

# C. BANNER

C. banner International Holdings Limited  
千百度國際控股有限公司

Stock Code 股份代號 : 1028

## ENVIRONMENTAL, SOCIAL and GOVERNANCE Report

— 2016 —





# Environmental, Social and Governance Report for C.banner International Holdings Limited

## 1. ABOUT THE REPORT

### PRINCIPLES OF REPORTING

The report is prepared in accordance with the Environmental, Social and Governance (ESG) Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

### REPORTING PERIOD

January 1-December 31, 2016.

### 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 convenience of statement 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 in the internal documents and statistics reports of the Group, and the summaries and statistics of affiliated companies.

### DISCLOSURES

The Group believes that favorable environment, society and governance are essential to the company’s businesses and the sustainable development of community. C.banner prepared this report in accordance with the ESG Reporting Guide set out in Appendix 27 to the Listing Rules. 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.

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, 2016 (reporting period, FY16) 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. Based on the materiality principle, this report mainly covers the contents in the following guide:

<b>ESG Guide</b>	<b>Key disclosures in the report</b>
<b>A. Environmental</b>	
A1. Emissions	Emission, greenhouse gas emission and waste
A2. Use of resources	Use of energy, water resources, and packing materials
A3. The environment and natural resources	Energy saving and emission reduction, with a focus on eco-friendly approach
<b>B. Social</b>	
B1. Employment	Human resources, compensation and benefit, and working environment
B2. Health and safety	Rules and regulations, technical measures, safety awareness
B3. Development and training	Employee training, career development
B4. Labour standards	Prevention of child and forced labour
B5. Supply chain management	Institutionalization, transparent management and multiple suppliers
B6. Product responsibility	Product design and quality, customer complaint, and privacy protection
B7. Anti-corruption	Anti-bribery and other unethical behaviors
B8. Community investment	Cooperation in charity activities and care for community

### REPORTING LANGUAGE

English

### ACCESS TO THE REPORT

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

### 2. CHAIRMAN'S MESSAGE

As the leader in China's fashion consumer goods industry, C.banner continued to make significant moves towards its goal of developing into a leading international retailer in 2016. Our first Hamleys flagship store in China was grandly opened in October last year and we have also entered into cooperation with a number of world-renowned toy brands, which not only diversified our product mix, but also brought new creativity and vigour to our services. While seeking new growth momentum through the new toy business, we continued to consolidate our market position in our traditional footwear segment by taking numerous active measures, including the launch of two new women's footwear brands.

The Group has always borne the mission of "seeking benefits for employees, creating values for customers, boosting wealth for shareholders and undertaking social responsibility". Focusing on issues of stakeholders' concerns regarding employee, customer, shareholder, supplier, environment and community, we improve our responsibility performance from many aspects and strengthen communications with stakeholders to comprehensively push forward the performance of our social responsibility.

We assume our responsibilities by providing quality products and services for customers and generating higher returns for shareholders; meanwhile, we continue to optimize the footwear business structure of the Company and provide better services for consumers through precision marketing.

The Group believes that customers' demands are the premise of the Company's existence. We shall always provide quality products and services based on customers' needs and continuously satisfy and outperform their expectations by sustainable innovation. C.banner has strict requirements on environment-friendly quality of our products by considering the environmental protection of materials at the time of purchasing raw materials and auxiliary materials.

C.banner believes that the development of employees is essential to the growth of the company, and that individual goals are aligned with the goals of the company as indispensable parts; the company provides a common platform for the company itself and its employees to realize goals with necessary resources. We recruit and train the best talents and sign labour contracts with all employees to ensure their legitimate rights and interests as required by laws and regulations. We always value employees' benefits, providing competitive compensation and benefits and promoting the idea of a balanced work and life to ensure employees' physical and mental health. Besides, we build a training system for employees by offering various targeted trainings on professional skills and knowledge management to gradually improve employees' skills and quality, satisfy their occupational demands at different stages and consolidate their career paths.

Since its establishment, C.banner is not only the private property of the owner but also an integral part of the society. Social stability and prosperity can contribute to corporate development. Therefore, we adopt an environmental-friendly approach to corporate growth during the process of production, operation and management. We improve the energy-saving management system with feasible measures to make better use of energy and resources and prevent environmental damage. In addition, we spare no effort to support public welfare and community service, so as to make contribution to and share achievements with the society. Hamleys, a century-old toy brand affiliated to C.banner, is now a public welfare partner of Nanjing Lefu Youth Development Service Center, and will continue with its public welfare undertakings in the future.

We will continue performing our social and environmental responsibilities in a proactive manner in the future, following strict standards. Guided by the goal to 'implement global branding strategy and establish an innovative and comprehensive retail platform', we will enhance corporate governance to drive innovative and harmonious development, aiming to make more contribution to social wellbeing while bringing about more value for stakeholders.

