



Sunny Optical Technology (Group) Company Limited

舜宇光學科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2382.HK)



2019

Environmental, Social and Governance Report

CONTENTS

02	About This Report
04	Chairman's Statement
06	About Us
18	ESG Governance
22	Product Responsibility
36	Supply Chain Management
43	Employee Management
61	Health and Safety
68	Green Operation
72	Emissions Compliance
76	Community Welfare
80	ESG Index
84	Feedback Form

About This Report

This report is the annual environmental, social and governance (“**ESG**”) report issued by Sunny Optical Technology (Group) Company Limited (the “**Company**”), which mainly summarizes the Company and its subsidiaries’ environmental, social and governance work methods, commitments and strategies.

REPORTING PERIOD

Unless otherwise stated, this report covers the period from 1 January 2019 to 31 December 2019.

TITLE DESCRIPTION

For ease of presentation and reading, in this report, all of “the Group”, “we” or “us” and its “Sunny Optical Technology” refer to Sunny Optical Technology (Group) Company Limited and all its subsidiaries, and “the Company” refers to Sunny Optical Technology (Group) Company Limited.

ORGANIZATIONAL BOUNDARY

Unless otherwise stated, the scope of this report only covers the Company and its three subsidiaries in Yuyao City, Zhejiang Province, China, namely Zhejiang Sunny Optics Co., Ltd. (“**Sunny Zhejiang Optics**”), Ningbo Sunny Opotech Co., Ltd. (“**Sunny Opotech**”) and Ningbo Sunny Automotive Optech Co., Ltd. (“**Sunny Automotive Optech**”). For the year ended 31 December 2019, the main operating revenue of three subsidiaries covered in this report accounted for more than 90% of the revenue of the Group.

REPORTING STANDARDS

This report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and complies with its reporting principles:

“Importance”: During the preparation of this report, important stakeholders have been identified, and important ESG issues have been determined through materiality assessment;

“Quantitative”: All data in this report comes from relevant documents or information of the Group, and relevant standards and methods used in the calculation of emissions and energy data have been reported;

“Balance”: This report presents the ESG performance of the Group impartially, as far as reasonable and practicable, to ensure that readers can make reasonable and objective assessment;

“Consistency”: Unless otherwise stated, this report uses consistent data statistics methods compared with that in the section headed Environmental, Social and Governance Report on pages 84 to 118 in the 2018 Annual Report published by the Company, and no major changes have occurred.

About This Report

DATA EXPLANATION

The data used in this report includes the internal statistical data and relevant public data of the Company and three subsidiaries. The Group guarantees that there are no deceptive records, misleading statements or major omissions in the content of this report. Unless otherwise stated, the currency in this report is denominated in Renminbi (“**RMB**”).

PUBLICATION METHOD

This report is published in an electronic format on the website of the Group (<http://www.sunnyoptical.com>) and HKEXnews of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>). This report is in Chinese and English. If there is any inconsistency, please refer to the Chinese version.

CONTACT METHOD

If you have any queries or suggestions in relation to this report or the ESG management of the Group, please contact us through e-mail (ir@sunnyoptical.com).

Chairman's Statement



Mr. YE Liaoning
Chairman and Executive Director

Dear Stakeholders,

2019 is the 35th anniversary of the establishment of Sunny Optical Technology. During the last thirty-five years, we have ushered in the dawn of the new era, stepped on the drums of reform and opening up, bathed in the baptism of the economic tide, seized opportunities, worked hard, created a prosperous situation, wrote a chapter of advancing with the times, and made remarkable achievements. In this historical moment of succession, we will firmly implement the strategy of “Mingpeijiao” (「名配角」) and strive to be stronger, bigger, further, and to become a “Hundred-Year-Old Brand” in the optoelectronic industry.

Looking back in 2019, the global economic growth continued to slow down with intensifying trade tensions. The global trade fell into a weak state. Entering into 2020, the global economy is still facing many uncertainties, such as the global economic and trade dispute, the global spread of 2019 Corona Virus Disease (“**COVID-19**”) epidemic, the presidential election campaign in the United States, the Brexit and the geo-political conflict in the Middle East. In such a complex and changeable market environment, we will continue to make good use of the advantages in scale, technology, resources and talents and thoroughly implement our development strategies, so as to achieve sustainable and steady development of the Group.

The Group will continue to improve the research and development (the “**R&D**”) capabilities, increase the R&D investments, promote the upgrade of existing products, make breakthroughs in key technologies, optimize the construction of the R&D system and enlarge the technological value added to the products. Meanwhile, the Group will continue to strengthen the manufacturing capabilities, continuously optimise the manufacturing management procedures and organizational structure, persistently innovate the technological skills, accelerate to propel the processes of automatic production and inspection, improve the production efficiency and product quality. The Group will continue to seek substitutes for hazardous and noxious substances to make the products meet the requirements of customers and the laws and regulations of importing countries, and the materials must be equipped with green products warranty certificates and testing qualified reports issued by third-party testing agencies. Besides, the Group will persistently optimize the supply chain and supply channels, standardize the management procedures, improve the management systems, increase the management efficiency and accuracy and reduce the operating cost.

Chairman's Statement

The Group will continue to make in-depth analysis on the employment demand and improve the professional proficiency of Human Resources Department to build a more stable and efficient supply channel of talents. Meanwhile, the Group will further optimise the talent cultivation system, perfect the employment qualification and training system, and set up a more sound and reasonable developing channel for talents. Moreover, the Group will implement the Rules of Cadre Management (《幹部管理辦法》), improve the cultivation mechanism for cadre and build a cadre team with excellent management ability with strong company value. The Group will promote the in-depth learning and discussion of the Practice and Exploration (《實踐與探索》) to deepen the understanding and recognition of all employees on the enterprise culture. The Group will continuously continue to devote resources to safe production to protect employees from occupational hazards, provide employees with a healthy and safe working environment, and provide continuous support and guarantee for the healthy development of the Company.

The Group will continue to promote the implementation of environmental policies, such as conducting environmental impact assessment for various types of raw materials or machines prior to procurement; enhancing awareness of environmental protection among all employees by launching various training courses and organising environmental protection activities. During the daily operations, the Group has paid a close attention to the latest development of domestic and international environmental protection laws and regulations to ensure that the environmental policies are in line with domestic and international standards, as well as global peers.

In order to establish and improve the ESG management system, the Group has established an ESG management and promotion team: the board (the “**Board**”) of directors (the “**Directors**”, each a “**Director**”) takes the responsibility for the ESG management system and information disclosure, and coordinates the development and goals of ESG management; the ESG management and promotion team is responsible for the conducting and implementation of the ESG work and goals. The Group believes that the pursuit of sustainable development is an important basis for enterprises to formulate mid- to long-term strategies. Whether the company can be built to last and whether it has stronger long-term competitiveness in the market is related to whether the goal of sustainable development can be achieved. Therefore, the Group complies with various international environmental protection laws and regulations in production and operation activities. Through technological innovation, manufacturing reform and other methods, the Group aims to achieve the goals of environmental protection and sustainable development. At the same time, the Group adheres to contributing to the society on an ongoing basis, actively devotes to the public welfare such as education and charity, aids the construction of urban communities, and contributes to the local economic and social development.

Ye Liaoning

Chairman and Executive Director

China

22 June 2020

About Us

ABOUT SUNNY OPTICAL TECHNOLOGY

Company Profile

Established in 1984, Sunny Optical Technology (Group) Company Limited is a global leading integrated optical components and products manufacturer with more than thirty-five years of history. The Group was listed on the Main Board of the Hong Kong Stock Exchange in June 2007 and was included in the Hong Kong Hang Seng Index constituent stocks in December 2017. The Group is principally engaged in the design, R&D, manufacture and sales of optical and optical-related products. Such products include optical components (such as glass spherical and aspherical lenses, plane products, handset lens sets, vehicle lens sets, security surveillance lens sets and other various lens sets), optoelectronic products (such as handset camera modules, three dimensional (the “3D”) optoelectronic products, vehicle modules and other optoelectronic modules) and optical instruments (such as microscopes and intelligent equipment for testing). The Group focuses on the application fields of optoelectronic-related products, such as handsets, digital cameras, vehicle imaging and sensing systems, security surveillance systems, virtual reality/ augmented reality and automated factories, which are combined with optical, electronic, software and mechanical technologies.

