



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

2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

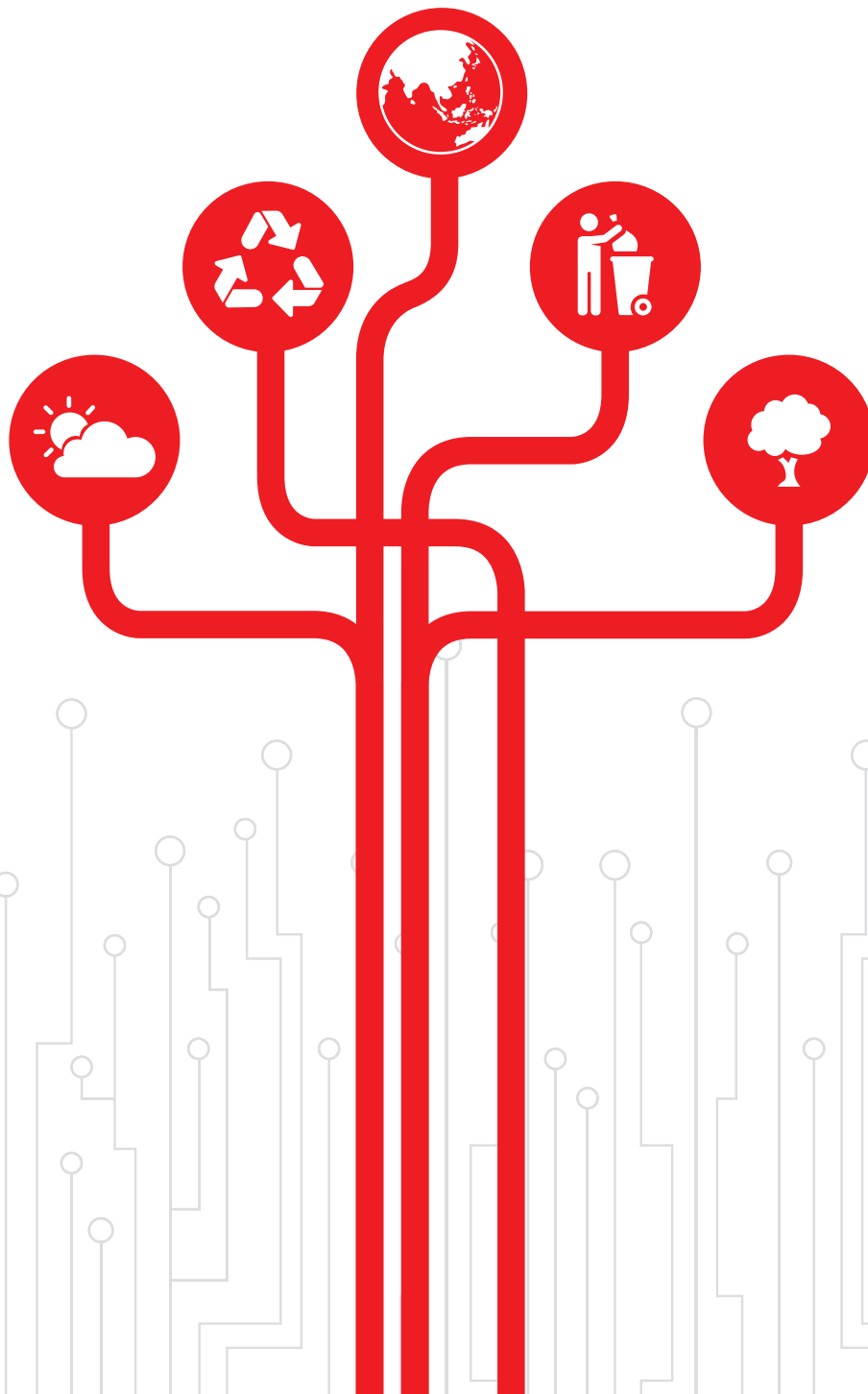


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C.P. LOTUS CORPORATION

ESG Report for the year ended 31 December 2017

1 About this report

This Environmental, Social and Governance Report (“ESG Report”) has been prepared in accordance with the Hong Kong Stock Exchange Environmental, Social and Governance Reporting Guide (“ESG Guide”) as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange” or “HKEX”). Hong Kong Stock Exchange first published the ESG Guide in 2012 as “recommended practice”. Hong Kong Stock Exchange upgraded the ESG Reporting requirements for general disclosures from voluntary to a “comply or explain” approach in 2015 which became effective for accounting periods starting on or after 1 January 2016. The former recommended disclosures of key performance indicators (“KPIs”) for environmental aspects become “comply or explain” for accounting period starting on or after 1 January 2017. The Group has enhanced disclosures on environmental aspects through the use of KPIs in this ESG Report.

The ESG Report covers our environmental, social and governance (“ESG”) performance for the year ended 31 December 2017. For information regarding our corporate governance, please refer to the Group’s annual report.

1.1 Core Business of the Group

The Group was principally engaged in the operation of large scale hypermarket stores located in the northern, southern and eastern parts of the People’s Republic of China (“PRC”). 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 and performance of our retail business, offices and warehouses in the PRC during the reporting period. During the year ended 31 December 2017, we are operating 69 stores and 2 shopping centres. 6 out of the 69 stores are new stores which did not operate for the entire year of the 2017, the ESG data in this report were collected from the 63 stores and 2 shopping centres.

2 Overall ESG Strategy

2.1 Sustainable Development

Vision

Become a strong community experiential retail platform with a close partnership to all households to grow together and achieve our “Three-Benefit Principle” : Benefits for the country, the people and the Group itself. To that end, we are committed to operating sustainably based on good governance and accountability, in accordance with the rules, regulations and standards of the country in which we operate.

Mission

Establish a responsible, unified and creative Lotus family, providing customers from our hearts the products and services with the greatest value, to ensure that Lotus becomes the most powerful retailer.

Maintaining highest ethical standards

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

Aim to minimise the impact of our activities on the environment.

Contribute to communities

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 Communication with Stakeholders