### 3. ABOUT US

**Company name:** C.banner International Holdings Limited

**Address:** 31F, International Trade Center, No.18 East Zhongshan Road, Nanjing, Jiangsu, China

**Business:** C.banner International Holdings Limited (“C.banner” or the “Company”, together with its subsidiaries, the “Group”) is a leading international integrated retailer and the leading retailer of mid-to-premium women’s formal and casual footwear in China.

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 China, and is also proactive in developing online business as to further expand its customer base as well as sales and distribution network. In addition, the Group also acts as an OEM and ODM manufacturer for international shoes companies dealing in export markets.

Striving to be the leading branded group of mid-to-premium women footwear in China, the Group upholds a diversified brand strategy and product portfolio as 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 and Badgley Mischka and four licensed brands, including naturalizer, ASH, JC Collezione and United Nude.

As of December 31, 2016, the Company’s sales network comprised a total of 1,697 proprietary outlets and 417 third party outlets in 31 provinces, cities and autonomous regions across China. Based on such network, the Company distributes its products of self-developed brands including C.banner, EBLAN, sundance, MIO and Badgley Mischka, as well as licensed brands including naturalizer, ASH, JC Collezione and United Nude.

The Group acquired all listed shares of Hamleys Global Holdings Limited in October 2015 to further develop its footwear business and support its global branding strategy by making use of the resources of Hamleys which is one of the largest toys retailers in the world. In October 2016, China’s first Hamleys flagship store opened in Nanjing. As of 31 December 2016, Hamleys operated an aggregate of 32 proprietary stores and 73 franchised stores worldwide.

**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 the Company is listed on:** Hong Kong Stock Exchange

**Total staff in 2016:** 11,347

**Business revenue:** 3,206,562 (RMB’000)

**Net profit:** 205,433 (RMB’000)

### Milestones of the Company



#### 4. OUR EMPLOYEES

We believe that the development of employees is essential to the growth of the company, and that individual goals are aligned with the goals of the company as indispensable parts; the company provides a common platform for the company itself and its employees to realize goals with necessary resources.

We also believe that a company is a basic social unit consisting of individuals. A company should take various effective measures in business operation to maximize the encouragement of employees to work actively with enthusiasm and creativity, so as to ensure the achievement of the goals of the company and employees.

The Group is committed to creating a safe and healthy working environment for all employees who are the essential resources and valuable assets for the Group. Based on these efforts, the Group aims to create a harmonious culture and drive corporate growth and social development.

##### EMPLOYEES AND WORKING ENVIRONMENT

We formulated *C.banner International and Mayflower Enterprise Employee Manual* for footwear business sector, Staff Code of Conduct and Benefits and Welfare Policies for toy business sector, all of which have clear provisions about equal employment, child labour and forced labour prohibition, and compensation and benefits.

##### Equal employment

Strictly adhering to policies and regulations, the Group forbids any employment discrimination and forced labour. Besides, the Group signs labour contract with all employees and ensures that they will not suffer discrimination due to race, nationality, colour, religion, physical disability, gender, sexual orientation, association membership or marital status, etc. We strictly follow international conventions on human rights and labour, and employment laws and relevant policies of the locations where we operate business. Under the principle of non-involvement of relatives, we ensure equal competition and avoid impact of kinship on management impartiality.

We have developed *Management Process of Prohibition against Discrimination* which forbids any forcing, threatening, insulting or exploitative acts, including gestures, languages and actual contact. We also respect the right of all employees to join associations and labour unions.

We did not identify any discrimination issues in the Company in 2016.

Meanwhile, we forbid child labour and forced labour. Strictly abiding by the relevant rules during the corporate management, the Group prevents employing children under 16 via measures including checking ID cards and comparing the information with that provided by the government platform. We forbid hard labour or forced labour and ensure that all employees work of their own free will.

In our toy business sector, in response to the highlighting by Theresa May, the Prime Minister of UK, of the importance of *Modern Slavery Act* to urge companies of all industries to solve this important issue as soon as possible, Hamleys forbids any slavery or forced labour, in compliance with relevant rules and regulations. The Company has provided relevant trainings to encourage employees to report to Human Resources or the line manager and general manager via the reporting channels once relevant issues are identified.

We did not identify any child labour or forced labour issues in the Company in 2016.



Sticking to equal employment, we have established an employment mechanism that selects outstanding talents under a fair and equal principle. Our employment information in 2016 is set forth below:

### Classification by age:

	Number	Percentage
Under 30	4,535	39%
30-45	6,153	53%
Over 45	816	7%

### Classification by gender:

	Number	Percentage
Female	9,020	78%
Male	2,484	22%

### Classification by sector:

#### Footwear business sector:

	Number	Percentage
Management	1,938	19%
Logistics	439	4%
Shopping assistants	5,905	56%
Workers	2,191	21%

#### Toy business sector:

	Number	Percentage
Senior executives	16	2%
Managers	107	10%
Supervisors	55	5%
Others	853	83%

### Caring for female employees

We aim to establish a corporate culture that highlights equality and no discrimination by providing equal opportunities to all the staff. Female employees are given equal opportunities with the male, and will not lose their jobs or subject to pay cuts because of childbearing. Meanwhile, we prefer female employees in recruitment as the Group is mainly engaged in footwear business. In 2016, female employees account for 78% of the Group, and 64% of the management are female.