The Group’s production bases are located in Yuyao of Zhejiang Province, Zhongshan of Guangdong Province, Shanghai and Xinyang of Henan Province in China, respectively. In order to meet the customers’ rapidly growing demands in overseas markets, the Group has established new production bases in India and Vietnam respectively in 2019. Meanwhile, in order to have timely insight into market trends and cooperate with customers in R&D, the Group set up R&D centers in China, Singapore, the U.S., South Korea and other countries.

Brief introductions to three subsidiaries covered in this report are as follows:

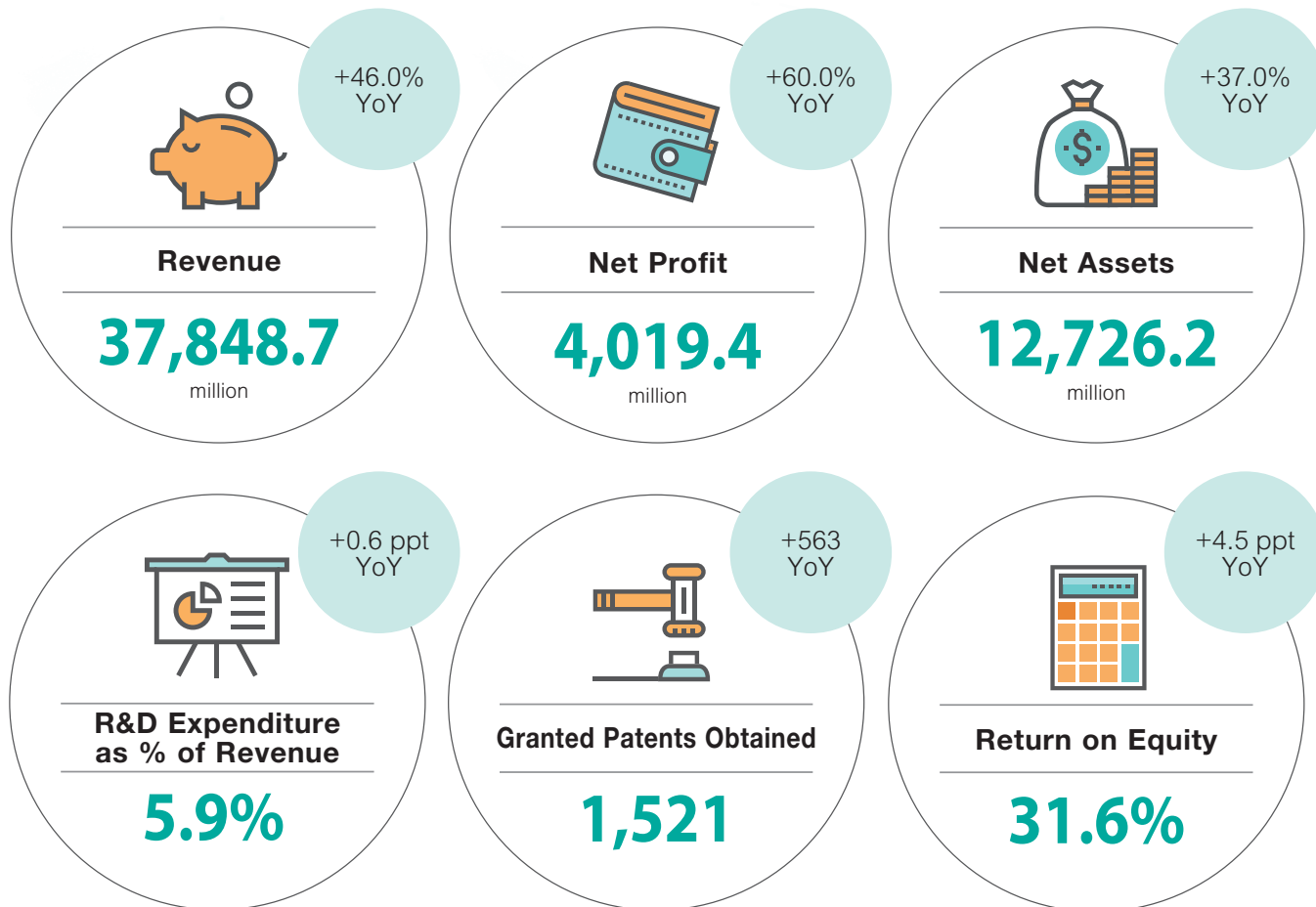
Sunny Zhejiang Optics is engaged in the design, manufacture and sales of handset lens sets as well as 3D interactive lens sets and other optical lenses and lens sets;

Sunny Opotech is engaged in the design, manufacture and sales of handset camera modules, 3D optoelectronic products and other optoelectronic modules;

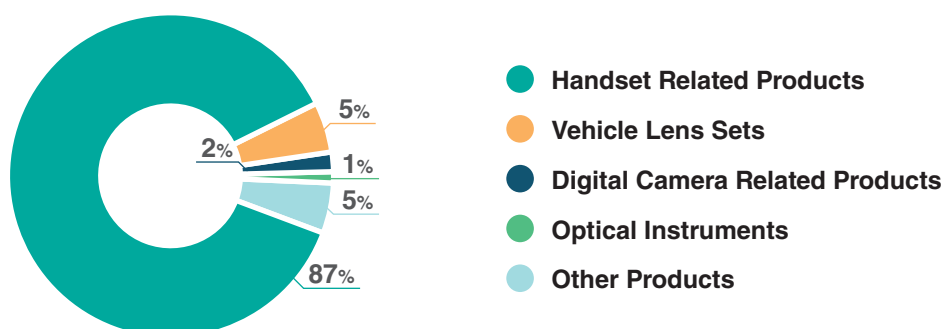
Sunny Automotive Optech is engaged in the design, manufacture and sales of vehicle lens sets and other optical components applied in the automotive industry.



Core Financial Numbers in 2019



Revenue Breakdown by Product Applications

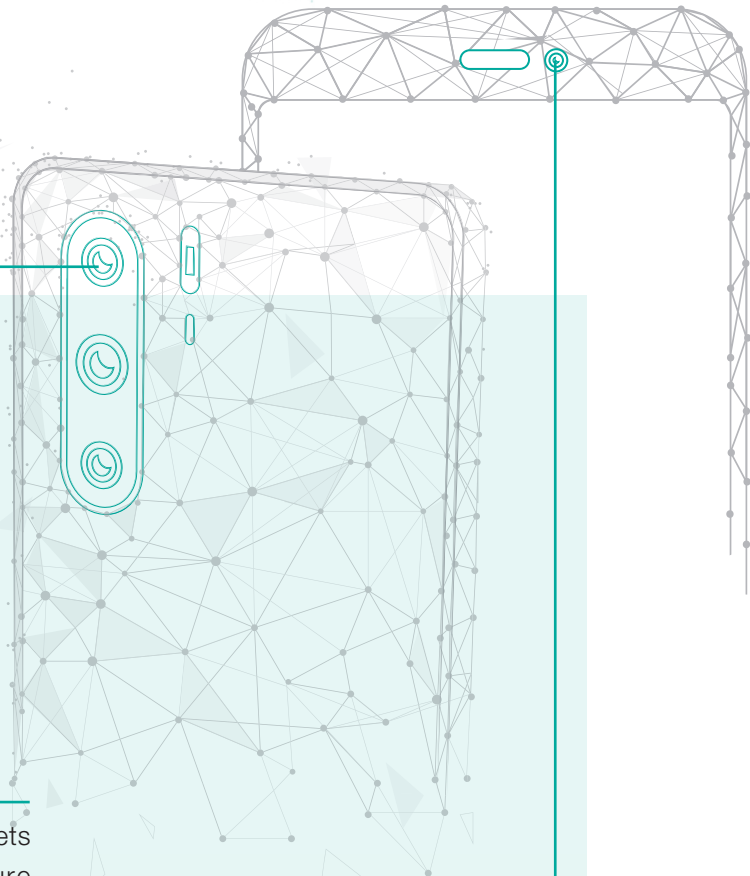


For the year ended 31 December 2019

About Us

MAIN BUSINESS AREAS

Handset Area



Handset Lens Sets

A miniature optical lens sets used for the static picture or video shooting on mobile phones, which is mainly composed of multiple plastic aspherical lenses, plastic shells and other materials.



