

C.BANNER

C. banner International Holdings Limited

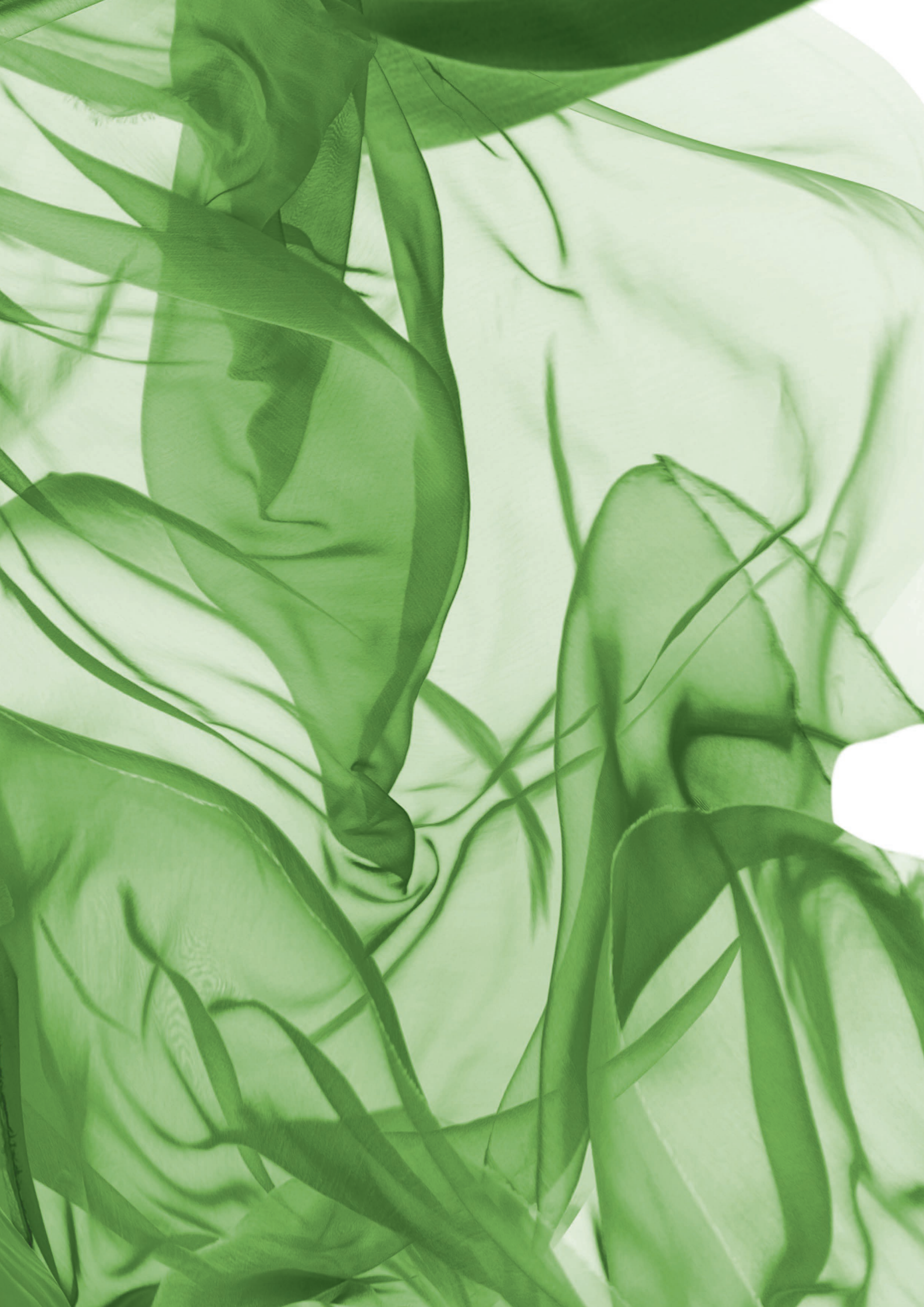
千百度國際控股有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

Stock Code 股份代號 : 1028

Environmental, Social and Governance Report 2018



An abstract graphic on the left side of the page, composed of various shades of green. It features flowing, leaf-like or fabric-like shapes that overlap and create a sense of movement. The colors range from light, almost white-green to deep forest green.

Environmental, Social and Governance Report (“ESG”) For C.banner International Holdings Limited

1. ABOUT THE REPORT

PRINCIPLES OF REPORTING

This report has been prepared with reference to the Environmental, Social and Governance Reporting Guidelines issued by The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) in December 2015.

REPORTING PERIOD

January 1-December 31, 2018.

REPORTING SCOPE

The report focuses on the activities carried out by C.banner International Holdings Limited and covers the relevant situations of its listed entities. For convenient reference and reading, C.banner International Holdings Limited is referred to as “C.banner Group”, “C.banner” or “the Group”.

DATA SOURCES

The report authentically reflects the ESG activities carried out by the Group. The report adopts the information and data from the internal documents and statistics reports of the Group, and the summaries and statistics of affiliated companies.

The report covers key revenue sources of the Group: within the scope of footwear business and toy business sectors from January 1 to December 31, 2018 (the “Reporting Period” or “FY18”) in relation to ESG. The data in this report is mainly collected from Mayflower Enterprise (Nanjing) Limited (“Nanjing Mayflower”), Dongguan Mayflower Footwear Corporation Limited (“Dongguan Mayflower”), Nanjing Soft Garment & Footwear Co., Ltd. (“Nanjing Soft”), Xuzhou C.banner Shoes Co., Ltd. (“Xuzhou C.banner”) and Hamleys of London Limited (“Hamleys”).

IDEAS OF THE REPORT

In 2018, the “Blue Book of Sustainable Development: Evaluation Report on the Sustainable Development of China 2018”, compiled by the China Center for International Economic Exchange, the Earth Institute of Columbia University, Ali Research Institute, and Social Sciences Academic Press, was released. The Blue Book constructed the evaluation index system of China’s sustainable development in five areas: economic development, social wellbeing, resource and the environment, consumption and emission, and environmental governance. C.banner Group believes that, enterprises should undertake corresponding social responsibilities to support sustainable development. The Group prepared this report along with the guidance of the evaluation index system in the Blue Book, and took concrete actions in response to the requirements on economic development, social wellbeing, resource and the environment, consumption and emission, and environmental governance. The report will use the above five aspects as themes to show our actions taken and responses made towards areas of environment, society and governance.

The Group believes that favorable environment, society and governance are essential to the Company’s businesses and the sustainable development of community. Key stakeholders including business units and the management participate in the materiality assessment and identification of significant ESG policies in relation to the Group which are included in this report, so as to ensure disclosures in the ESG report can both include the strategic priorities and reflect the concerns of key stakeholders.

REPORTING LANGUAGE

English

ACCESS TO THE REPORT

The report can be downloaded from the website of the Group.

2. ABOUT US

Company name: C.banner International Holdings Limited

Address: Unit 2904, 29th Floor, Far East Finance Center, 16 Harcourt Road, Hong Kong

COMPANY PROFILE

C.banner International Holdings Limited (referred to as “C.banner” or the “Company”, together with its subsidiaries, “C.banner Group” or the “Group”, stock code: 1028) launched the first self-developed brand ‘C.banner’ in the market in 1995 and is currently a leading international integrated retailer, also the leading retailer of high-end women’s business casual shoes in China. C.banner engages in the production and sales of high-end women’s shoes in China with a variety of designs. The Company was listed on the main board of the Hong Kong Stock Exchange on September 23, 2011.

The Group distributes self-developed brands and licensed brands products through department stores and independent retail stores in different cities, ranging from first-tier to third-tier cities in the PRC, and is also proactive in developing online business so as to further expand its customer base as well as sales and distribution network. In addition, the Group also acts as an OEM (Original Equipment Manufacturer) or ODM (Original Design Manufacturer) for international shoes companies dealing in export markets. Being the leading branded group of mid-to-premium ladies’ footwear in the PRC, the Group upholds a diversified brand strategy and product portfolio to diversify its footwear offerings and enter diversified market segments. The Group is popular for its brand values of elegance, charm and fashionable in the market, and operates self-developed brands, including C.banner, EBLAN, sundance, MIO, Badgley Mischka and natursun, and licensed brands, including United Nude and Steve Madden.

As an industry leader with multiple brands, the Group has a developed retail network and a wide business range. The Group operates three production facilities in Nanjing, Dongguan and Suining and one research and development (“R&D”) center in Foshan. The Group manages all major operating chains, including design and development, outsourcing, manufacturing, marketing, distribution and sales of products, through a vertically integrated business model to respond quickly to market demands.