Stakeholders of the Group refer to groups and individuals who have a significant impact on the Group's business or would be affected by the Group's business. Stakeholders of the Group include **staff, management, directors, customers, suppliers, shareholders, investors, regulators/government authorities, banks and other various types of community groups.**

We carry out stakeholder engagement periodically through different communication channels. 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, Development & Training and Product Responsibility. 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.

People are always valuable assets to the Group. The Group endeavors to provide a fair, safe, healthy and happy working environment for our staff to support their personal needs and career advancement. The Group designed training and promotion mechanism, for example "Management Competition" so as to provide capable and potential employees with opportunities for advancement.

With our commitments to community care and participation, the Group had continuously engaged in a variety of educational, cultural and social welfare activities. During 2017, the Group had various charitable projects with donation and organised various education activities covering communication skills, social skills, manipulation skills, creativity and social practices.

During 2017, the Group organized Q&A session at the 2017 annual general meeting for shareholders to raise questions and regularly visited major suppliers to gather valuable opinions and suggestions for improvement. The Group also established multiple channels, including, internal memorandum, meetings and corporate events, for employees and management to express their concerns.

We also pay attention to environmental impact of our daily operations, such as the use of electricity in our stores, 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 Aspects	<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 management ■ Employment

ESG data was collected from the stores in PRC. The material aspects are similar to those of last year, but we enhanced disclosures on environmental aspects to meet the new relevant requirements of the Listing Rules which became effective during this reporting period.

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 in the organisation and implement SHE policy and procedures to create a sustainable future
- Improve the environmental quality 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

- Continuous training to 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
- Establish effective communication channel to convey the SHE policy to employees, customers, business partners and the public

During the year, the Company is not aware of any non-compliance with the relevant laws and regulations that might have a significant impact on the Company relating to air emission and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

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.

