EB Gold Level Certification. In doing so, Auchan became the first retail company in China to achieve LEED certification for its head office building.

Actions taken during the LEED certification process led to estimated **electricity savings of 330,000 kWh and water savings of 13 million m3 annually**. Improvements were also made to the building's ventilation system to enhance indoor air quality and comfort.



Shanghai Government Energy Efficiency Awards

Currently 65% stores' LFL energy consumption per unit area have reached "Excellent Grade"

ISO

Auchan Buying Office received ISO 90001 Certification



Social Responsibility Awards

- Two stores have received an award from the China Chain Store & Franchise Association as one of the model 100 low carbon emission stores.
- CGCC "2010 Top Ten Award for Environmental and Climate Innovation in Industry"
- MOC Special Project Award for Retail Energy Efficiency & Environmental Protection
- CCFA Retail Innovation Award
- Nanjing: Advanced unit for the employment of the disabled
- Changshu: A Grade Integrity Unit - Labour



FUTURE COMMITMENTS

ENVIRONMENTAL IMPACT	<ul style="list-style-type: none"> > Achieve 20% reduction in energy intensity by 2020 > 85% stores achieving "excellent" rating according to Shanghai Gov't Standard by 2020 > Integrate 100 sustainable development measures into our stores by 2020.
COMMUNICATION AND SOLIDARITY	<ul style="list-style-type: none"> > Work with our staff, customers and suppliers to promote environmentally and socially responsible campaigns
WASTE MANAGEMENT	<ul style="list-style-type: none"> > Reach 85% recycling rate by 2020
WORKPLACE QUALITY	<ul style="list-style-type: none"> > Ensure all employees to be "responsible, enthusiastic, and highly regarded"
TRAINING	<ul style="list-style-type: none"> > Provide 6 days of training per employee per year
ENGAGING SUPPLIERS	<ul style="list-style-type: none"> > Support and develop local products and ensure quality to create a true difference for SunArt which builds confidence and continuously guarantees consumer satisfaction.
HEALTHY LIFE HEALTHY FOOD	<ul style="list-style-type: none"> > Sell 1,500 Healthy SKUs, 5% of market share

SUSTAINABLE DEVELOPMENT MEASURES

2007 – 2014

Energy Management	1	Remote monitoring of electricity usage (smart-meters on mains)	Lighting	30	Sales area light level reduction/redesign
	2	Electricity sub-metering (Hypermarket, mall and tenanted shops)		31	Maximum use of natural light
	3	PEMS Control Centre (CC) remote energy management		32	LED - ancillary areas
	4	PEMS Roaming engineers		33	LED - logo signs
	5	Energy strategy & policy development		34	LED - general sales area
Refrigeration	6	Refrigeration system design optimisation	Other areas	35	Waterless urinals
	7	Advanced refrigeration control strategies		36	Solar heating of hot water
	8	Night-mode control of food prep and meat showcases		37	High efficiency plumbing fixtures
	9	Maximum use of mechanical sub-cooling on compressor racks		38	Water usage management
	10	Case controllers and electronic EXV for all ref evaps		39	Steel Structure and Insulated Panels
	11	Refrigeration heat reclaim for hot water		40	Waste reduction program
	12	Refrigeration leak prevention measures (QC)		41	LEED Certification
	13	Glass door reach-in frozen food cases		42	Gold Standard VER Carbon Credit project
	14	LED glass door reach-in lighting		43	Supplier energy audits
	15	New prep room design		44	Anaerobic digestion energy production
	16	ECM fan motors for refrigeration		45	Product packaging reductions
	17	Anti-condensate heater control		46	Sustainability training for 100% of Auchan staff
	18	Refrigerant management program		47	Community engagement program
	19	VFDs for remote air-cooled refrigeration condensers		48	Direct local product sourcing
	20	Glass covers for open frozen food cases		49	Sustainable product development
HVAC	21	HVAC design optimisation		50	Minimisation of paper use in Auchan offices
	22	FMS AC control & advanced control strategies		51	Stone cashier bags
	23	Variable Frequency Drive (VFD) Air Handling Units (AHU)	The measures above include a number of firsts in our industry: <ul style="list-style-type: none"> • First LEED EB certification for any commercial building in North Asia • First LEED certification for any hypermarket in China • First Gold Standard energy efficiency carbon credit project • First retailer in China to implement waterless urinals as standard 		
	24	VFD exhaust fans or On/Off Control			
	25	VFD chilled water pump			
	26	Demand ventilation control (DVC based using CO2 sensors)			
	27	Natural ventilation/100% fresh air system			
	28	FMS lighting control: time schedule-based for indoor lighting			
	29	FMS lighting control: light level-based for outdoor lighting			

2015 – 2016

Energy Management	52	Comprehensive submetering
	53	Turn off small equipment in sales area
	54	Turn off small equipment in the office
Refrigeration	55	Compressor step-less unloader
	56	Air-cooled condenser add Axi-top
	57	Compressor frequency inverter
	58	Air-cooled Condenser add Spray Stream
	59	FP area night mode optimization
	60	Refrigeration operation optimization
	61	Refrigeration system maintenance and repair
	62	Refrigeration system night mode optimization
	63	Refrigeration system retrofit
HVAC	64	AHU running schedule adjustment
	65	PEMS control to office air-con
	66	HVAC Tune-up
	67	AHU Energy-based maintenance and repair
	68	Chiller operation optimization
	69	CKVS operation optimization
	70	Cooling tower energy-based maintenance and repair
	71	Cooling water system optimization
Lighting	72	Lighting schedule optimization (controlled)
	73	Lighting schedule optimization (uncontrolled)
Other areas	74	Travelator operation optimization
	75	Travelator VFD

The image is the cover of the SunArt Retail Group Limited ESG Report for 2016. It features a central red vertical band with white text. The background is a collage of three photographs: a modern white building with red lanterns on the left, a building with a large red 'SunArt' sign and a yellow pixelated facade in the middle, and a building with a large red 'SunArt' sign and a yellow pixelated facade on the right. The text is as follows:

SunArt

Retail Group Limited

ESG REPORT

2016

ENVIRONMENTAL,
SOCIAL & GOVERNANCE

Retail Group Limited

ESG REPORT

2016

ENVIRONMENTAL,
SOCIAL & GOVERNANCE