3D Optoelectronic Products

Through the transmitting and receiving modules, the in-depth information of an object is sensed to make the image more layered and to achieve depth detection and 3D imaging.



Handset Camera Modules

Lens sets, sensors, printed circuit boards and other components are assembled by adopting the chip on board packaging technology for shooting static pictures or videos.

Vehicle Imaging and Sensing Area



Vehicle Lens Sets

They are applied in vehicles to monitor the real-time environment in-cabin and outside of vehicles and provide safety guarantee to the driving of vehicles. They are mainly composed of multiple glass lenses and/ or plastic lenses.



Display Related Optical Products

Through the principle of optical reflection, important driving information such as speed and navigation are projected on a piece of glass to prevent the driver from distracting and ease eye-strain, providing safety guarantee to the driving of vehicles.

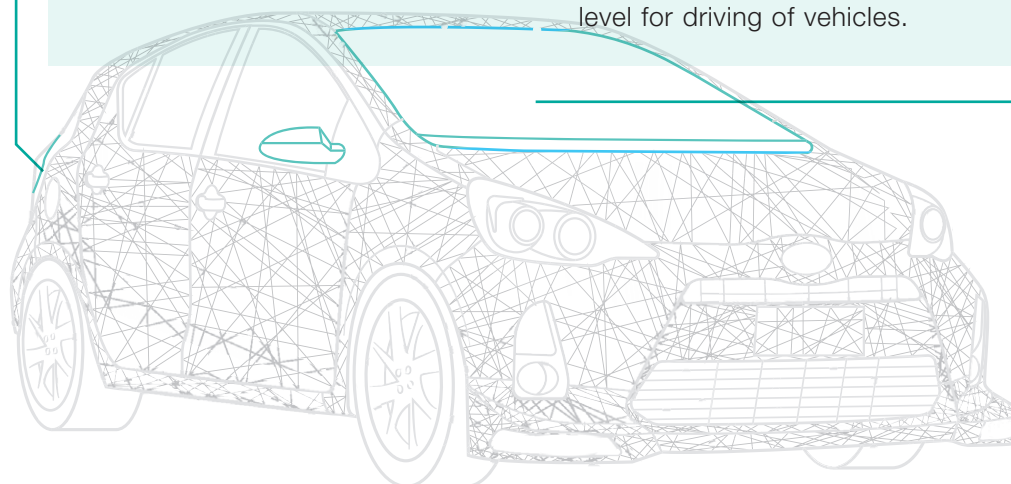
Vehicle Modules

Vehicle lens sets, sensors, printed circuit boards and other components are assembled to be applied in vehicles to monitor the real-time environment in-cabin and outside of vehicles and provide safety guarantee to the driving of vehicles.



LiDAR Related Optical Products

Detecting objects and roads when driving the vehicle by using the laser beams which have no harm to human eyes, with high detection precision. They are usually combined with vehicle lens sets to further enhance the safety level for driving of vehicles.



About Us

Visual Image

The Group attaches importance to the construction of brand management. In order to ensure that the design and production of various types of visual identity (“VI”) application projects meet the standards of the VI Manual of Sunny Optical Technology (《舜宇光學科技VI手冊》), unify the visual image and enhance the public’s recognition on us, the Group has developed the Regulations on the Administration of VI Application Projects (《VI應用項目管理規定》). It specifies the management objects and responsibilities, the classification of VI application projects, management requirements and appraisal methods to ensure the standardized implementation of VI application projects.

Enterprise Culture

Three major systems:

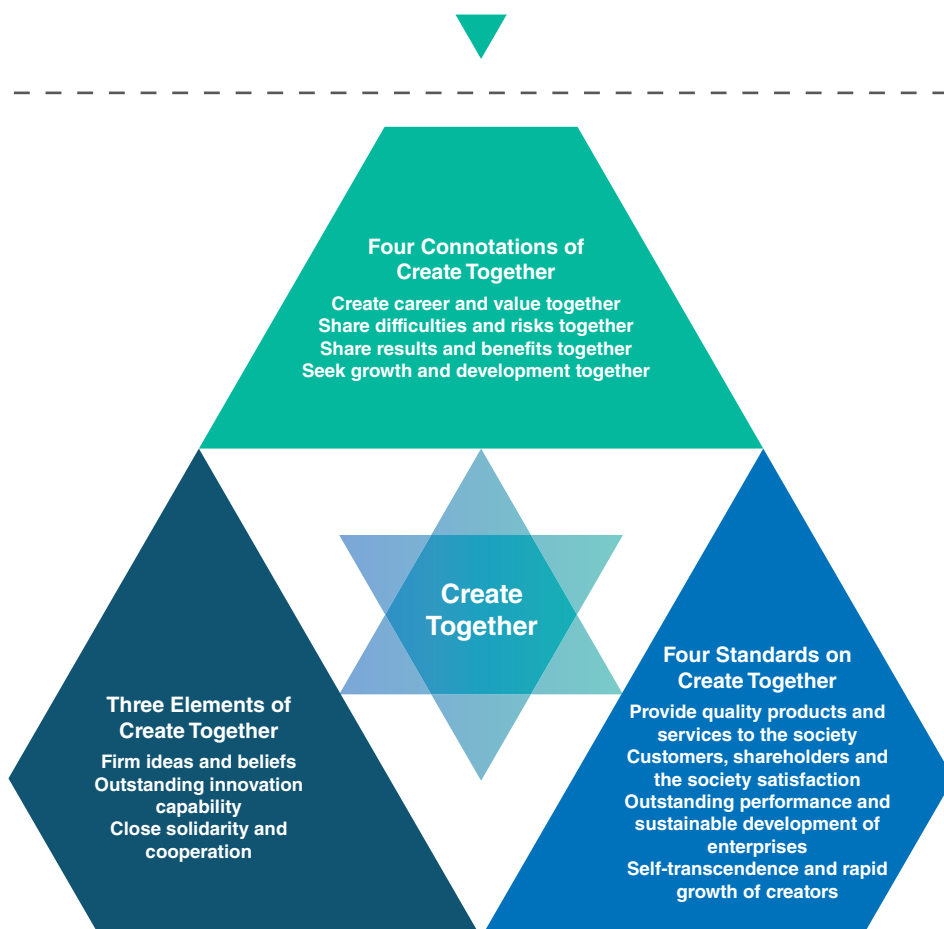
The system of spiritual culture with “Create Together” as the core

The system of institutional culture with “Prevent Familization” as the core

The system of behavioral culture with “Leaders’ Personal Demonstration” as the core