Energy

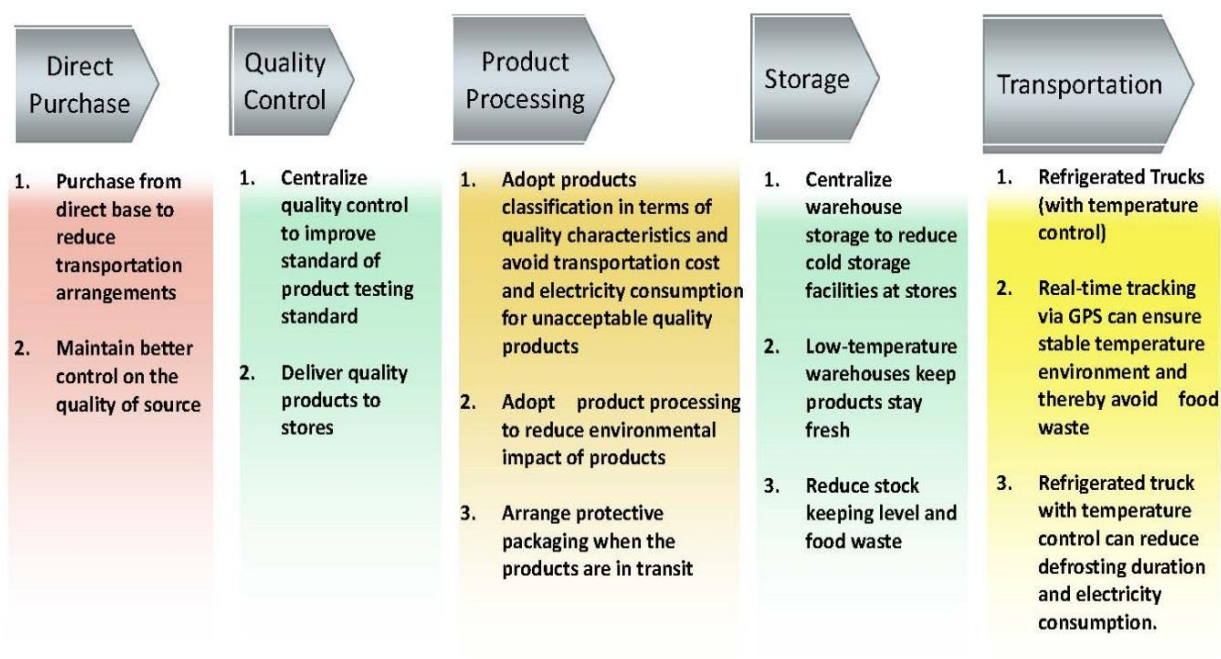
Energy efficiency is regarded as the fundamental measures to reduce emissions of greenhouse gas. A substantial amount of energy is used for air-conditioning and lighting as well as freezer and refrigeration cabinets in our daily operation. During the year under review, we have carried out a number of initiatives in promoting energy efficiency whilst keeping our business running smoothly. Energy-saving LED lights are used in the stores and staff is encouraged to turn off the lights and air-conditions at stores during non-peak hours and when they leave office. In addition, stores temperature is set to 26 degrees Celsius to limit greenhouse gas emissions.

The Group adopted a **Cold Chain Cooling System** to reduce the defrosting duration and its electricity consumption and food waste due to lacking of cold storage facilities.

Cold Chain Cooling System

- Cold Chain Cooling System can help the Group to reduce its transportation arrangements and thereby reduce energy consumption, reduce cold storage facilities and defrosting duration and electricity consumption.
- Reduce food waste caused by food spoilage due to unstable temperature during transportation and logistics.

Cold Chain Cooling System



Water

The Group does not have any wet process in its operation and thus has minimal impact on water resources. The Group withdraws water only from municipal tap water companies. The largest volume of water the Group withdraws is for domestic use. We continuously look for ways to improve efficient use of water. Air-conditioner condensation water is recycled for cleaning. During the year of 2017, the Group did not encounter any issues in sourcing water that was fit for purpose.