### Compensation and benefit

We are committed to the improvement of the compensation incentive system based on a combined consideration of employee's capabilities and performance, aiming at establishing an equal and attractive channel for career development. The Group provides its employees with competitive compensation and benefit. The compensations of both the management and staff are comprised of guaranteed pay and variable pay which are contingent on a combined consideration of various factors including position evaluation, personal capabilities and performance.

Strictly following the national social security policies, we pay various social insurances including pension scheme, medical insurance, work-related injury insurance, maternity insurance as well as housing funds in a timely manner.

We provide our employees with a diversity of benefit plans, including annual leave, free lunch, and allowances to prevent heatstroke, etc. Staff and management in special positions will be provided with commercial insurances, and the management will also enjoy various benefits in travelling, gathering, holidays, as well as home leave, child tuition benefit, and funeral benefit, etc.

We have also established C.banner International Love Fund, mainly comprised of donations from the staff and the Company, supplemented with external donations. This Love Fund, subject to centralized management, has provided a platform for C.banner's staff to help each other and has facilitated the endeavor to guarantee a healthy life of all staff. In addition, the Fund has also brought about some social benefits. In 2016, we have organized donations for employees suffering from serious illness to help them get recovered and cured.

We have also developed a series of benefit plans for employees in the toy business sector, including purchase discounts, birthday holidays, various medical insurances, interest free transport loan, life insurance and seniority bonus, etc.

### Working environment

We are committed to creating a healthy and comfortable working and living environment for the employees. We have a staff cafeteria to provide balanced diets, with constant improvements made in terms of dining environment, service mode, and consumer demand to provide better dining experience to our staff. We also have sports field established in production base to hold occasional sports meetings, thus helping staff enhance physical fitness, alleviate stress, and strike a balance between work and life. In addition, we hold summer camp for the employees' children to experience the working environment of their parents, which will enhance our staff's sense of belonging.

The Company has been actively involved in creating a pleasant, open, healthy, friendly and harmonious atmosphere. In daily work, the Company is committed to weakening corporate hierarchy by calling each other by English name or full name, and providing both the management and the average staff in its production base with equal accommodations and dining facilities.



Great importance has also been attached to both physical and psychological health of staff in toy business sector, with the management and department managers taking the responsibility of stress management. The Group attempts to create a pleasant working environment for the staff by emphasizing psychological counseling of the staff.

### Working hours

Staff of the Group's Head Office, Franchise Department and Retail Office enjoy one-day weekend every other weekend. Please see the below working hours:

<b>Monday to Friday:</b>	9:10 a.m. – 12:00 a.m.
	1:30 p.m. – 6:00 p.m.
<b>Saturday of one-day weekend:</b>	9:10 a.m. – 12:00 a.m.
	1:30 p.m. – 5:00 p.m.

We do not advocate working overtime, but we may arrange overtime working on an as-needed basis. And those who work overtime will be compensated with compensatory time off or overtime pay based on overtime hours.

### HEALTH AND SAFETY

With work safety as its purpose, the Group pays special attention to health and work safety, establishing Work Safety Management System and relevant operating rules. To enhance safety awareness and guarantee healthy and work safe, the Group leverages many approaches including technology upgrading, capital investment, supervision and assessment, dedicated to creating a comfortably healthy and safe working and living environment for employees' physical and mental health.

We also design *Fire Safety Management System* and setup a fire safety committee. Additionally, we provide fire-fighting facilities as required and conduct regular fire prevention inspections and annual fire drills.

We pay equal attention to the health and work safety of employees in toy business sector. Along with the Health & Safety Policy, we establish sound health and safety mechanisms in responsibilities for health and safety, safe environment in workplaces and first aid measures.

The Company had no liability for any major safety accident, without death rolls in 2016.

### Safety management

We develop and strictly implement precautions and rules for work safety, policies for position responsibilities and operating rules to institutionalize health and safety management, standardize operating processes and define responsibilities. 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.

We provide labour protection equipment for employees including PVC gloves, respirators, dust masks and earplugs, supervise and check their wearing. Meanwhile, every production plant is equipped with emergency medical supplies for first aid in accidents.

Two-handed operation is required for certain equipment (e.g. cutting machines) during production to avoid potential risks and accidents. The air compressors we use are equipped with dust collectors to avoid health risks for employees caused by dust during operation.

The Group implements work safety responsibility system and defines the safety responsibilities of personnel at every level via policies and rules. Functions and personnel at every level, as well as shift leaders and heads of departments, shall all be liable for the work safety under their management. We also develop Emergency Preparedness and Response Management Procedures in which explicit processes for potential accidents or emergencies are provided to minimize potential resulting consequences and economic losses.

In toy business sector, we also specify the responsibilities of health and safety from CEO to department managers, and appoint health and safety coordinators taking charging of the publicity and management of health and safety. Furthermore, we regularly employ external professional institutions to inspect various safety related facilities and equipment such as fire protection equipment and generators.