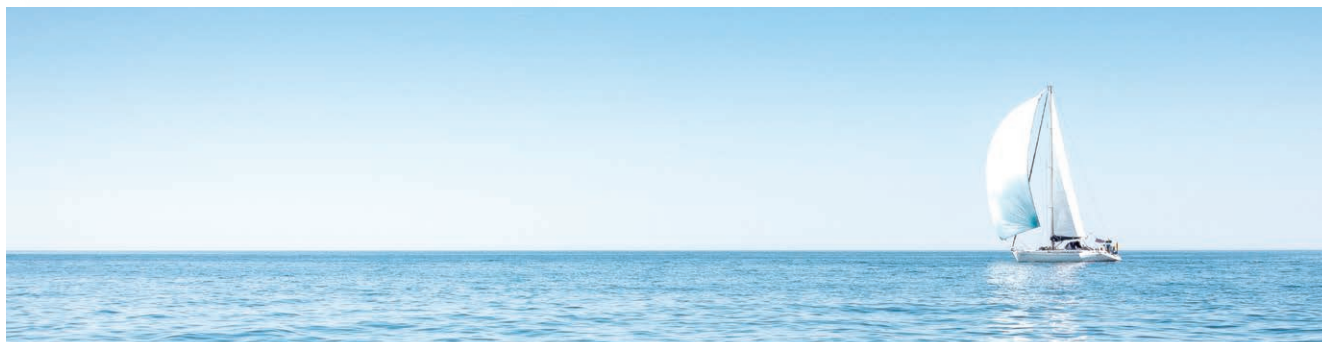
Core Value

Take the core value of “Create Together” as the spiritual pillar,
the basic beliefs, the criteria and the code of conduct.



Mission

To explore the prosperous path for the development of China's optoelectronic industry and revitalize the optoelectronic industry of the nation



Vision

To be stronger, bigger, further, and to become a "Hundred-Year-Old Brand" of optoelectronic industry



Development Strategy

To firmly implement the strategy of "Mingpeijiao", and develop into a world-renowned optoelectronic enterprise



Industrial Associations

In order to fulfill the social responsibilities and achieve common development, cooperation and win-win results with the industry, the Group actively maintains close relationships with industrial associations and community.

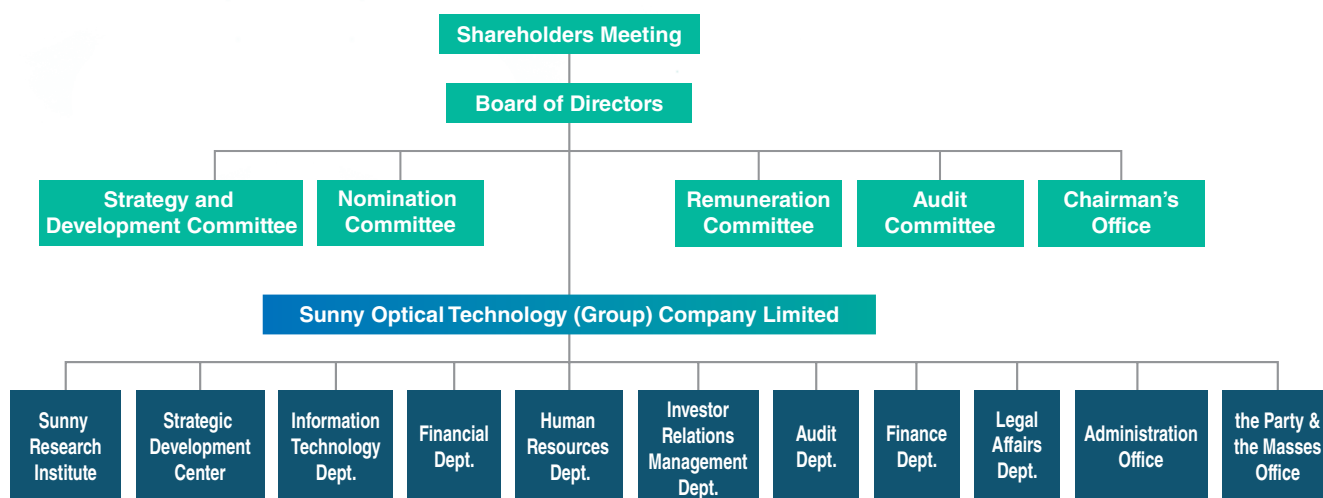
Name of association	Participant
Chinese Optical Society	Sunny Optical Technology (Group) Company Limited
China Electronics Enterprises Association	Ningbo Sunny Opotech Co., Ltd.
China Instrument Manufacturer Association	Sunny Optical Technology (Group) Company Limited
Zhejiang Federation of Industrial Economics/ Zhejiang Enterprise Confederation/ Zhejiang Entrepreneurs Association	Sunny Optical Technology (Group) Company Limited
Zhejiang Provincial High-Tech Enterprises Association	Ningbo Sunny Opotech Co., Ltd.

About Us

Awards and Recognitions

Award and recognition	Awarded by	Awarded to
Comprehensive Corporate Strength		
Ranking 34 th Top 100 Enterprises in China Electronic Information Industry	China Information Technology Industry Federation	Sunny Optical Technology (Group) Company Limited
Ranking 329 th in 2019 China Top 500 List	U.S. Fortune Chinese Version	Sunny Optical Technology (Group) Company Limited
Ranking 26 th in Top 40 Companies in Return on Equity	U.S. Fortune Chinese Version	Sunny Optical Technology (Group) Company Limited
Ranking 285 th in Top 500 China Manufacturing Enterprises	China Enterprise Confederation/ China Enterprise Directors Association	Sunny Optical Technology (Group) Company Limited
2019 Golden Hong Kong Equities Award	Zhitongcaijing	Sunny Optical Technology (Group) Company Limited
Best TMT Company	Zhitongcaijing	Sunny Optical Technology (Group) Company Limited
Corporate Social Responsibility		
2019 “Best Corporate Governance” among all-Asia Technology/ Hardware Companies	Institutional Investor	Sunny Optical Technology (Group) Company Limited
2019 “Best ESG SRI Metrics” among all-Asia Technology/ Hardware Companies	Institutional Investor	Sunny Optical Technology (Group) Company Limited
Certification of “Quality Month” in Jiangsu, Zhejiang, Anhui, Jiangxi and Shanghai in 2019	Jiangsu Administration for Market Regulation Zhejiang Administration for Market Regulation Anhui Administration for Market Regulation Jiangxi Administration for Market Regulation Shanghai Administration for Market Regulation	Zhejiang Sunny Optics Co., Ltd.
Labor Management		
2018 Extraordinary Employer in Eastern China	Dajie.com	Sunny Optical Technology (Group) Company Limited
2019 Prize for Outstanding Human Resources Management	51Job	Sunny Optical Technology (Group) Company Limited
Education and Practice Base	Shaoxing University	Sunny Optical Technology (Group) Company Limited
Best Company in University-Enterprise Collaboration	Changchun University of Science and Technology	Sunny Optical Technology (Group) Company Limited
Extraordinary Campus Employer in Zhejiang	Liepin • Liexin Media	Sunny Optical Technology (Group) Company Limited
Model of Talent Management Enterprises in China	Beisen Research of Talent Management, Business School of Renmin University of China, Harvard Business Review Chinese Version	Sunny Optical Technology (Group) Company Limited

CORPORATE GOVERNANCE



Board and Committees Composition

Being accountable to the shareholders, the Board is responsible for facilitating the further development of the Company's business by promoting and guiding the business development and operations in a responsible and effective manner. Board members have a duty to act in good faith, with due diligence and care, in order to maintain the best interests of the Company and all shareholders. As at the date of this report released, the Board comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors.

In accordance with the Articles of Association, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years.