Packaging Material

Despite packaging can keep products from spoiling and staling, packaging wastes is one of the major contributor to the climate changes. Cardboard boxes were reused in the packaging for free delivery services for customers. Separation of packaging wastes were carried out throughout all Lotus stores. The recyclable wastes were delivered to recyclers whilst the non-recyclable wastes were delivered to the municipal sanitary unit for disposal. The most common packaging materials used in the Group are plastic and cardboard. Lotus stores provide plastic roll bags for customers and recycle the cardboard core, and will plan to use fully-biodegradable shopping bags in medium-sized supermarkets in future.

Paperless Office

We promote a paperless office and reduce the carbon emission by using electronic systems. Employees are also recommended to use double-side printing. All discarded papers are sent to waste paper recycling companies for recycling.

Air Emission

Due to the Group's business nature there is no significant air emissions from our operation, and hence there is no data available. We will continue to observe regulatory changes to update our disclosures in the future.

The Environment and Natural Resources

The Group recognizes the impacts brought by the human activities on the global environment and climate changes and strives to minimize its impacts on environment and natural resources while running businesses. We continuously identify and assess the material concerns on environment and natural resources from operation and develop plans to manage the emerging impact in the controllable manners.

For avoidance of food waste which is generated while fresh foods perish, they were collected, separated and stored in a specialized container with a label in each store and delivered to the municipal sanitary unit for disposal.

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. We continue to arrange relevant trainings 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 employees. 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 case reported in 2017.

The Company does not own its truck fleet. Logistic services for delivering products from distribution centers to Lotus stores are provided by certain subsidiaries of the Company, engaged in logistic business in China. Since there is relatively small number of their own vehicles, most of the logistic services of the subsidiaries are subcontracted to other companies. We will closely monitor safety performance of fleet of trucks and delivery tools and equipment.

Noise reduction facilities are installed outside the refrigeration equipment to reduce the noise pollution.

Indoor air quality has been improved during the year under review through optimizations on ventilation, air conditioning and exhaust systems. Air quality of existing stores is maintained with the air flow volume ranging from 15 to 30 M³/h.p and the air change rates in the exhaust system are 6 to 9 times per hour to maintain adequate ventilation. We clean air-conditioner return air filter once a month and air-conditioning cooling towers regularly with physical chemical cleaning method to reduce the generation of microorganisms and bacteria and to ensure the chilled water and cooling water meeting the requirements. In addition, water quality sampling inspection is also conducted on monthly basis.

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 2017, the Group had a total of approximately 11,870 employees, of which 1,185 were head office staff and approximately 10,685 were store employees. 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. We did not identify any material non-compliance regarding compensation, dismissal, working hours or rest periods.

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 2017, we did not identify any material non-compliance or breach of legislation related to equal opportunities, diversity, recruitment or promotion.

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 2017.

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 2017, the Group had organised various training seminars and management programs to employees, including the followings : -

- 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, there are 8 material misconduct cases were identified, in which, 3 cases are reported by whistle-blowing channel, 3 cases are discovered through internal audit procedure and 2 cases are discovered during physical inventory checking process . 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.

At present, the upstream suppliers are evaluated for private label products (including food/non-food/fresh) in terms of factory environment, human health / cleaning, production process control, quality system, etc. to ensure maximum legal compliance of the goods and ensure food safety.

For our private label or self-branded agricultural products, the assessment of the breeding, breeding base environment, kind of fertilizer and quality system is conducted to ensure the safety of fresh agricultural products.

For other products, our Commodity Regulation Self Inspection Team will review the legality of products. Procurement team will periodically request a product inspection report to ensure the goods safety. For poultry products, CP Lotus will formulate sampling plan to ensure that the goods delivered by suppliers meet food safety requirements. In the future, we will negotiate with procurement team to include high-risk fresh food suppliers in the scope of assessment. Their foods can only be introduced and sold at store if the food assessment is passed.

For high-risk seasonal foods, such as moon cakes, their production plants will be reviewed according to the above criteria to ensure food safety.

7. Product Responsibility

"Our promise" includes :-

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

Quality

We are committed to provide quality services to our customers.