To guarantee employees' health and safety, we use various approaches to build their safety awareness upon onboarding, such as safety trainings (including hazardous chemicals, fire and explosion prevention, occupational hazards, safety protection, emergency treatment of chemical accidents, disposal of hazardous wastes), training before taking post, warning labels on equipment, and bulletin boards in plant areas. We stress that safety always comes first, and keep improving safety management to ensure the goal of work safety is achieved.

**Employee health**

The Group highly values employees’ health and safety. We commission third party professional institutions to inspect and report risk factors of occupational diseases by examining hazardous substances and dust in the production places in line with the national occupational health standards. Main inspection items include methyl methacrylate, ethyl acetate, butanone, fur dust, noise, etc., with all qualification rates reaching 100%.

We provide health check for all employees and professional occupational health check for employees at positions with occupational hazards to guarantee their health and safety. Moreover, we provide trainings of occupational disease prevention and promote the use of labour protection supplies to improve employees’ occupational health awareness.

In toy business sector, we develop a series of risk assessment annually by conducting risk analysis of possible accidental injuries at work from cargo handling to ladder using, ensure we have relevant precautions against every risk in place, and improve deficiencies promptly in order to offer a health and safe working environment for employees.

**EMPLOYEE DEVELOPMENT AND TRAINING**

The Group concerns about employees’ career development, as we know that improving the overall quality and technical expertise of employees can not only enhance their own abilities, but help boost the comprehensive competitiveness of the Group. The training policies for employees are specified in the *C.banner International and Mayflower Enterprise Employee Manual*.

**Employee training**

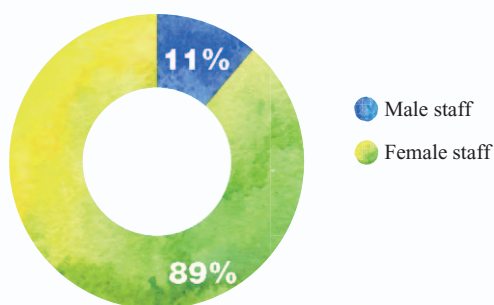
The Group builds a training system for employees with the collaborative management of human resources department and business units. We provide various targeted trainings on professional skills and knowledge management through orientation training, on boarding training, graded on-the-job training, training assessment, pre-job guidance, and multi-skilled worker training, so as to gradually improve employees’ skills and quality, satisfy their occupational demands at different stages and consolidate their career paths.

We offer trainings of different subjects for employees in different professions, such as Training on Inspection Standard of Incoming Materials for quality inspectors, Supplier Management and Professional Ethics of Purchasers for purchasers, and Training on Financial Knowledge of Management for managerial personnel.

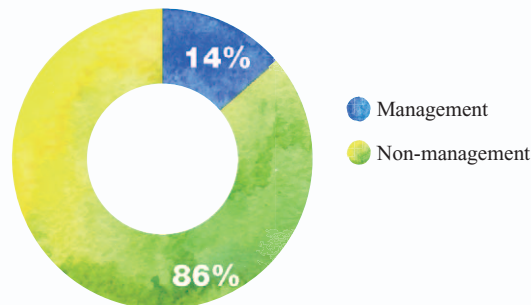
We also setup the apprenticeship training mode. The assistance and guidance of teaching staff can help new hires obtain production skills, quickly settle into their positions and shorten adaptation period. Besides, this can also help discover and reserve skilled and management personnel for the production system and build a well-structured talent team by improving the abilities of teaching staff.

We organized various types of training sessions and activities for employees with the total of 135,590 training hours throughout 2016.

**By gender**



**By job level**



### Career development

We are committed to fostering industrial elites and leading talents, improving core competition advantages. We provide equal opportunities for promotion to all employees, especially in toy business sector where we design well-defined career path enabling employees growing from Bronze employee, Silver employee and Gold employee to supervisor, assistant manager and even store manager, etc.

We set promotion channel for each position. Based on the post requirements and employee's capabilities, we create diversified development platform for those who have outstanding performance and build human resources framework which is aligned with corporate development strategy.

## 5. ENVIRONMENTAL PROTECTION

We proactively perform environmental obligations, committed to energy conservation and emission reduction. In 2016, we have not incurred any environmental pollution accidents or illegal matters. We adhere faithfully to law-abiding operation, strictly implementing the updated environmental laws and regulations of the land where we operate as well as performing operations in strict accordance with the laws and regulations to ensure legitimation.

### ENVIRONMENTAL PROTECTION SYSTEM

#### Environmental assessment and report

We entrust a third party to conduct detection on effluent, exhaust gas and noise in production plant, involving pH, CODcr, SS, ammonia nitrogen, animal/vegetable oil, smoke, Sulfur dioxide (SO<sub>2</sub>), exhaustion blackness and day-time boundary noise. All the detection results meet recommended national standards.

As for the toy business, Hamleys strictly follows the compliance requirement of Energy Savings Opportunity Scheme. It engages a professional third party institution to evaluate its energy consumption and issues ESOS Summary Report. The evaluation results meet the requirements of UK government.