The Board has established and delegated authorities and responsibilities to four specific committees with written terms of reference to assist the Board to perform its functions effectively, namely the Audit Committee, Remuneration Committee, Nomination Committee and Strategy and Development Committee. Each committee has access to adequate resources to carry out its functions, and may seek independent professional advice where appropriate. Deloitte Touche Tohmatsu has provided independent audit service to the Company as an external auditor for thirteen years since the Company was listed. The terms of reference for each committee have been published on the Group's website (<http://www.sunnyoptical.com>) for stakeholders to review.

About Us

During the year of 2019, the Board convened 8 meetings considering the business development and the needs of the Company. The details of the attendance of meetings of the Board can be referred in the section headed Corporate Governance Report on page 60 in the 2019 Annual Report published by the Company.

Board

Executive Directors

Mr. Ye Liaoning
Mr. Sun Yang
Mr. Wang Wenjie

Non-executive Director

Mr. Wang Wenjian

Independent Non-executive Directors

Mr. Zhang Yuqing
Mr. Feng Hua Jun
Mr. Shao Yang Dong

Committees

Audit Committee

Mr. Zhang Yuqing
(Chairman)
Mr. Feng Hua Jun
Mr. Shao Yang Dong

Remuneration Committee

Mr. Shao Yang Dong
(Chairman)
Mr. Feng Hua Jun
Mr. Zhang Yuqing

Nomination Committee

Mr. Feng Hua Jun
(Chairman)
Mr. Wang Wenjian
Mr. Shao Yang Dong

Strategy and Development Committee

Mr. Ye Liaoning
(Chairman)
Mr. Sun Yang
Mr. Wang Wenjie
Mr. Wang Wenjian
Mr. Feng Hua Jun

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regards to the Group's operating results, individual performance and comparable market statistics. Among them, the emoluments of executive Directors comprise salaries and other benefits, bonus, retirement benefit scheme contributions and share award; the emoluments of non-executive Directors comprise salaries and other benefits, bonus and share award; and the emoluments of independent non-executive Directors comprise fixed salaries.

During the year of 2019, the Remuneration Committee made recommendations to the Board on the Company's policy and structure of the remuneration of all Directors and senior management; assessed the performance of the executive Directors; according to the terms of Directors' service contracts, determined the specific remuneration packages of all executive Directors and senior management and made recommendations to the Board on the remuneration of the non-executive Directors.

Board Diversity

The Company has been devoted to improving the board efficiency and maintaining the highest standard of corporate governance. It recognises and embraces the benefits of board diversity. The Company believes that diversity is a wide concept and can achieve the board diversity by considering (including but not limited to) skills, knowledge, gender, age, cultural and educational background or professional experience. Meanwhile, the Company also considers other elements such as its own business models and specific demands from time to time. The current Board's composition under diversified perspectives is summarized as below:

Name	Ye Liaoning	Sun Yang	Wang Wenjie	Wang Wenjian	Zhang Yuqing	Feng Hua Jun	Shao Yang Dong
Gender	Male	Male	Male	Male	Male	Male	Male
Age	54	47	52	72	72	56	50
Period of service	From May 2007	From May 2009	From December 2013	From March 2012	From May 2007	From April 2016	From April 2016

Skills/ knowledge/ professional experience							
Financial management	√	√			√		√
Operation management	√	√	√	√	√		√
Capital market	√	√			√		√
Risk management	√	√	√	√	√	√	√
Strategic planning	√	√	√	√	√	√	√
Board committee leadership experience	√			√	√	√	√
Optical industry and other related industries experience	√	√	√	√	√	√	√

RISK MANAGEMENT

The Board is responsible for the effectiveness of the risk management and has authorized the Audit Committee to act as the professional committee to professionally review the risk management reports submitted by the management, ensuring that the management has fulfilled its responsibilities to establish effective risk management and internal control systems. Procedures have been established by the Group to identify, assess, manage and monitor various risks including strategy, financing, market, operation and laws that may have impacts on the Group and each major department. For details, please refer to pages 74 to 84 of the 2019 Annual Report.

About Us

The Group has formulated the Risk Management Policy (《風險管理制度》) with a view to enhancing the risk management capability and perfecting corporate governance practice, and improving the effectiveness and efficiency of internal control systems across the whole Group. In order to further improve the risk management system, the Group has organised and established a risk management group headed by the Chief Executive Officer and with the general managers of each subsidiary as the deputy heads as well as with leaders of various functional departments including the Financial Department, the Strategic Development Center, the Legal Affairs Department, the Information Technology Department as members, responsible for daily risks management of the Company. Each subsidiary of the Group has also established risk management teams with members including the general manager and leaders of relevant functional departments of each subsidiary, responsible for risk management of their own. The risk management group and teams are responsible for the implementation of enterprise risk assessment, risk response, monitoring the implementation of risk management measures, building the library of key risk indicators and improving the risk checklist to enhance the risk management capability of the Company.

Following the working principle of “Full Participation with Upper and Lower Linkage”, the Audit Department of the Company organized trainings of risk management for each subsidiary during the year of 2019, explaining the overall risk management, the risk management system and evaluation methods in risk management. In addition, the Group also publicizes the relevant knowledge on risk management through the “Sunny Family” WeChat official account and “Sunny Journal” internal journal to all employees.

BUSINESS ETHICS

The Group abides all local laws and regulations on business ethics of the countries and regions, such as the Anti-Unfair Competition Law of the People’s Republic of China (《中華人民共和國反不正當競爭法》) and the Basic Norms on Internal Control of Enterprises (《企業內部控制基本規範》).

The Group believes that the development of such professional ethics as honesty and integrity is one of the important behaviours to be performed in relation to the conduct of the Group’s employees, where professional ethics education covering the concepts of honesty and integrity is required to be conducted in various departments on either a regular or non-regular basis. In order to regulate the professional conduct of its management cadres at various levels and employees, the Group formulated the Anti-Malpractice Policy (《反舞弊制度》) in 2010 and revised it in 2016 and conducted trainings and examinations on all employees. Employees failing to pass the examination are required to restudy until they pass the examination. Subsequently, publicized activities and trainings will be held every year. Anti-malpractice refers to any action that is intended to counteract the use of means that do not conform to the laws and regulations (such as fraud) by persons either inside or outside the Group for seeking illegitimate personal interests to the detriment of the Group’s legitimate economic interests. The Anti-Malpractice Policy highlights the “anti-corruption” and “anti-fraud”, includes the prevention and control of malpractice, the avoidance of appointing certain individuals to key positions, the segregation of incompatible roles, the reporting and audit of related party transactions, the procedures and mechanism for the control of malpractice risks, and establishes of provisions relating to a dedicated “tally” for in-kind and monetary gifts. Meanwhile, in order to enhance the anti-malpractice awareness of employees, the Group requires that: 1. The Anti-Malpractice Policy is required to be incorporated as a component of the induction training program for new employees; 2. The online courses of the Anti-Malpractice Policy are provided for employees to learn; 3. Each subsidiary is required to carry out integrity publicity on bulletin boards and conduct integrity lectures, integrity commitments and other activities; and 4. Publish integrity reminders through internal journals, WeChat official accounts and other channels on a non-regular basis. Currently, the trainings on the anti-malpractice are provided to all employees (including executive Directors).

The Group has established the Connected Transaction Policy (《關連交易制度》) to strengthen internal control, protect the legitimate interests of shareholders and improve the corporate governance structure. The connected transaction procedures of the Group require that: 1. Suppliers shall sign an Undertaking for Operating with Integrity (《誠信經營承諾書》) upon introduction and make annual declarations in relation to their related persons every year; 2. Each personnel with management title of associate department manager or above, or occupying a key sensitive position has to sign an Anti-Malpractice Guarantee (《反舞弊保證書》) every year and make annual declaration in relation to their related persons. The employee occupying a key sensitive position has also to sign an Integrity Guarantee (《廉潔從業承諾書》) and a system involving regular rotation and integrity reports is implemented; 3. For newly-appointed management cadres at associate department managers or above, they shall make declarations in relation to their related persons before the appointment; 4. The Audit Department of the Company audits the compliance of connected transactions and the reports in relation to their related persons of the previous year in January to February of each year, and publishes the whistleblowing announcement before the audit; and 5. The Audit Department issues the audit report based on the audit results and reports it to the Audit Committee. The independent non-executive Directors of the Company review the Group's continuing connected transactions every year and confirm that such transactions meet the following requirements: 1. Concluded in the Group's daily businesses; 2. Conducted in accordance with normal or better commercial terms; and 3. Conducted in accordance with the agreements on relevant transactions, with fair and reasonable terms and in line with the overall interests of shareholders of the Company. Meanwhile, the Company has also hired an external auditor to review the Group's continuing connected transactions.