In October 2015, the Group acquired Hamleys, a world-renowned toy retailer. Hamleys is one of the world's largest toy retailers with the world's highest-selling toy retail store and the more than 250-year-old Hamleys brand. Through the introduction of the Hamleys brand, the Group aims to expand its business and focus on retail locations such as department stores to achieve a global brand strategy. In October 2016, China's first Hamleys flagship store was grandly opened in Nanjing. In October 2017, China's second Hamleys was opened in Xuzhou. China's third Hamleys flagship store was opened at Wangfujing of Beijing in December 2017 which is the largest Hamleys store in the world. During 2018, the Group actively devoted in preparation work for the new Hamleys store in Hangzhou, and the store began pre-opening in December 2018.

Key controlled subsidiaries: Best Invent Holdings Limited, Best Value Profits Limited, Allied Great International Holdings Limited, China Ease Enterprise Limited, Hamleys Global Holdings Limited and Hamleys Holdings Limited

Stock exchange listing: Hong Kong Stock Exchange

Total staff in 2018: 9,268

Business revenue: 2,923,659 (RMB'000)

2018 AWARDS AND RECOGNITIONS

China Leather Association Footwear Professional Committee Vice President Unit



2018 Top Leather Footwear Brands in China



China Leather Industry Distinguished Unit



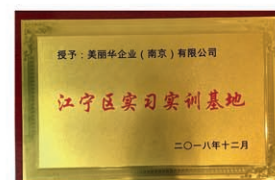
China Leather Association Eighth Council Vice Chairman Unit



2018 Jiangsu Light Industry Excellence Brand Enterprise



Jiangning District Internship and Training Base





3. MESSAGE FROM THE CHAIRMAN

2018 was a year of innovation for C.banner Group. Looking back at this year, the Group has gained stronger competitive power in the market through active promotion of our global branding strategy, and focused on improvement of product quality, perfection of service quality, and investment in design innovation. Meanwhile, we made further integration and upgrades on our footwear retail distribution network. We have strategically cooperated with retailers such as department stores, shopping malls, outlets, and actively promoted online sales in order to capture future opportunities and enhance brand awareness. In the toy retail sector, we have meticulously prepared for the opening of Hamleys new stores to accelerate our development in Greater China.

While responding to the challenges of changing market conditions, C.banner Group has always held the concept of sustainable development by creating values for all the stakeholders and undertaking responsibilities for society. We believe the mutual development of economy, society and eco-environment is closely related to the efforts devoted by every company, and therefore we maintain a positive attitude, adhere to strict standards, practice and realize our social and environmental responsibilities to make contribution on building a better society.

At a time when natural resources are increasingly precious, C.banner pays great attention on energy savings, and follows rigorous emission standard striving to decrease the negative influences brought by its production activities. We improve the efficiency of energy and materials usage and reduce the emission of wastes through a series of diversified environmental protection measures such as using environment-friendly raw materials, optimizing production procedures, improving manufacturing equipment. We also make contribution to support and participate in social environmental protection activities.

C.banner Group incorporates the “people-oriented” idea into our business management processes. We create healthy and safe working places to guarantee our employees’ rights and welfare; we encourage employees’ career development by various methods to build harmonious corporate culture; we provide high-quality products and services for consumers to enhance customer satisfaction; we strengthen the communication and feedbacks with suppliers to establish stable relationship and achieve mutual growth. At the same time, we endeavored to support public welfare and community service, undertake social responsibilities and share our development achievement with the society.

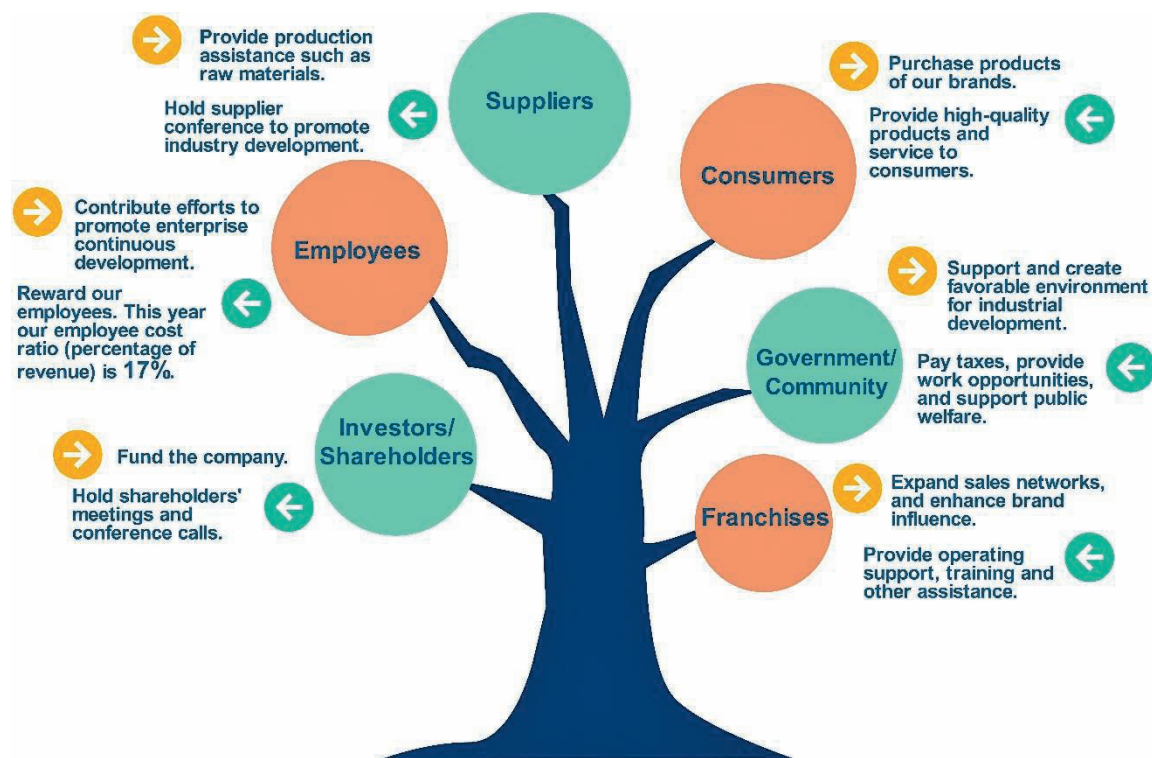
The achievement of C.banner Group in various areas has always been inseparable from everyone’s contribution and help, and we appreciate opinions and advice from our stakeholders. This year, we continued to enhance the importance assessment communication with stakeholders, expand the scope of communication, and invite external stakeholders to join the communication, in order to help us fully understand the subjects that stakeholders care about. It is very beneficial toward our improvement and development, and can support us to better contribute to the society in return.

In the coming year, C.banner will keep joining hands with elites from various fields, improve operation standard and governance ability to build a more sustainable and favorable development environment.

4. COMMUNICATIONS WITH STAKEHOLDERS AND IMPORTANCE ASSESSMENT

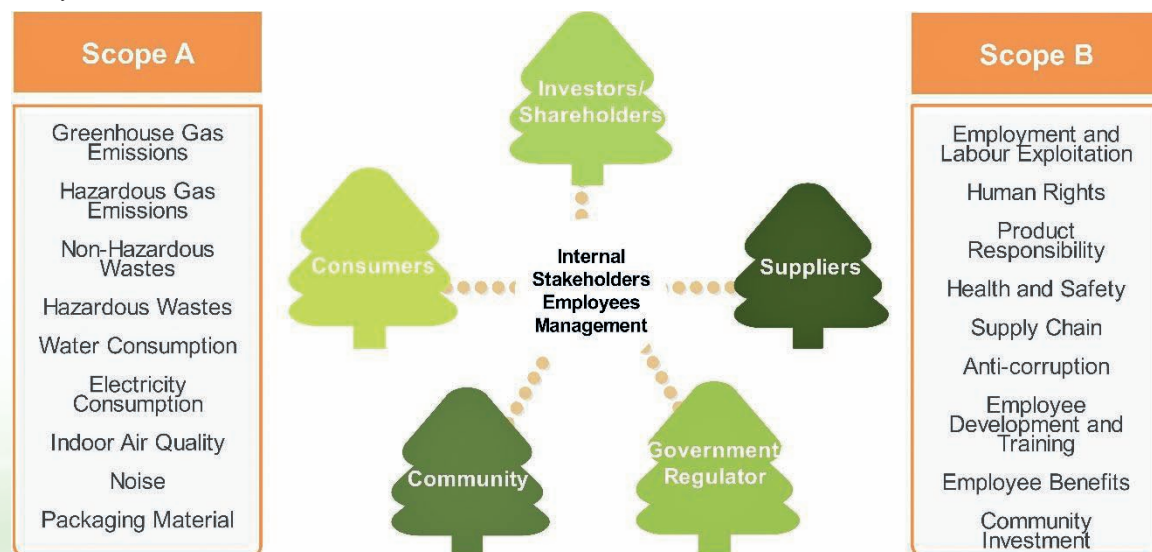
During the year, the Group communicated with stakeholders from all walks of life through staff meetings, supplier conferences, investor conferences and shareholder meetings. Through these events, we expected to understand the opinions of stakeholders from all parties and integrate the opinions into the Group’s operations, guiding the direction for the Group’s long-term development goals.