#### Compliance and appeal

In 2016, there were no confirmed regulatory breaches or appeals which were related to environmental protection and had significant impact on the Group.

### ENVIRONMENTAL INDICATORS

Environmental data mainly comes from footwear business and toy business, among which, footwear line includes administration areas and plants and toy line includes stores owned by Hamleys. The data is derived from internal documentations as well as estimations by internal personnel.

#### Emissions

Our main emissions are generated by vehicle usage, including nitrogen oxides, SO<sub>2</sub> and particulate matters (PM).

Emissions	Emission data (Unit: gram)
Nitrogen oxides	1,976,544.97
PM	185,786.46
SO <sub>2</sub>	3,741.45

### **Greenhouse gas emission**

Our greenhouse gas emission mainly consists of the waste gas from gas fuel, exhaust emission from automobile usage, indirect emission from purchased electricity and coal, and those from paper usage. In 2016, we discharged 12,564.83 tons of CO<sub>2</sub> in total.

### **Waste**

In footwear business sector, reprocessing is our primary production method, which would not discharge any harmful substance; as for toy business, there is no industrial process, leading to zero discharge of waste.

### **RESOURCE UTILIZATION**

The main resources we use include electricity, natural gas and water. We value and encourage resource conservation, efficient resource utilization and resource cost saving, avoiding the waste of resource.

### **Energy (electricity, natural gas)**

The energy we consume include electricity, natural gas, etc. By the end of 2016, we have consumed 13,142,453.11kWh of electricity and 652,421m<sup>3</sup> of natural gas.

### **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 not have severe impact on rivers, lakes, underground water and glacier. We consumed 444,179.54 tons of water totally in 2016 (excluding foreign business).

### **Packing materials**

We attach great importance to the greenness of packing materials, encouraging suppliers to use recyclable materials to pack goods. The packing materials we use include EPE, inner box, wrapping paper, copy paper, outer box and plastic bag, all of which have passed the testing of SGS and met the national or EU's standards.

### **Focus on eco-friendly approach**

#### **Material utilization**

Traditional oil-based PU adhesive features low solid content and high emission. However, the water-based PU adhesive could decrease 25% of material cost, realize zero foul gas emission and exempt from 30% of environmental tax, saving 55% of material cost in total. Thus, starting from January 2014, we have gradually replaced traditional oil-based adhesive with environmental water-based adhesive based on the bottom material, such as, replacing JY55-1 (oil-based PU adhesive) with JY-1607/09 (water-based PU adhesive).

#### **Environmental considerations in procurement**

When we procure the raw materials and auxiliary materials, we always select the environmental friendly ones. We annually engage external professional testing institutions to conduct chemical detection on materials provided by all suppliers, with sampling detection on at least one category of materials of each supplier, to ensure safety and greenness of raw materials.

### **Green operation**

In June 2016, we have successfully reformed a large-scaled streamline (Line F) previously consisting of 50 workers into a circular pipeline consisting of 28 workers, increasing 20% of labour efficiency. We would also reform another two large-scaled streamlines into such circular pipelines at the beginning of 2017 and partly renew machines: replacing tungsten heating tubes of ovens with carbon fiber heating tubes, which could reduce 20% of energy consumption; as well as replacing partial cutting machines and ordinary stitching machines with computer-based ones, which could increase 20% of labour efficiency.

We conduct internal communication in some ways such as video teleconference in order to cut down the number of business trips as well as to reduce energy consumption and carbon emission of transportation vehicles. Meanwhile, we advocate paperless office, double-sided printing, waste paper recycling, and the use of LAN platform system and internal communication software for file and data transmission and contact throughout the Group, demonstrating that we implement green operation by taking practical actions. In 2016, the number of paper we used was 10% less than the previous year (excluding foreign business).

In terms of toy business sector, we demand that supplier factories must implement adequate control measures to ensure minimum impact on local environment.

### **Resource recycling**

In terms of toy business sector, Hamleys subordinate to C.banner assumes the responsibility for the wasting of toy resources, fully complying with the Waste Electrical and Electronic Equipment (WEEE) Regulations 2006 and the Ordinance on Disposal of Waste Batteries. In order to implement these rules and regulations, we employ Valpak Retail WEEE Services responsible for the implementation of toy recycling program and appropriate allocation of funds to municipal convenient facilities in various places so as to improve our level of recycling.

Hamleys requires suppliers to ensure that toys should be packaged with recyclable materials. We are committed to provide more environmental-friendly alternatives for plastic shopping bags (made from 100% recyclable materials) of all stores.