The Audit Department has released the Circular on the Establishment of Whistleblowing Channels for Malpractice Incidents (《關於設立舞弊案件舉報渠道的公告》) to accept the supervision of all employees and prevent commercial bribery and other improper behaviors. The Audit Department fulfills the monitoring and reviewing functions through accepting whistleblowing by employees, auditing connected transactions and implementing internal audit on key projects such as infrastructure decoration and procurement of precious equipment to ensure the creation and establishment of a harmonious and honest operating environment. During the year of 2019, the Group newly introduced a communication channel, the "Integrity Sunny" WeChat official account, to publicize integrity and systems, and accept whistleblowing, which covers all the employees and external partners of the Group. In addition, employees can also make complaints and whistleblowing through the telephone and e-mail posted on the website of the Group and the platform for employee complaints and comments on "Sunny Family" WeChat official account. The Audit Department shall be obliged to keep the whistleblowing information received confidential and shall not divulge personal information of the whistleblowers to any other persons except for the Chairman of the Board. The whistleblowing contents shall only be open to the persons required to assist in investigation after being approved by the Chairman of the Board. In addition, if the whistleblowing contents were investigated to be true and it saved economic losses of the company, the Group will grant to the whistleblower 5 to 10% of the amount being subject to investigation as a reward.

In order to consistently enrich the connotation of the spiritual culture which contains the enterprise mission, vision, core value, enterprise spirit and enterprise ethics and enhance the implementation of the cultural management work, the Group has established the enterprise cultural group. During the year of 2019, the corporate cultural group issued the negative list of value of cadres to inspect and restrict them from aspects including abuse of authority, self-seeking misconduct, falsification, concealing the true state of affairs, appointment by favouritism and forming cliques for private gains. Besides, members of the enterprise cultural group are authorized to monitor and appraise cadres. If the current cadres to be promoted are involved in the above behaviors and investigated to be true by members of the enterprise cultural group, they will not be promoted or even demoted or dismissed based on the seriousness of the situation.

During the year of 2019, the Group did not experience any case of litigation relating to corruption or fraud, nor did any material non-compliance occurring during its audit work.

ESG Governance

ESG STRATEGIES

Sustainable Development

The Group adheres to the core value of “Create Together” and strives to achieve sustainable development and create value for stakeholders including shareholders and investors, customers, suppliers, employees and government/ community. It firmly fulfills three major responsibilities on sustainable development:

Social Responsibility

We believe that the harmonious development of the society requires the joint efforts of everyone and every organization. It has been one of our goals pursued to create a civilized and progressive society with friends from all walks of life and make our own contribution to social development. We believe that enterprises are cells of the society. They grow up thanks to the nurturing of the society and shoulder the responsibility of returning the society.

Environmental Responsibility

We believe that enterprise has responsibility, which is imperative, in promoting the sustainable development of environment. As an enterprise with social responsibility, we fully consider the environmental protection requirements in the operation activities, follow various international environmental protection laws and regulations, and pursue environmental protection and sustainable development through technological innovation and manufacturing reform.

Economic Responsibility

We are willing to actively assume our responsibilities as an enterprise citizen on economic development, social security, cultural education and have been devoted to the progress and sustainable development of the society for the long term.

Major Targets

The Group has set up a series of targets on sustainable development strategies. In addition, each subsidiary has also established management systems on environment, health and safety and product quality and sets up targets and conducts appraisal every year based on the requirements of the management systems.

Environmental

- Reduce the greenhouse gas emission
- Reduce the emission of hazardous wastes
- Save paper
- Save electricity
- Save water

Social

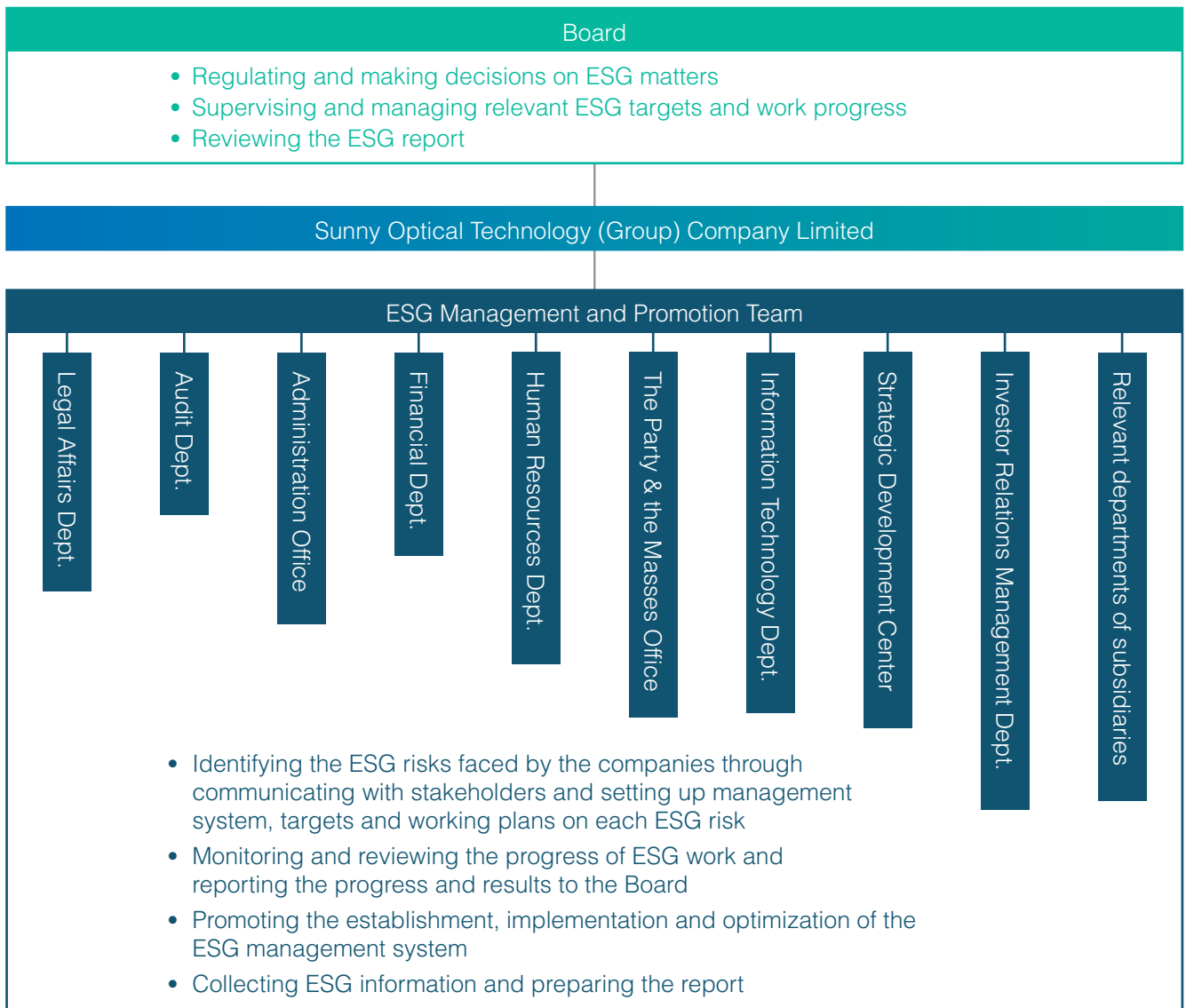
- No significant safety accidents
- Consistently provide trainings and development opportunities to employees
- Provide an equal, healthy and safe working environment

ESG MANAGEMENT STRUCTURE

The Board takes responsibilities for the ESG management system and information disclosure, supervises and manages of relevant ESG targets and work progress. The leaders of relevant departments take management responsibilities, fully understand the risks and opportunities of each ESG factor to business development and implement the specific responsibilities in production and operation activities.