STAKEHOLDERS RELATED TO THE GROUP'S MAIN BUSINESS



IMPORTANCE ASSESSMENT

The Group carried out in-depth communications with stakeholders from all walks of life, and invited stakeholders to conduct the 'Environmental, Social and Governance Importance Assessment Questionnaire' to collect their opinions on the degree of impact of the following sustainable issues on the Company. The Group compiled the importance matrix based on the questionnaire survey results.



On the basis of the importance assessment and its conclusions, we determine the focus of this year's disclosure. Among them, we will focus on reporting areas that stakeholders consider to be "very important" and secondly on reporting "important" areas.

We understand that there are different opinions for each topic due to the different backgrounds and perspectives of each stakeholder. This year is the second time that C.banner Group conducted a stakeholder survey, and other than focus on communication with internal stakeholders, we expanded the scope and number of participating stakeholders by inviting some external stakeholders to be involved in the communication.

2018 Sustainability Issues Importance Matrix



5. ENVIRONMENT

Since the evolvement of environmental issues is becoming too severe to ignore, environmental protection has turned into a significant topic across the world and a protracted war that needs every single person's participation. In the process of production operation activities, we are committed to balancing among the usage of resources, protection of environment and the development of the Company to achieve the goal of energy conservation, emission reduction and sustainable development.

Resource & Environ- ment

ENVIRONMENTAL MANAGEMENT SYSTEM

C.banner Group is committed to fulfilling its environmental obligations by constructing the management system as a starting point. In the footwear business segment, as an environmental friendly light industrial manufacturing enterprise, we have strictly complied with the national environmental laws and regulations, paid close attention to new requirements regarding energy conservation and emission reduction, and cared about undertaking environmental protection responsibilities to promote energy conservation and emission reduction within the Company. We have established relevant systems and procedures to ensure legal compliance and standardization of all production activities of the Company.

The subsidiary factories of the Group have formed specialized environmental team which is responsible for ensuring the manufacturing units' strict compliance with environmental laws in daily operations. The team is also responsible for continuously perfecting the management system to promote effectiveness of environmental management.

In the toy business segment, we reinforce the environmental management towards all suppliers, and strictly require all suppliers' production processes conforming to applicable environmental laws and regulations.

Environmental assessment and report

In the footwear business segment, the Group commissioned professional organizations to conduct environmental testing on the production plants and issue report regarding waste water, gas emissions, and noise. All test results meet the recommended national standards.

In the toy business segment, Hamleys strictly follows the compliance requirements of the Energy Savings Opportunity Scheme ("ESOS"), employs professional third-party organizations to conduct energy consumption assessments, and issue the ESOS Summary Report, which meets the British government requirement.

COMPLIANCE AND APPEAL

In 2018, no environmental pollution accidents or illegal incidents occurred, and there were no confirmed violations or any complaints related to environmental protection and having significant impact on the Group.

Management organization structure

The Group and its subsidiaries have formed environmental teams, and they are mainly in charge of overall management of environmental protection and communications with external parties. Internally the environmental team is responsible for enhancing and perfecting management and controls on internal inspections and development of systems and procedures regarding environmental protection; externally the team is responsible for communications with stakeholders such as relevant environmental protection administrations, industrial organizations and institutes. In the meantime, all production related departments carry out production in strict accordance with laws and regulations in daily operations, ensuring that all production activities of the Company meet environmental protection requirements and are seeking sustainable development of both the environment and the Company.

Consumption & Emission

ENVIRONMENTAL INFORMATION

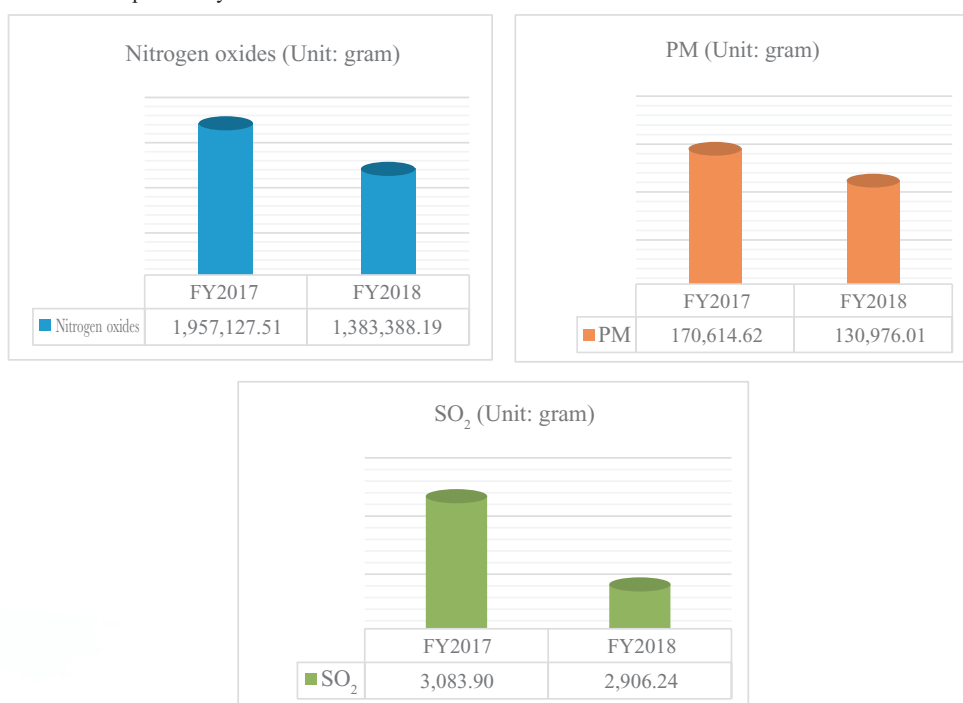
The environmental information mainly covers our footwear business segment and the toy business segment. The information is mainly estimated by internal staff, based on internal files and records.

Emissions

We actively respond to the call of green industrial development and are committed to taking actions to reduce exhaust gas and greenhouse gas emissions in multiple areas, minimizing the impact on the environment in production and operation processes.

Emission

Our main emissions are generated by vehicle usage, including nitrogen oxides, SO₂ and particulate matters (PM), all of which have declined from the previous year.



Greenhouse gas emission

Our greenhouse gas emission mainly consists of the waste gas from gas fuel, exhaust emission from automobile usage (Scope 1), indirect emission from purchased electricity and coal (Scope 2), and those from paper usage (Scope 3). In 2018, we discharged 10,479.07 tons of carbon dioxide equivalent in total, which is flat compared to the previous year with a slight increase.



Waste

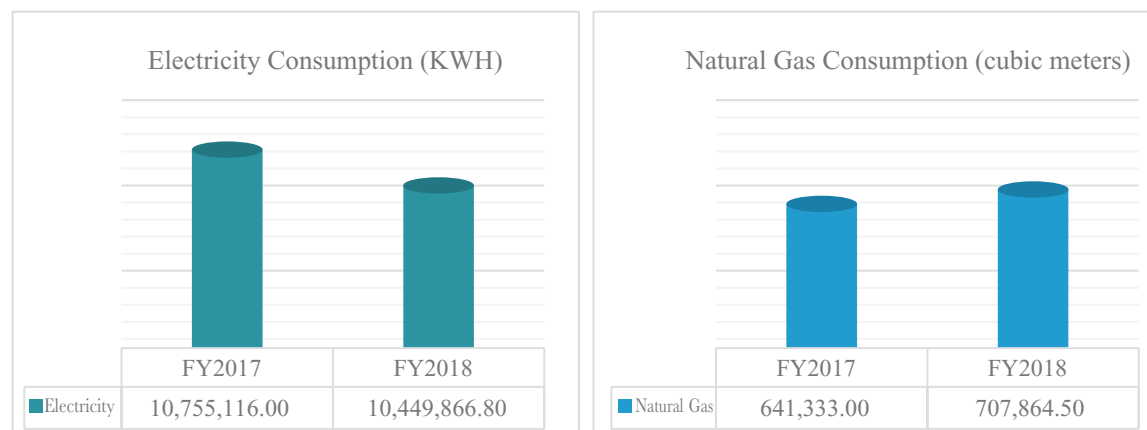
In the footwear business segment, purchasing raw materials for reprocessing is our primary production method, which would not discharge any harmful substance; we contact professional organizations to recycle other non-hazardous solid waste in time. As for the toy business segment, there is no industrial process, leading to zero discharge of production waste.