- 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 regarding health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

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

ESG DATA FOR 2017

ASPECTS		PERFORMANCE DATA
A.	ENVIRONMENT	
A1	Emissions	
KPI A1.2	Greenhouse Gas Emissions	
	Scope 1 : Natural Gas Emission	2,791 tonnes CO ₂ equivalent
	Scope 1 : Refrigerants Use	
	R-22	24,174 tonnes CO ₂ equivalent
	R-123	23 tonnes CO ₂ equivalent
	R-134A	576 tonnes CO ₂ equivalent
	R-404A	17,177 tonnes CO ₂ equivalent
	Scope 2 : Energy Indirect Emission - Electricity	144,415 tonnes CO ₂ equivalent
KPI A1.2	Scope 1 Emissions	44,741 tonnes CO ₂ equivalent
	Scope 2 Emissions	144,415 tonnes CO ₂ equivalent
	Scope 1 and 2 Emissions in Total	189,156 tonnes CO ₂ equivalent
KPI A1.3	Hazardous Waste disposal	149 tonnes
KPI A1.4	Non-Hazardous Waste disposal	38,925 tonnes
	- General Commercial Waste	21,249 tonnes
	- Paper Waste	9,265 tonnes
	- Food Waste	8,411 tonnes
	Waste Cooking Oil for Disposal	51,265 litre
	Wastewater discharged	1,368,329 m ³
A2	Use of Resources	
KPI A2.1	Electricity Consumption in Stores	249,411,821 kwh
	Natural Gas Consumption in Stores	1,290,891 m ³
KPI A2.2	Water Consumption in Stores	1,952,134 m ³
KPI A.2.5	Packaging Materials Used	820.65 tonnes

Remark : The above data excluded data for 6 new stores which did not operate for the entire year of 2017.

HONG KONG STOCK EXCHANGE ESG DISCLOSURE TABLE

During the year ended 31 December 2017, the Group has complied with the “Comply or Explain” provisions as set out in Appendix 27 of the Listing Rules. Below is the table of reporting compliance :

HKEX ESG Reporting Guide		
Aspects	General Disclosure and KPI	Reference
A. ENVIRONMENT		
A1: Emissions	General Disclosure	Safety, Occupational Health and Environmental Policy
	KPI A1.1 The types of emissions and respective emissions data	Safety, Occupational Health and Environmental Policy
	KPI A1.2 Greenhouse gas emissions in total and, where appropriate, intensity	Safety, Occupational Health and Environmental Policy, ESG Data Table
	KPI A1.3 Total hazardous waste produced and, where appropriate, intensity	Safety, Occupational Health and Environmental Policy, ESG Data Table
	KPI A1.4 Total non-hazardous waste produced and, where appropriate, intensity	Safety, Occupational Health and Environmental Policy, ESG Data Table
	KPI A1.5 Description of measures to mitigate emissions and results achieved	Safety, Occupational Health and Environmental Policy
	KPI A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Safety, Occupational Health and Environmental Policy
A2: Use of Resources	General Disclosure	Safety, Occupational Health and Environmental Policy
	KPI A2.1 Direct and / or indirect energy consumption by type in total and intensity	ESG Data Table
	KPI A2.2 Water consumption in total and intensity	ESG Data Table

	KPI A2.3 Description of energy use efficiency initiatives and results achieved	Safety, Occupational Health and Environmental Policy , ESG Data Table
	KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Safety, Occupational Health and Environmental Policy , ESG Data Table
	KPI A2.5 Total packaging material used for finished products and, if applicable, with reference to per unit produced	ESG Data Table
A3 : The Environment and Natural Resources	General Disclosure	Safety, Occupational Health and Environmental Policy
	KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Safety, Occupational Health and Environmental Policy , ESG Data Table
B. SOCIAL		
B1: Employment	General Disclosure	Employment
B2: Health and Safety	General Disclosure	Employment
B3: Development and Training	General Disclosure	Employment
B4 : Labour Standards	General Disclosure	Employment
B5: Supply Chain Management	General Disclosure	Supply Chain Management
B6: Product Responsibility	General Disclosure	Product Responsibility
B7: Anti-corruption	General Disclosure	Employment
B8: Community Investment	General Disclosure	Community Investment



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