To establish and improve the ESG management system and promote the sustainable, healthy and steady development of the Group, the Group has established the ESG management and promotion team. The ESG management and promotion team comprises the management personnel of the Information Technology Department, the Legal Affairs Department, the Audit Department, the Administration Office, the Financial Department, the Human Resources Department, the Investor Relations Management Department, the Party & the Masses Office and the Strategic Development Center of the Group and relevant departments of subsidiaries.

The ESG management structure of the Group is as follows:



ESG Governance

COMMUNICATIONS AMONG STAKEHOLDERS

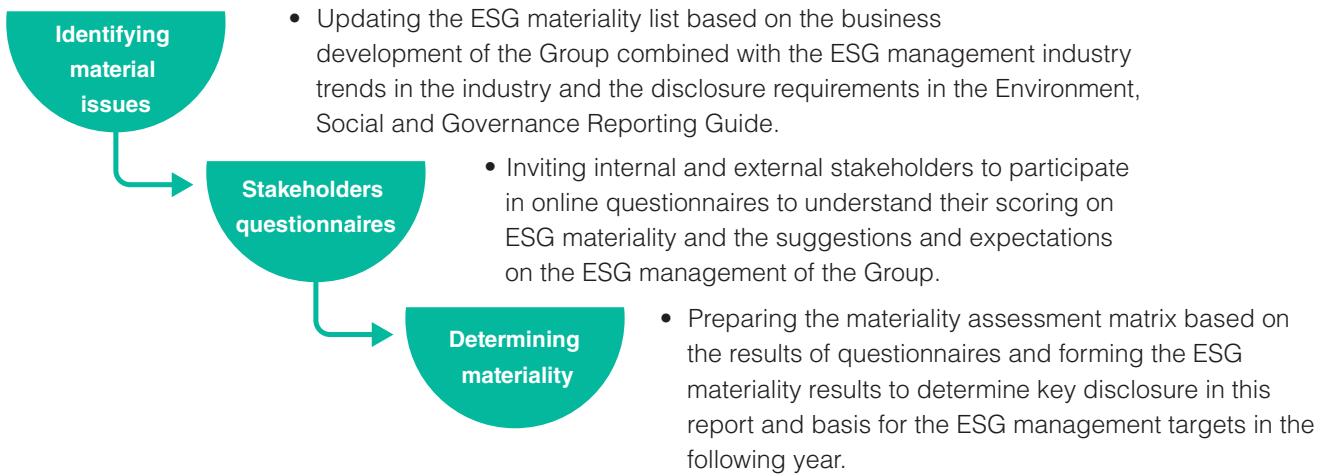
In order to consolidate the relationship between the Group and stakeholders and enhance the ESG management level and seek sustainable development, the Group maintains close communications with shareholders and investors, customers, suppliers, employees and other stakeholders through channels such as e-mail, telephone and WeChat official account to understand and respond to the expectations and requests of all stakeholders in a timely manner in order to promote the common development of the Group and all stakeholders.

Stakeholders	Communication methods	Expectations and requests	Our responses
Shareholders and investors	<ul style="list-style-type: none"> Annual general meeting and extraordinary general meeting Investor presentations Annual reports, interim reports and announcements Investor meetings 	<ul style="list-style-type: none"> Safeguarding shareholders' interests Obtaining investment returns Disclosing important information 	<ul style="list-style-type: none"> Assessing on various indicators Ensuring the healthy development of the Company Holding annual general meetings and extraordinary general meetings Disclosing important information
Customers	<ul style="list-style-type: none"> Customer satisfaction surveys Seminars and symposiums 	<ul style="list-style-type: none"> Product R&D and technological innovation Product safety and quality management Information security and commercial secrets protection 	<ul style="list-style-type: none"> Strictly control over R&D, procurement, production and other aspects Quick response to customers' demands Improving the quality management system Establishing the information security system and authorization setting
Suppliers	<ul style="list-style-type: none"> Annual suppliers meetings Suppliers trainings On-site audit on suppliers 	<ul style="list-style-type: none"> Supply chain management and sustainable development Anti-corruption and anti-fraud 	<ul style="list-style-type: none"> Implementing the suppliers introduction and removal mechanism Conducting suppliers' trainings and audit Signing undertaking for operating with integrity
Employees	<ul style="list-style-type: none"> Employee representatives congress Employee satisfaction surveys General manager's mailbox "Sunny Family" WeChat official account "Sunny Journal" internal journal Regular trainings 	<ul style="list-style-type: none"> Employees recruitment and team building Employees development and training Employees' interests and safeguarding Occupational health and safety 	<ul style="list-style-type: none"> Following labor principles Improving the occupational development and training mechanism Setting up Trade Union (the "Trade Union") to protect employee rights and interests Providing competitive salaries and welfare Implementing health and safety management system
Government/ community	<ul style="list-style-type: none"> News reports Reporting of regulatory information Forums and communications activities 	<ul style="list-style-type: none"> Abiding by laws and regulations Promoting employment Environmental protection Participating in community welfare activities 	<ul style="list-style-type: none"> Maintaining green operation Organizing voluntary activities Participating in community construction

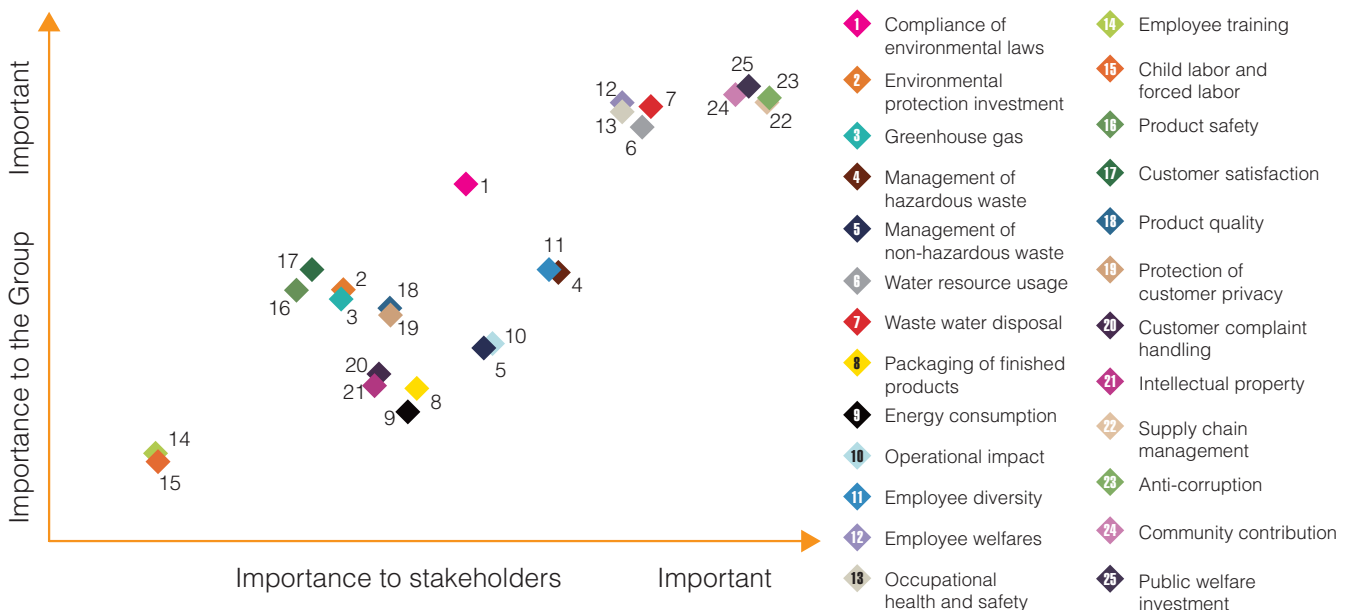
MATERIALITY ASSESSMENT

In January of 2019, the Group conducted ESG materiality assessment by questionnaires, comprehensively considered the concerns of stakeholders on various issues and their importance to the strategy and business of the Group and prioritized the issues, so that key disclosures could be specified in the ESG Report and the expectations and requests of stakeholders could be responded in a targeted manner.