RESOURCE UTILIZATION

The main resources we use include electricity, natural gas and water. We always adhere to cultivate employees' awareness of energy conservation, establish the concept of treasuring resources to decrease resource costs and improve the utilization efficiency of energy, water resources and materials.

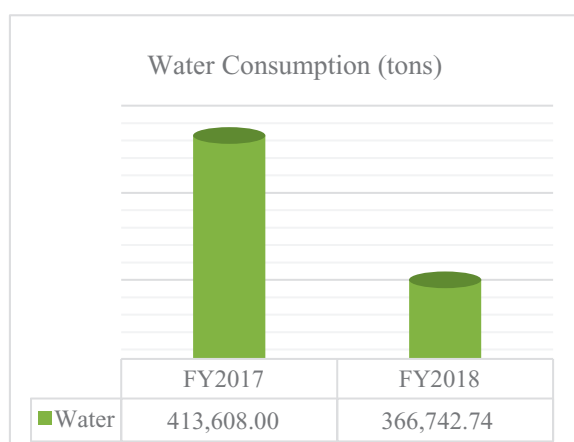
Energy (electricity, natural gas)

The energy we consume include electricity, natural gas, etc. By the end of 2018, we have consumed 10,449,866 kWh of electricity, a decrease of 3% from 2017 and a natural gas consumption of 707,864.50 cubic meters, a slight increase from 2017.



Water resources

The water we consumed are taken from urban water supply system, mainly used for business and living with little for production. Thus, we would only have slight impact on rivers, lakes, underground water and glacier. We consumed 366,742.74 tons of water totally in 2018, with a decrease of 11% compared to 2017 (excluding foreign business).



Packaging materials

We actively encourage the use of environmental friendly packaging materials through gradually increasing the use of renewable and recyclable packaging, such as utilizing more non-woven packaging bags instead of paper bags. The packing materials we use in the toy business segment include EPE (Expandable Polyethylene), inner box, wrapping paper, copy paper, outer box, plastic bag and non-woven fabric, all of which have passed the testing of professional testing organization and met the national or EU (European Union)'s standards. During this year, we used a total of approximately 1,578 tons¹ of packaging materials (excluding foreign business).

¹ Due to the scope of statistics was imperfect, the total packaging materials stated in our 2017 Environmental, Social and Governance Report should be 1,423 tons.

ENVIRONMENTAL PROTECTION MEASURES

Upstream environmental protection measures (Procurement and development)

The Group emphasizes on product innovation design and technology R&D. We believe technology enhancements not only improve production efficiency, ensure product quality, meet consumers' demand, but also reduce unnecessary waste of resources through simplified production processes or optimized procedures, therefore promoting the green development of business operations.

In 2018, our R&D Department has gradually advanced the service of ERP (Enterprise Resource Planning) system in subsidiary plants to help integrate utilization of resources. It can maintain the high quality of the products, and bring production diversification and flexibility as well. The system implementation is still in progress in batches, it will bring positive influences on the Company's production process and efficiency after the implementation of the whole domain.

We also consider energy conservation and emission reduction as one of the key factors in terms of procurement. Environmental-friendly raw materials and accessories are taken into consideration with priority to meet the clients' demand. Suppliers are required to provide Raw Material Incoming Inspection Report, and each year, the Group employs external professional testing organizations to conduct chemical testing of materials from all suppliers. The Quality Control Department conducts full or random inspections on raw materials according to incoming material inspection procedure and standard to ensure the safety and environmental-friendliness of raw materials. If they are found to be unqualified, we will return the order in full batch, and the supplier is required to implement improvement measures accordingly.

In addition, we continue the enhancements on supervision and support to suppliers in their environmental protection work. We arrange regular inspection on the supplier's factory to ensure that the supplier is equipped with effective controls to avoid impact on both the environment and the consumers. At the same time, we invite suppliers to our production plant to pay return visits to foster mutual communications about environmental protection measures. In the toy business segment, we also require all supplier factories to implement adequate controls to minimize the impact on the local environment.

Mid-stream environmental protection measures (Production and Operation)

Material use

In this year, we paid more attention and emphasis on the environmental friendliness of material usage. For example, as the most commonly used raw material in our manufacturing process, cowhide needs to be processed through a series of processing procedures by the leather supplier before it becomes the material for our footwear; among them, water-dyed cowhide only needs proper dyeing without additional coating process, which can not only reduce the processing procedures of material and the use of chemical coating, but also maintain the original texture of leather. Therefore, in order to reduce pollution to the environment and to ensure the safety and health of consumers and employees, we have increased the use of water-dyed cowhide in 2018. In addition, we further advocated the use of water-based PU glue to replace traditional oil-based PU glue, to further eliminate the influence of harmful gases on human bodies.

Production efficiency

This year, we have carried out a comprehensive upgrade of the production equipment. Compared to the original equipment, the precision of the imported advanced equipment newly put into use is greatly improved, which can increase the utilization rate of raw materials and reduce the waste of resources. In terms of operation, the original equipment relies more on manual operation, while the new equipment realizes the transformation from "manual operation" to "standardization" and "intelligence". The new equipment has memory functions in some processes, which can reduce repeated work and improve production efficiency. Meanwhile, we further promoted the assembly line transformation project to adapt to the rapid changes of footwear styles, transforming the original large line into circular assembly lines with fewer employees, and the efficiency of personnel is about 20% higher than before.



Resource use

At the production level, all machines and equipment in the factory must be turned off during rest time. After work, there are patrols to ensure that all power equipment is turned off, ensuring the safety of the equipment in the plant and avoiding the waste of energy consumed by the equipment. At the toy retail stores, we ensure that the elevator facilities are closed after all customers have left, and the elevators can be out of service for about 11 hours a day, avoiding unnecessary power consumption.

At the office operation level, we choose to use energy-saving office electrical equipment, including printers, copy machines, computers, and require employees to turn off the electrical appliances that are not used for a long time in a timely manner to reduce power consumption and cost. We advise our employees to reduce the use of disposable products and to use environmental-friendly products instead, such as reducing the use of disposable paper cups.

We advocate the habit of water saving. We try to purchase water saving products and equipment, and our cleaning staff and kitchen staff also recycle water during cleaning. At the same time, we promote awareness of water conservation by posting slogans and other publicity education posts in office area, plant and workshops.

Green operation

In 2018, we continued to implement the paperless office policy of the previous year. Our investment in various new office and operation information systems not only improves the efficiency of document circulation, but also greatly reduces the printing of paper documents, thus saving paper and protecting the environment. In 2018, the amount of paper we used was reduced by approximately 5.5% from the previous year (excluding foreign business), benefiting from the implementation of paperless office. We also communicate within the Group through video teleconferences and other online methods, to reduce the number of business trips and realize the concept of green office.

In terms of office operation, we planted trees outside the factory plant area, which can both absorb carbon emissions to mitigate the impact of greenhouse effect, and can reduce noise as well.

Waste water, waste, waste gas treatment

Our waste water is mainly from office toilets and kitchen drainage, without toxic, hazardous substances or special substances. We need to carry out pre-treatment such as filtration of waste water before discharging into urban sewage pipe network, to avoid blocking of sewage network caused by solid impurities. In 2018, we commissioned third-party professional testing institution to conduct tests on the waste water discharge of Nanjing Soft factory, and the test results showed that it met the national "Sewage Comprehensive Discharge Standard" (GB8978-1996).

Wastes generated in our production process such as used glue drums, discarded counters and offcuts are delivered to waste disposal sites in the plant area, where they will be recycled and disposed of by a qualified service supplier. For the food residue produced in kitchen, we have signed an agreement with a farm and the farm was responsible for recycling. During the year, the total amount of hazardous waste generated by us was approximately 15 tons, and the total amount for non-hazardous waste was approximately 410 tons ² (excluding foreign business).