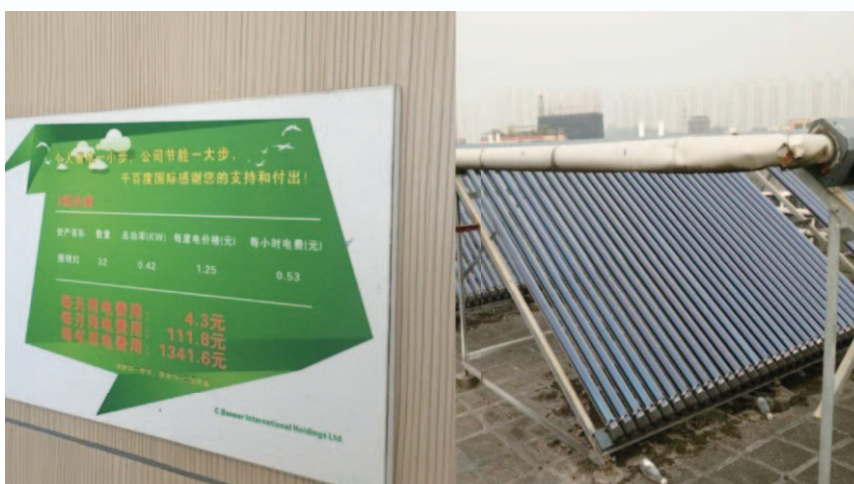
Meanwhile, Hamleys stores in London employ professional resource recycling organizations responsible for waste recycling at a regular basis. With the help of the professional organizations, we recycled paper and plastics of 13,038kg, equivalent to saving electricity of 54,213.6 kWh, reducing CO<sub>2</sub> emissions of 7,744.8kg, and saving water resources of 413,056L in 2016.

## **ENERGY SAVING AND EMISSION REDUCTION**

### **Efficient utilization of energy**

As for production business, we demand that machinery equipment of production lines must be powered off during breaks, with respect to which a specially-assigned person is responsible for patrol inspection every day after work, in order to ensure the safety of equipment in the plant and avoid the energy waste of equipment and facilities. In toy retail stores, we make sure that elevators are shut down after all customers leave stores, with elevators out of service for about 11 hours every day, so as to avoid unnecessary electricity consumption.

As for office life, we grow trees outside the plant to beautify the environment and absorb carbon emissions; we install energy-saving LED lighting fixtures to improve electricity efficiency and reduce electricity consumption; we use solar energy from May to November each year at the R&D and purchasing center in Foshan to save about 80kWh electricity every day; and we post energy conservation publicity logos and electricity consumption particulars around air-conditioning switches and lighting switches to improve employees' energy saving awareness.



### Utilization of water resources

As for water conservation, we use water-saving appliances as much as possible, such as high-efficiency water supply equipment, and water-saving sanitary fixtures, etc. Cleaning staff and kitchen staff recycle water when doing the cleaning and washing the floor. Meanwhile, we carry out publicity and education by putting up slogans in order to improve employees' water saving awareness.

### Emission reduction

We are committed to reducing pollution emissions in order to lower damage and impact on ecological environment.

### Waste water treatment

Waste water is mainly from office toilets and kitchens, free of toxic, hazardous, and special substances. Oily wastewater produced in canteen kitchens is preprocessed to filter out solid impurities through the filter screen of the cleaning pool, and then discharged into municipal sewage pipe network. We prohibit the use of phosphoric washing products. In 2016, we employed professional third-party testing institutions to conduct waste water detection on waste water outlet of Nanjing Soft, with the testing results complying with the Integrated Wastewater Discharge Standard (GB8978-1996).

### Waste treatment

We set up waste drop-off sites in the plant and advocate waste classification treatment. With regard to wastes containing hazardous substances such as waste plastic buckets, we come to an agreement with qualified suppliers, based on which suppliers are responsible for recycling empty containers and performing hazardous waste transfer.

### Waste gas treatment

Waste gas is mainly kitchen lampblack, which is discharged into the air through oil smoke exhausters after we ensure that waste gas reaches the emission standards.

In 2016, we employed professional third-party testing institutions to conduct waste gas detection on waste gas outlets of natural gas boilers of Nanjing Soft, with the testing results complying with the Emission Standard of Air Pollutants for Boiler (GB13271-2001).

In terms of toy business sector, Hamleys prohibits the use of company vehicles and encourages employees to commute by public transportation.



### Noise treatment

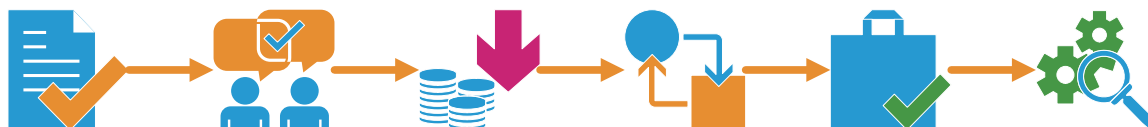
Noise is mainly from air conditioning units, air compressors, cutting equipment, heat-treating machine, etc. Production lines are mainly responsible for processing work with small noise, but we provide earplugs for some noise operation posts in order to protect employees' health and safety. In 2016, we employed professional third-party testing institutions to conduct boundary noise detection on Nanjing Soft, with the testing results complying with the Emission Standard for Industrial Enterprises Noise at Boundary (GB12348-2008) and showing that the boundary noise was below the noise emission limit of Ribbon Class 2.