In terms of waste gas treatment, in 2018, we invested and installed AOV (Automatic Opening Vent) exhaust gas collection equipment in our factories in batches. This equipment can collect chemical gases generated from production activities and conduct environmental protection treatment before discharge. This approach not only improves workers' working conditions, but also ensures minimal environmental impact. We have installed the exhaust gas collection system in our plants in Suining and Dongguan, and it is expected to complete coverage of all plants in the near future to further reduce waste gas emissions.

² Due to the scope of statistics was imperfect, the total hazardous waste and non-hazardous waste stated in our 2017 Environmental, Social and Governance Report should be 14 tons and 382 tons respectively.

In the toy business segment, Hamleys has taken due responsibility for the waste of toy resources, fully complying with the WEEE (Waste Electrical and Electronic Equipment) Regulations and the Waste Battery Disposal Regulations. We employ Ecoveritas to be responsible for the management of waste recycling, such as packaging materials, electrical waste, batteries, etc. Ecoveritas issues Annual Compliance Report to evaluate our compliance with the Producer Responsibility Obligation (Packaging Waste) Regulations 2007. Meanwhile, Hamleys obtained a license to use “The Green Dot”. Using packaging labelled Green Dot logo means we give financial fund to qualified packaging recycling organizations, in order to support environmental recycling work.

Noise processing

The noise sources in our factory mainly come from air conditioning units, air compressors, cutting equipment, heat treatment equipment, etc. Since our production lines mainly carry out machining activity, the noise is basically small; for some noisy posts, earplugs will be distributed to protect employees’ health and safety. In 2018, we commissioned professional testing institution to conduct tests on the noise regarding Nanjing Soft factory, and the test results met the class III national “Standard of Noise at Boundary of Industrial Enterprises” (GB12348-2008).

Downstream environmental protection measures (Logistics, Sales and Management System)

In order to improve the efficiency of logistics and reduce the carbon emissions of logistics, we are constantly improving the Company’s logistics and inventory management. Each warehouse of the subordinate branch has been gradually merged into regional central warehouses, from which the goods are delivered directly to the stores. This logistics arrangement is more conducive to making a comprehensive planning of the logistics routes and reducing the delivery distance. In the future, we plan to integrate current over 30 warehouses into about 10 warehouses. Meanwhile, we officially launched the WMS (Warehouse Management System) in 2018, which will greatly improve the efficiency of warehouse operations.

In the decoration of the store, we have established “Selection Standards for Display Companies and Implementation Standards for the Use of Materials”, which clearly stipulates the requirements regarding selection of decoration materials. We pay more attention to use relatively more environment-friendly construction material, for example, we do not use paint as far as possible and use fire prevention board instead to reduce pungent odor; if we have to use paint, we would choose to use water-based paint free of organic solvents and formaldehyde. After the decoration, both we and the department store will conduct environmental protection testing on the decoration to ensure that the environmental protection indicators are met before the opening of the store.

When it comes to the demolition of store decoration, we will deal with it case-by-case. If the dismantled materials cannot be recycled, we will transport them to the designated place for unified treatment by specialized agencies; if the materials can be reused, we will commission the outsourcing company to conduct protective demolition work to facilitate the recycling and reuse of materials, so as to achieve the goal of energy conservation and environmental protection.

In terms of management system, we are constantly concerned about the addition and revision of relevant national laws and regulations, including the Environmental Protection Law of the People’s Republic of China, the Energy Conservation Law of the People’s Republic of China, and the Promotion of Clean Production of the People’s Republic of China, to update our management system in a timely manner.

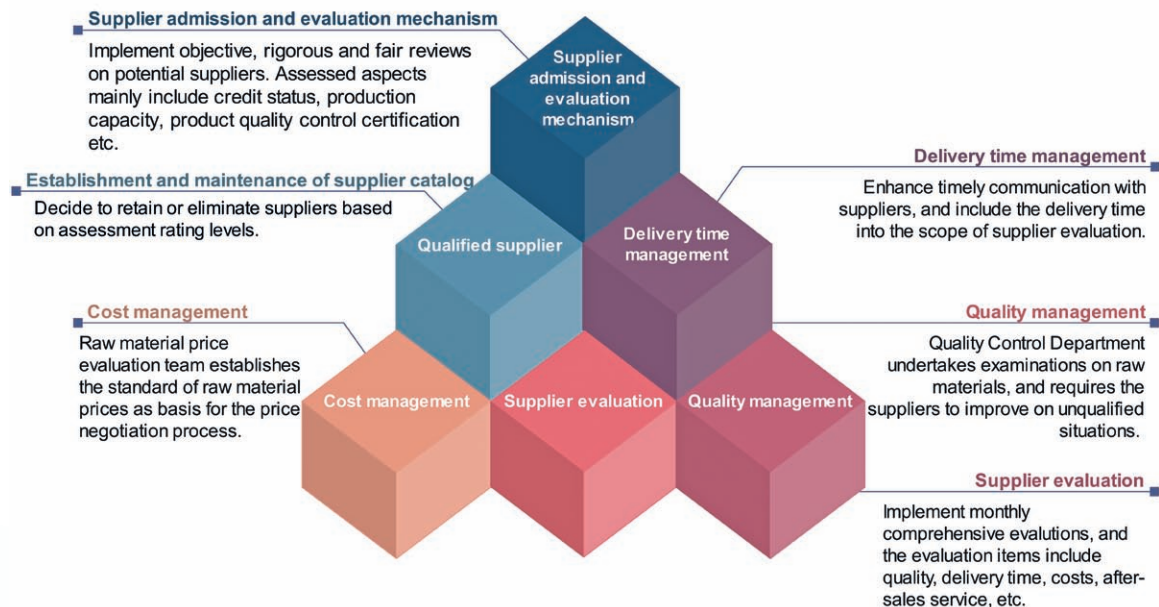
6. SOCIETY

OUR SUPPLIERS



Management policy

Good supply chain management enables us to establish a win-win relationship with suppliers. It also ensures that the procurement of products meets quality standards, and the procurement process is in accordance with relevant provisions to help us meet the requirements of product quality and safety. We develop the Purchasing Center Working Manual and the Supplier Management System for the footwear business segment, and the Quality and Supplier Operations Manual for the toy business segment, to use standardized systems for supplier management. C.banner Group's supply chain management mainly include supplier admission and evaluation mechanism, establishment and maintenance of supplier catalogue, cost management, delivery time management, quality management, and supplier evaluation.



SUPPLIER SELECTION AND EVALUATION PROCESS

Supplier Admission and evaluation mechanism

Before establishing long-term cooperative relations with suppliers, the Group conducts objective, rigorous and fair internal investigation on potential suppliers, with the purpose of understanding their management capabilities and establishing high-quality, long-term partnership with suppliers. The Finance Department, Merchandise Department, R&D Department, Cost Control Department, and Purchasing Department form an evaluation team to participate in the supplier access evaluation process. We mainly review the following aspects that may affect the supply chain partnership:

- 1) Performance in terms of credit status, creditworthiness and delivery;
- 2) Performance in product development capability, production capacity, equipment management capabilities, and human resource development capacity conforms to industry standards; and
- 3) Performance in product quality control is certified by relevant quality organizations.

Approved suppliers may enter our qualified supplier catalogue. Meanwhile, we carry out monthly comprehensive assessment of the suppliers in the qualified catalogue. Our assessment items include quality, delivery time, cost and after-sales service. We also set different percentage weights to the items and rate the suppliers into A, B, C and D, deciding the retainability or elimination of suppliers.

In the production process, our Quality Control Department is responsible for the dynamic supervision and inspection, and the inspection of raw materials is in strict accordance with the prescribed procedures and standards, to ensure the safety and environmental protection of raw materials. If the inspection result is found to be unqualified, the supplier is required to implement improvement measures.

In terms of the toy business segment, Hamleys establishes its own set of supplier standards. To ensure the safety and reliability of products, Hamleys requires suppliers to obtain quality management system certification, such as ISO9001 or other international certificates with the same status. As for the wooden toys purchased by Hamleys, we proposed that the supplier should purchase timber approved by the Forest Stewardship Council to make the production process more environmental friendly.

Raw material price database

We have formed a team for raw material price evaluation, which consists of persons in charge of the purchasing centre, finance centre, R&D centre, and merchandise centre. Based on the market conditions of raw materials, the raw material price evaluation team establishes the benchmark for prices of various raw materials, which can serve as the basis for the price negotiation of procurement, and help us effectively control the production cost.

Sunshine agreement

C.banner Group expects to establish stable, healthy and sustainable business partnership with suppliers, and adheres to the principle of integrity, trustworthiness, transparency and “sunshine”. In 2018, we signed the new version of Sunshine Agreement with all suppliers to further strengthen the transparency and openness of procurement activities and maintain the healthy development of the supply chain system.

Purchasing accountability system

In 2018, we continue the implementation of the purchasing accountability system to separate the functions of execution, decision-making and management. We also reinforce the establishment and refinement of the approval and authorization system to ensure the effective operation of the accountability system.

SUPPLIER DIVERSITY

We actively develop good strategic partnership with quality and representative suppliers, and encourage suppliers from different regions to join our purchasing system. We also develop local suppliers actively to promote local economic development, and at the same time, we can reduce purchasing costs and improve logistics efficiency.

In 2018, there are over 200 suppliers in our current qualified supplier catalogue in the footwear business segment, which includes raw materials, accessories, packaging materials, machine parts, processing, freight and other categories.

PROMOTION OF SUPPLIERS' DEVELOPMENT

C.banner Group actively maintains the relationship with suppliers and strengthens the communication with suppliers. In 2018, we held supplier conference in Foshan, Guangdong, inviting suppliers from various sectors to attend. While listening to suppliers' demands, we also evaluate suppliers' degree of cooperation. Suppliers with high ratings will receive additional resources and assistance, recognizing their good performance. Our management often conducts field visits to suppliers to obtain more first-hand information and timely respond from suppliers so as to constantly consolidate the partnership.

OUR EMPLOYEES

As a manufacturing and sales enterprise which is mainly labour-intensive, we always adhere to the “people-oriented” enterprise development concept, and think from employees’ perspective in the operation and management process. We believe that employees are the most important assets of the Group. We value every employee’s contribution to the Company, and are committed to the mutual development of employees and enterprise.

Employees are the driving force to promote the development of the Group, so we attach great attention to the occupational safety and health of employees, and strive to provide a safe and healthy working environment for them. We maintain and protect the rights of employees, provide equal employment opportunities for employees from different backgrounds, and create a diversified and harmonious working environment. At the same time, we further improved the staff promotion mechanism this year and provided more ability-enhancement opportunities, which will contribute to their personal career and comprehensive development.

EMPLOYMENT INFORMATION

C.banner Group has established a sound labour system and strictly adheres to various laws and international conventions related to human rights. We have compiled the “C.banner International and Mayflower Enterprise Employee Handbook”, which sets clear rules about equal employment, prohibition of child labour and forced labour, and various salary and benefit packages, etc.



Non-discrimination

We are committed to providing employees with an open and equal development platform. We strictly follow the laws and regulations, and oppose any employment discrimination based on gender, age, race, nationality, colour, religious belief, physical disability, sexual orientation, social group or marital status, and treat employees from different backgrounds as equals. Under the principle of non-involvement of relatives, we ensure equal competition and avoid impact of kinship on management impartiality. We also respect the right of all employees to join trade associations and labour unions freely.

In terms of management rules, we have developed the “Management Procedures of Prohibition against Discrimination” which forbids any forcing, threatening, insulting or exploitative acts, including gestures, languages and actual contact.

Prohibition of child labour

We strictly prohibit and prevent the use of child labour. We have established the “Management Procedures of Prohibition of Employment of Child Labour”, which requires the HR Department to sign the “Confirmation Letter of Employment Conditions” with employees when recruiting, and strictly check their ID cards and other documents to confirm the authenticity of age and other information before hiring.

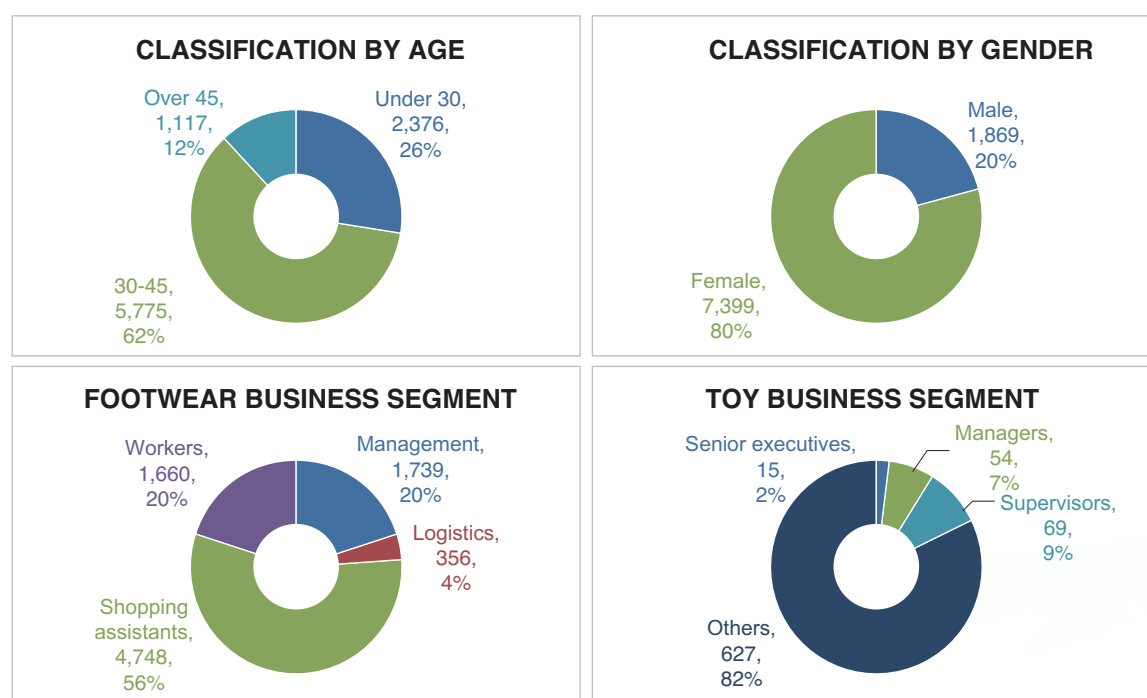
Prohibition of forced labour

We respect employees' right to freedom of choice and work. We have established the "Management Procedures against Forced Labour" and the "Management Procedures against Harassment and Abuse of Labour" to prohibit any forced labour and ensure that employees work on their own free will. In addition, we encourage employees to exercise their right of freedom of expression. Employees can report relevant problems to HR Department, line manager, or general manager through oral or written form, in real-name or anonymously, and the Company will conduct investigation and give feedback in a timely manner.

In our toy business segment, Hamleys established the "Equal Opportunities Statement", "Harassment Policy", "Modern Slavery and Human Trafficking Policy" and other provisions to protect employees' rights and interests. We conduct regular training for employees to raise their awareness, monitor and prevent such situations.

We did not identify any discrimination, child labour or forced labour issues in the Company in 2018.

In 2018, we have 9,268 employees in total, and our employment information is set forth below:



COMPENSATION AND BENEFIT

We believe that a fair, scientific and reasonable compensation and welfare system can encourage employees to give full play to their abilities and enthusiasm for the development of the Company. Therefore, the Group adjusted the compensation system in 2018, and generally increased the fixed salary of the headquarters staff and sales staff, and when the business performance reaches the corresponding target, the staff would receive performance bonus as well.

While constantly improving the compensation system, we have also established a vacation and social insurance system. The Employee Handbook stipulates the vacation system and relevant social insurance measures for employees. Employees enjoy all statutory holidays stipulated by the state, including annual leave, maternity leave, etc. Meanwhile, strictly following the national social security policies, we pay various social insurances including pension scheme, medical insurance, work-related injury insurance, maternity insurance, and unemployment insurance as well as housing funds in a timely manner.

Our employees also enjoy various welfare benefits, including health examination, free meals and accommodation, high temperature allowance, holiday benefits, etc., and commercial insurance benefits for staff and management in special positions.



SAFE AND HEALTHY WORKING ENVIRONMENT

In terms of production management, C.banner has always put the occupational health and safety of employees in the first place. We strengthen the implementation of the safety management policies and procedures, conduct regular inspections, and arrange training to improve the safety and health awareness of employees, to ensure that employees can enjoy a safe, comfortable, healthy working environment, which enables us to prevent dangerous incidents.

Safety Principle

Safety production responsibility system is the core of safe production management in the Group. We clarify the safety responsibility of employees at each level through post responsibility and provisions. All production, technology, design, purchasing, sales, transportation and other relevant functional departments and employees in their respective business scope are responsible for the implementation of safe production.

We have established the “Work Safety Management System” and relevant operating procedures, including “Hidden Danger Prevention Measures”, “Workshop Management Regulations”, “Fire Protection Management System”, etc., which provide safety instructions for management and staff. In order to respond and deal with emergencies in a timely manner, we have also compiled the “Emergency Preparedness and Response Management Procedures” to clarify the possible response measures and procedures of accidents or emergencies, which can also improve employees’ awareness of risk prevention. We also conduct safety check and inspections on a regular basis to ensure timely and accurate implementation of relevant systems. Our fire safety committee carries out regular fire prevention inspections and organizes annual fire drills.