## 6. OPERATION PRACTICE

### SUPPLY CHAIN MANAGEMENT

We establish an effective supply chain management system to reduce operational risks and regulate supplier performance. We adhere to the philosophy of win-win cooperation, committed to develop a synergetic development mechanism for mutual growth, mutual trust, and mutual benefit with suppliers as well as to build a safe, reliable, and green supply chain.

We emphasize fixed purchasing processes, for which we develop the *Purchasing Center Working Manual* for footwear business sector and the *Quality and Supplier Operations Manual* for toy business sector, "replacing rule by man with rule by law". We strengthen supply chain management by improving systems and processes as well as implement supply chain process management based on a series of specific instructions on supplier selection, supplier catalog, cost management, delivery management, quality management, and supplier evaluation, in order to make sure that there are rules to follow and evidence to rely on for every link of the supply chain.



### Transparent management

#### Raw material price database

We establish the team for raw material price evaluation in the purchasing center and build the raw material price database through data collection and field visit, which can not only ensure that purchasing work is carried out in an orderly manner, but also avoid unethical conducts and protect the interests of the Company and stakeholders.

#### Sunshine agreement

In order to purify the business environment, maintain the fair competition order, and enable the normal and healthy development of business partnership, we adhere to the principles of openness, impartiality, integrity, and transparency. We sign the Sunshine Agreement with suppliers on legal compliance, integrity management, and business morality, requiring suppliers not to be engaged in commercial bribery behaviors violating the laws.

#### Standardized management

We emphasize strengthening supply chain management through continuous improvement of institutional systems and conducting fine management on sub processes of supply chain management through the establishment of standardized process systems in order to ensure that supply chain management is carried out in an orderly manner.

#### Purchasing accountability system

We set up a sound purchasing accountability system to determine approval hierarchy and refine approval processes of supply chain management, which can not only guarantee the separation of duties and avoid unethical conducts, but also define process flows and improve the efficiency of supply chain management.

### Supplier access and evaluation mechanism

Our purchasing center carries out centralized procurement of required materials for production such as fabrics, linings, and hardware. We implement strict and impartial supplier access procedures to select the best cost-effective suppliers into the supplier catalog by means of competitive bidding. Supplier selection needs to be subject to strict evaluation processes, in which Finance Department, Merchandise Department, R&D Department, Cost Control Department, and Purchasing Department need to take part. We establish the supplier evaluation mechanism, urging suppliers to ensure that materials comply with the requirements on quality, environment friendliness, and technology by developing supplier evaluation standards and conducting supplier evaluation at a regular basis. Meanwhile, we formulate the material testing plan to carry out sampling inspection on appearance, physical performance, and chemical performance in order to guarantee product quality and improve the level of supply chain management.

In terms of toy business sector, Hamleys is committed to provide best-quality products for customers, so Hamleys only chooses the suppliers with sound quality systems to conduct cooperation. All suppliers need to provide International Council of Toy Industries (ICTI) certification and ISO 9000 certification copy or other third-party audit reports with equal authenticity to Hamleys' technical experts or Quality Assurance Department.

### Supplier diversity

We are committed to the integration of local procurement and diversified supply chain to establish global purchasing and sales network. We encourage suppliers of different regions, nationalities, cultures, and races to join our supply chain system based on the principles of fairness and impartiality. Meanwhile, our production bases around the world work on local procurement and actively seek for excellent local suppliers in order to lower purchasing cost greatly, promote local economic development, create local employment opportunities, reduce transportation energy consumption, cut down on carbon emissions, and minimize the impact on environment. In 2016, there were 1,205 suppliers from 25 countries (such as China, the UK, Denmark, and Germany), including 264 domestic suppliers and 941 foreign suppliers.

## PRODUCT RESPONSIBILITY

We attach great importance to product quality and business reputation, thus establishing and implementing the quality and sales management system including the Quality Management Regulations of Quality Assurance Department, in order to strengthen product quality inspection and sales management as well as ensure the provision of quality products for customers.

In terms of toy business sector, Hamleys develops the *Quality and Supplier Operations Manual*. We demand that proprietary brand products need to be subject to strict technical review, involving materials used for toys, toy safety, and storage situation, in order to ensure product quality. As for non-proprietary brand products, we require suppliers to provide relevant documents to prove that products are qualified.

### Product design

We pour massive resources into product R&D and upgrading in order to improve customer experience. We are committed to R&D of products meeting customer demand based on our understanding of mass market. Technology enhancements not only bring new product experience to customers, but also help us continuously improve and transform different series of existing products.

### Product quality

We are devoted to providing quality products for the market, and we attach great importance to quality inspection on raw materials and products.

As for raw materials, we establish strict, detailed, and targeted testing processes for different categories of raw materials in order to ensure quality and environmental friendliness: taking leather testing as example, we must first identify the grade, utilization ratio, color, and style of the samples, and then conduct detailed testing on quantity, appearance, physical performance, and chemical environmental friendliness after actual arrival of goods.