Our production plants are certified as enterprises with the 3rd-tier standardization of work safety (light industry) by the local administrations of work safety, with the credential of Occupational Health Service Organization (Level B) issued by the administrations.

Safety measures

We provide factory front-line staff with protection equipment including PVC gloves, respirators, dust masks and earplugs, and give special protection to employees in special positions who may be exposed to toxic and harmful substances. In order to reduce the injury to employees caused by industrial accidents, every production plant is equipped with emergency medical supplies and first-aid kits to ensure that injured employees can get help as soon as possible. For industrial accidents, we have set up standard procedures in the “Emergency Rescue Plan for Accidents”, and safety management personnel will conduct accident investigation, and at the same time, psychological counselling will be arranged for the employee.

We have also increased the input of equipment in production plants to ensure the health and safety of employees and minimize the occupational health risks at workplace. The weather in summer is very hot, however, the production plant cannot be sealed, which will affect the cooling effect of the air conditioner. Therefore, we began to modify and install water-cooled air conditioner this year. Comparing to ordinary compressor-type air conditioner, water-cooled air conditioner can not only ensure better cooling effect, but also maintain air circulation, which is able to reduce the risk of heat stroke in high temperature, and bring a more comfortable working environment to employees.



According to the requirements of the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, our footwear business segment arranges annual health check for factory employees, and organizes professional occupational health examination for employees who might be exposed to occupational hazards.

Safety training

To enhance employees' awareness of safety and health, we organize various categories of safety education and training activities. New employees are required to receive pre-job safety education and training. Every year, the production plant organizes all employees to participate in the internal training of health and safety protection, so as to improve employees' awareness of self-protection.

Safety incident data disclosure

The Company had no liability for any major safety incident nor fatal injury in 2018.

DEVELOPMENT OF HARMONIOUS WORKING ENVIRONMENT

While we support employees to complete their work, we also carry out various activities to provide employees with a "work-and-rest" environment. For example, we organize mountaineering, outdoor development training, sports events and other activities every year to enrich employees' spare time, and we invite professional coaches to give advice on employees' exercises. In the factory, we also hold summer camps for the children of our employees to experience the working environment of their parents, which will enhance our employees' sense of belonging and improve their working enthusiasm.

Our C.banner International Love Fund also plays a significant role in employees' life. In 2018, the fund provided assistance to 81 employees, among whom 43% were employees with serious illness, 47% were family members of employees with serious illness, 6% were employees experiencing accidents, and 4% were family members of employees experiencing accidents. Meanwhile, the standard of donation for sick children of employees is the same as that of employees themselves. We will carry on this form of caring and supporting in the future.

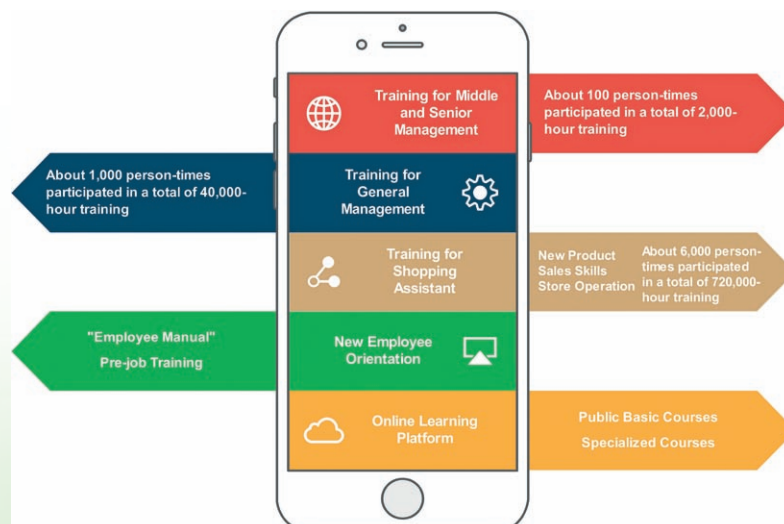
EMPLOYEE DEVELOPMENT

In order to improve the comprehensive quality of employees and develop the core competitiveness of the enterprise, the Group has created a diversified training system for employees to meet their development needs. In addition, we provide a variety of development opportunities, including job rotation in different functions, to help employees with their career development plans.

In 2018, we improved the training system with the goal of promoting employees' management ability and vocational skills. In addition to regular training, we also promote the use of online "love learning" platform, where employees can log in with their mobile phones and study based on their own schedule. "Love learning" platform has different modules for management and shopping assistant, and adopts the form of combining public courses and professional courses.

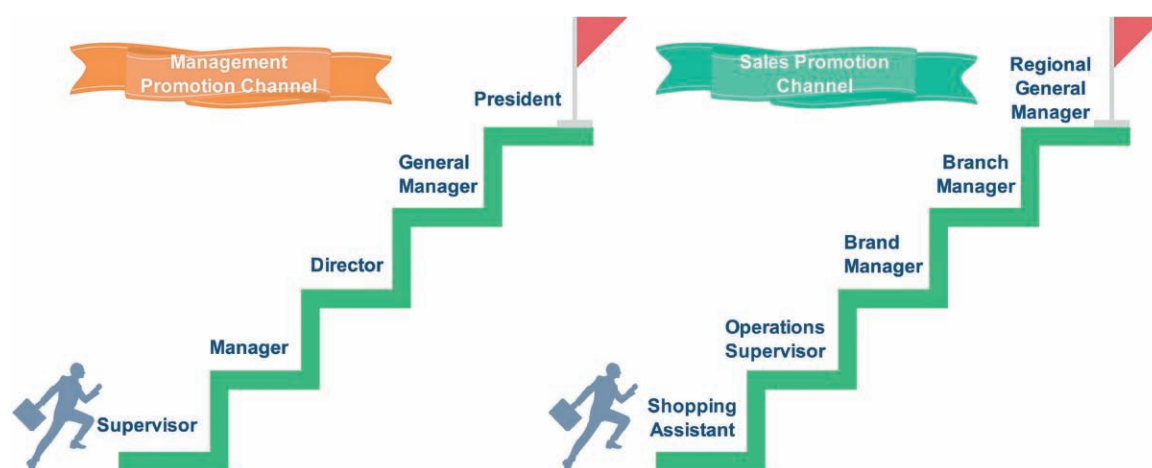


We provide different types of targeted training for employees of different functions and levels. For instance, we have provided sales system HR training, department management process, lean knowledge training, factory store training, etc. for our management personnel. We provided training on sales skills, service skills for our shopping assistants. Every year, we cooperate with colleges and universities to invite lecturers to train our staff to improve their management ability. After the training, we will also carry out the acceptance assessment of the trainees to understand their subjective opinions and satisfaction level about the training, which will serve as the basis for the training improvement program. In 2018, we organized a variety of trainings for our employees in the footwear business segment, which were actively participated by our employees.



RECRUITMENT PROCESS AND CAREER LADDER

C.banner Group attaches great importance to employees' promotion and development, and hopes to cultivate professional talents with pioneering and innovative spirit. We have developed a comprehensive recruitment process and conduct recruitment activities through both offline and online platforms. In April, 2018, we updated and adjusted the employee promotion process and program after gathering the opinions and suggestions from various subordinate companies. In order to fully improve the enthusiasm of employees, we increase the frequency of promotion, so that shopping assistants could be promoted in any month of the year. We also simplify the promotion process for shopping assistants, and expand the scope of promotion. Our management and sales promotion channels are presented in the following figures:



CORPORATE CULTURE

Internal communication

We are willing to listen to the employees' opinions and increase the methods and channels of communication between management and employees. In 2018, we carried out a survey about employees' attitude on career development to encourage employees to put forward their views and suggestions on career development. We also adjusted the Company's career development plan according to the feedback. Through the "Beauty" program in the Company's internal platform "XueYuan", we regularly publishes various Company news, and promotes our corporate culture, to strengthen employees' sense of belonging to the Company.

We hold regular staff meetings as an important process of collecting opinions from employees. We encourage employees to summarize the achievements of the previous stage and propose the goals for the next stage, so as to help the management understand where necessary help can be provided to employees.

Awards and incentives

At the beginning of each year, C.banner Group commends the outstanding employees and teams with outstanding cooperation performance of the previous year, and the Company will award them with medals and bonuses. Our production plant holds professional skills competition, which is divided into individual and team contests every quarter, and the competition sets ranking and bonus to encourage employees' active participation.