We have established Quality Management Department and developed well-defined test criterion and process for semi-finished and finished products. We require to conduct quality inspection in workshop and quality control section, the inspection covering all production links, so as to enable each link to meet quality standard and ensure the quality of finished products.

Meanwhile, the quality management system of Dongguan Mayflower has passed the ISO9001:2008 and GB/T 19001-2008 system certification. (The production of women scandals, closed-toe shoes and boots all passed the certification.)

In the toy business sector, Hamleys, as a member of British Toy & Hobby Association (BTHA), always takes quality as the top priority. We have entered into memorandum of understanding with International Council of Toy Industries (ICTI). Passing the ICTI certificate is a necessity for suppliers to cooperate with us.

### CUSTOMER MANAGEMENT

#### Customer complaint

Customer experience and comment are the key for our continuous development. We are committed to build good product maintenance & return policy and customer feedback channel, aiming to protect customers' rights and ensure their feedback go to related departments. We believe only by making customers feel valued can we build stable customers loyalty and stride forward.

As for the customer feedback channel, we have developed Regulations on C.banner Online/Offline Customer Complaint and Maintenance Treatment Process to standardize daily treatment process. After collecting complaints and comments, including product advertising and labeling matter, VIP support sector of Customer Service Department would assist customers to maintain or change/return product based on operational process, as well as send feedback regarding product quality design to technical department for improvement. In 2016, the customer complaint we received only accounted for 0.25% of total sales (exclusive of foreign business). We also set up callback system, requiring after-sale customer service staff to call back for customers' complaint to follow up and implement treatment as well as learn about customer satisfaction.

In terms of toy business sector, we also provide customers with multiple complaint and feedback channels including telephone, e-mail, and others. Meanwhile, we also provide self-service return for customers to login official site to return products.

#### Customer privacy protection

Protecting customer privacy is one of our priorities. We establish Data Protection Policy for VIP Customers and input all customer data into our CRM system for central management by CRM department. Terminal stores could only check these data, having no right to use or obtain related consumption data privately. We promise to strictly obey all related laws and regulation as well as keep all the customer data under supervision, while ensuring no third parties could have access to the data privately.

As for the security management of the system, we specify security requirements in related policies of information security management and engage external review institution to conduct supervision and review to ensure smoothness and security of the system.

### ANTI-CORRUPTION

Our group and our employees are in strict accordance with related laws and code of ethics. There were no cases regarding corruption, bribery, blackmail and money laundering occurred in 2016.

We have developed and implemented audit and report system as well as hired independent auditors to conduct external audit to prevent and control the occurrence of fraud and wrongdoings.

We keep the promise to abide by business operation-related laws and regulations. With the establishment of General Manager Mailbox, employees could report alleged breaches of national laws, regulations and policies, corporate internal control issues and other fraud or violations. We hold the information of the whistleblower strictly confidential, ensuring he/she would not suffer from any form of illegal retaliation or discrimination.

In toy business sector, we regulate anti-corruption and reporting measures in *Staff Code of Conduct*. We strictly prohibit any kinds of soliciting and accepting bribes, and also establish confidential reporting channel for employees to report any alleged corruption and fraud.

## 7. COMMUNITY ENGAGEMENT

We highly value the harmonious relationship with communities. We learn about community demand through active participation in local activities and ensure our business activities are in the interest of communities with concrete actions.

### WELFARE COOPERATION

In November 2016, Hamleys cooperated with Lefu welfare institution to hold a public welfare activity themed as “Little Toy with Great Love, Hamleys is with You” in its Nanjing flagship store, aiming to care for children. Starting from the standpoint of caring for exceptional children and enhancing children’s safety awareness, Hamleys hopes to make contributions to children’s health and safety through these public welfare activities, wishing children to improve their safety awareness and thrive in a gentle world. 30 mentally-disordered children showed up in the activity and sold their paintings for charity. Hamleys makes donations in its unique way, bringing children more happiness.



Hamleys officially became a public welfare partner of Nanjing Lefu Youth Development Service Center in 2016 and will continue with its public welfare undertakings in the future.

UK stores of Hamleys also hold a number of public service activities, such as charity sales of toys to help children who spend their Christmas in hospital and star war-themed activities to raise fund for charity organizations, etc.

### COMMUNITY CARE

We care for the people who are in need, offering them necessary help. We also donate money to charity fund of communities every year.

We donated RMB300,000 to the charity fund of Suining County in Xuzhou; meanwhile, we also made donations to Women’s Federation of Suining County in Xuzhou and funded Double-Ninth Day activity of Lishui Town in Foshan in 2016.

### EDUCATION

In 2016, we participated in a variety of student-aid activities and donated educational fund to regional Hope Project, regional federation of trade unions and neighborhood committees. Hamleys helped to rebuild classrooms of a damaged school through artifacts donation in UK.

### LABOUR DEMAND

We primarily recruit employees from the region where we operate, which would not only drive local employment, increasing the income of local population but contribute to common prosperity between our group and the communities.

## 8. ESG GUIDE INDEX

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