OUR CLIENTS

Economic
Develop-
mentSocial
Wellbeing**Customer opinions**

C.banner promises to provide customers with comfortable product and shopping experience, and is actively committed to the analysis and improvement of customer satisfaction. We have developed the “Customer Satisfaction Survey Process”, which clarifies the specific requirements of customer complaints and return management, satisfaction survey, and satisfaction improvement measures. We also maintain long-term relationship with consumers through the establishment of a membership system to help us provide better service.

We conduct regular customer satisfaction surveys by sending customer satisfaction questionnaires or interviewing customers, and make timely statistical analysis. The CRM Department carried out two “C.banner Customer Service Survey” activities by sending out electronic questionnaires in 2018. By summarizing and analysing the information and opinions received, we compiled the “C.banner Service Experience Evaluation Report”, and shared the result with relevant functional departments, and management team of design, production, quality etc., to help implement and follow up the improvement measures. All relevant departments analyse the reasons and propose improvement measures regarding projects with low customer satisfaction and customers’ advice. Improvement measures will be implemented into specific aspects of operation to improve our products and services. This year, we received suggestions about launching more style of footwear, therefore we made more investment in product development and design to produce more novel and comfortable products.

In the meantime, we have followed the “Regulations on C.banner Online/Offline Customer Complaint and Maintenance Treatment Process” in our daily operations. Customers can communicate directly with the customer service staff through offline channels, or bring their opinions through our online platform. This year, customers can continue to give feedback through the “400 Customer Service Hotline”; at the same time, the demand for online customer service is also increasing due to the rapid development of online shopping. Therefore, in the second half of 2018, we set up an independent online after-sales team which is particularly responsible for the after-sales work of online sales. It greatly improves the efficiency of after-sales service of online sales and enables consumers to get more timely feedback.

The number of customer complaints we received in 2018 only accounted for 1.12% of the total sales (excluding foreign business).

Customer privacy

Customer privacy protection is a significant part of our customer relationship management, and also an important link on our customer service process. The customer information protection is continuously reinforced to prevent the loss or illegal use of customer information. The CRM Department is responsible for the central management of customer information, as well as the establishment and inspection of customer privacy system. We establish Data Protection Policy for VIP Customers, and will explain the reason and purpose to the customers when information is needed. Once the customers’ personal and consumption data is entered into the CRM (Customer Relationship Management) system, only the CRM Department has the authority to update the information. Subordinates and terminal stores could only check the data. Terminal store sales personnel is not able to extract customer information, and has no right to use or obtain related consumption data privately.

Product quality

Product quality is the essential issue that C.banner Group values all the time, and it is also an important cornerstone for us to gain trust from consumers. We consider quality issues throughout the production process, from the initial design, to the development, production, etc., and strive to implement strict control quality measures in every procedure, in order to minimize the safety and health risks of the product.

In order to provide consumers with high-quality products, we have established rigorous “Quality Management Regulations”, which defines the applicable inspection scope, inspection rate, inspection process and inspection standards for raw materials, semi-finished products, finished products and outsourced products. We commission third-party professional testing institution to conduct quality inspection on the produced samples, and mass production should only be carried out after passing the inspection. Meanwhile, we assign an inspector in each external factory to conduct 100% inspection on outsourced products, in order to standardize the quality management of outsourcing products and to ensure the quality of outsourced products meets our requirements.

As a leader in the industry, in addition to strict requirements on our own product quality, we have also participated in the formulation of a number of national industrial standards, including “General requirements for footwear”, “Footwear chemical test method – extractable heavy metal content – Inductively coupled plasma emission spectroscopy”, “Technical specification for thermal protection of leather shoes”, etc.

In the toy business segment, Hamleys developed the Quality Manual, which clearly lists the requirements for supplier’s production process and product quality. All products of self-developed branding are required to undergo stringent technical inspection from the materials used, product safety and storage to ensure every toy sold is of good quality. For other branded products, we require suppliers to provide relevant documents certifying that the product has passed all quality inspections. As a member of British Toy & Hobby Association (BTHA), Hamleys has always provided consumers with guaranteed quality of products. We also require all toy manufacturers to keep accurate and complete technical files, which consist of bill of materials (BOM), bill of substance (BOS), supporting material information/SDS (Safety Data Sheet) documents, wiring diagrams and circuit diagrams, material safety data sheets, supplier’s declaration of conformity (DOC) and so on. We have entered into memorandum of understanding with International Council of Toy Industries (ICTI) to work together to promote toy safety standards.

In addition to strict control on product quality, we continued to increase resource and invest in product R&D and improvement in 2018. We invested about RMB41.5 million in research and development this year. The technical improvement enables us to be more focused on our own advantages and produce products to meet consumers’ demand.

C.banner Group strictly complies with the Trademark Law of the People’s Republic of China and other relative laws and regulations. We developed the Trademark Management Provision, which regulates the internal application and approval process of trademarks and the scope of trademarks usage. There were no cases regarding violation of trademark usage occurred in 2018.

Social Wellbeing

COMMUNITY ENGAGEMENT

Internal administration enhancement

C.banner Group insists on a “zero tolerance” attitude towards bribery and corruption, and we will reiterate relevant principles and regulations to our partners as well. There were no cases regarding corruption, bribery, blackmail and money laundering occurred in 2018.

We have developed a report system. All of our stakeholders, including employees, shareholders, suppliers, customers, etc., have the right to report any suspected corrupt practices to us through the reporting mailbox and other channels. Meanwhile, we develop strict and confidential investigation procedures, and promise to protect the whistle-blowers to ensure their safety. We hire independent auditors to conduct external audits to prevent and control the occurrence of unethical practices through both internal and external audits. We also lecture about relevant laws and regulations during new employee orientation and distribution of the Employee Handbook to enhance employees’ awareness of business ethics.

In the toy business segment, the Hamleys Employee Handbook clarifies the anti-corruption and reporting measures.

Corporate governance improvement

We continuously strive to improve the level of corporate governance through the establishment of a strong management system to protect the interests of stakeholders. The management and every employee aim to enhance the enterprise value, fulfil the corporate responsibility and ensure the effective operation of the Company's management system. We have developed a sound governance framework. The board of directors is responsible for supervising the Group's strategic decisions and business performance, and the executive management is responsible for formulating and implementing various policies and systems. We also value the importance of risk management and internal control in corporate governance. The internal audit department is responsible for conducting comprehensive audit of the Company on a regular basis.

Topic	Policies and Rules	Management measures
Supplier Management	<ul style="list-style-type: none"> – Purchasing Center Working Manual – Supplier Management System – Quality and Supplier Operations Manual 	<ul style="list-style-type: none"> • Establish effective management structure • Use standardized process systems to manage suppliers • Strengthen inspection requirements and quality supervision of raw material procurement
Employee Management	<ul style="list-style-type: none"> – Employee Handbook – Management Procedures of Prohibition against Discrimination – Management Procedures of Prohibition of Employment of Child Labor – Management Procedures against Forced Labour – Management Procedures against Harassment and Abuse of Labour – Work Safety Management System – Emergency Rescue Plan for Accidents 	<ul style="list-style-type: none"> • Establish effective management structure • Define employee rights and protect employee interests • Enhance timely communication with employees and listen to their demands • Establish scientific and reasonable compensation and benefits system and promotion channels, improve benefits package
Customer Service Management	<ul style="list-style-type: none"> – Customer Satisfaction Survey Process – Regulations on C.banner Online/Offline Customer Complaint and Maintenance Treatment Process – Data Protection Policy for VIP Customers 	<ul style="list-style-type: none"> • Specify requirements for customer complaint and return management, satisfaction survey and satisfaction improvement measures • Improve customer information protection to prevent loss or illegal use of customer information

CHARITY ACTIVITIES

We believe that while the Company develops, we still have the responsibility to give back to the society and achieve mutual development with the society. We actively organize and participate in various public welfare activities to fulfil our social responsibilities and make contributions to society.

In 2018, Hamleys' stores organized a variety of charity activities. The Xuzhou store launched the "Dream Building Charity Activity". We set up an area for donations in the store and sent the donations we collected to three schools in batches, bringing warmth to children in remote areas in the cold winter. We held a toy charity auction on Thanksgiving Day and donated the proceeds to local charities. We also organized employees to volunteer themselves to be a teacher in remote areas. At the same time, we also utilized the facilities in the store to hold commonweal exhibitions of biodiversity protection.



During the year, C.banner Group made donations to poor college students, army officers and soldiers, regional charitable funds, construction of new rural areas to contribute to the development of the community.

7. ESG GUIDE INDEX

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C.banner International Holdings Limited
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