Steps in ESG materiality assessment:



After discussion and analysis, the ESG management and promotion team determined that as there is no significant change in the materiality issues of the Group, this report will follow the materiality analysis results in the section headed Environmental, Social and Governance Report on pages 84 to 118 in the 2018 Annual Report published by the Company. The Group analyzed 25 related issues in two dimensions including their “importance to the Group” and “importance to stakeholders” and selected 11 highly important issues to be disclosed in this report. These issues mainly included compliance of environmental laws, management of hazardous waste, waste water disposal, water resource usage, employee diversity, employee welfares, occupational health and safety, supply chain management, anti-corruption, community contribution and public welfare investment.



Product Responsibility

R&D AND INNOVATION

R&D on Products

The Group attaches great importance to technological innovation. With R&D investment as a driving force, the Group made layout in advance, seized the market opportunities and conducted in-depth cooperation with various companies with core key technologies. For the year ended 31 December 2019, the R&D expenditure of the Group accounted for approximately 5.9% of the Group's revenue, representing an increase of approximately 0.6 percentage point as compared to last year.

The Group has established a three-level R&D organizational system with clear positioning to ensure that the high and new technology independently developed or introduced can be quickly applied to products. The level-I R&D organization is positioned at national enterprise technical centers, national post-doctoral study stations and provincial key enterprise institutes for the research and promotion of cutting-edge technologies in the industry. The Level-II R&D organization is positioned at the R&D Department of each subsidiary for the application of new technologies and product development. The Level-III R&D organization is positioned at the Technical Divisions of the Manufacturing Department of each subsidiary for the improvement of production craft and manufacturing procedures.

During the year of 2019, the Group successfully completed the R&D of numerous handset lens sets with high specifications, mainly including the ultra-large image size (1/1.5" and 1/1.3") handset lens sets and the 10-time optical zoom handset lens sets. For the handset camera modules, the Group completed the R&D of 10-time optical zoom handset camera modules. Meanwhile, the Group completed the R&D of front, side and rear view vehicle lens sets which are all 8-mega pixel.

The R&D Department conducts environmental impact assessment on various types of raw materials or machinery and equipment during the stage of R&D. It considers selecting green and environmental materials meeting relevant international/ domestic standards in design and establishes the base of environmental materials to guarantee that the materials used in design are those in the base of materials. If new materials not in the base of materials will be used, such new materials shall pass a series of environmental tests based on requirements and be included in the base of environmental materials before being used.

Flexible Manufacturing Processes Improve Efficiency

The Group continuously innovates technologies on high precision alignment and independently developed the third-generation active alignment (“AA”) technology, which can shorten the switch time of products and facilitate the simultaneous testing and AA. In terms of production line process, the Group pioneered the on-line assembly, which used automatic loading and unloading and material transfer methods to achieve automatic production from chip on board to AA, which shortens the production cycle and improves the automation efficiency. In addition, the Group has also initiated the equipment of wafer level testing (“WLT”), which completes automatic loading and unloading, achieves simultaneous testing on numerous modules and significantly enhances the testing efficiency.

Built-in Motor Reduces Electricity Consumption

In order to reduce electricity consumption of handset camera modules when taking pictures, the R&D Department of Sunny Optotech made new designs on the location for the placing of motor components. For ordinary motors, lens sets are located at the bottom and the electricity transmits upwards singly to the apofocus and then to the perifocus. For built-in motors, lens sets are located at the middle location and electricity transmits in two ways. The negative electricity moves downwards to the apofocus and the positive electricity moves upwards to the perifocus. It is calculated that compared to ordinary motors, built-in motors can save electricity consumption by approximately 50% and 25% in the apofocus and the perifocus, respectively.

Intellectual Property Rights

In accordance with the Patent Law of the People’s Republic of China (《中華人民共和國專利法》), the Rules for the Implementation of the Patent Law of the People’s Republic of China (《中華人民共和國專利法實施細則》), the Anti-Unfair Competition Law of the People’s Republic of China (《中華人民共和國反不正當競爭法》) and other laws and regulations, the Group has formulated and implemented the Patent and Technical Secret Management Policy (《專利及技術秘密管理制度》), the Trademark Management Measures (《商標管理辦法》) and the Management Policy on Software Copyrights (《軟件著作權管理制度》) to reduce the possible infringements of intellectual property rights in the operation of the Group, ensure the employees to observe the intellectual property rights of other parties and protect the intellectual property rights of the Group. The intellectual property work is directly managed by the Chief Executive Officer of the Company, and the Legal Affairs Department of the Company, as the main responsible department of the Group of intellectual property work, organizes the intellectual property personnel of each subsidiary to carry out daily management.

Product Responsibility

In order to enhance the unified management of intellectual property rights, the Group introduced the intellectual property rights management platform and database in 2017 and applied to all subsidiaries by the end of 2019 to increase the efficiency of process approval, maturity monitoring, data summarizing and maintenance. In addition, to reduce the operational risks and management costs on intellectual property rights, the Legal Affairs Department collects the list of key R&D projects of each subsidiary at the beginning of each year and arranges personnel to regularly follow the progress in the approval of key R&D projects and infringement analysis of each subsidiary. Meanwhile, the Legal Affairs Department requires paying attention to the infringement of intellectual property rights in different stages before and after the introduction of products: 1. Prior to the launch of a product, the responsible person of the project shall submit suspected infringement clues to relevant personnel to conduct infringement search and analysis to avoid infringement risks; 2. The Marketing Departments of subsidiaries shall collect the product information of their competitors in a timely manner and submit suspected clues on the infringement of the patents/ technical secrets of the company to relevant personnel for analysis in order to prevent any infringement of the patents/ technical secrets of the company. Once the infringement of the patents/ technical secrets of the Group by others or suspected infringement of others' patents are spotted, it shall be reported to relevant responsible persons in a timely manner and the Legal Affairs Department of the Company will handle. During the year of 2019, the Group was not involved in any cases on the infringement of intellectual property rights.

During the year of 2019, the Group further optimized the intellectual property rights management system and specified the responsibilities and key work of the Legal Affairs Department and the intellectual property personnel of each subsidiary. The Legal Affairs Department will focus on the following work on intellectual property rights: 1. Conducting patent search and analysis/ layout/ risk analysis on key projects for future development of the Group, the operation of intellectual property rights and risk response; 2. Providing work support to subsidiaries without professional management personnel; and 3. Conducting trademark/ software copyright management and external resources management. Personnel on intellectual property rights of each subsidiary is responsible for its respective intellectual property rights work. To enhance the communications among teams on intellectual property rights of the Group, the Legal Affairs Department of the Company holds routine meetings on intellectual property rights each quarter and irregular meetings on learning and sharing.

As at 31 December 2019, Sunny Zhejiang Optics passed the intellectual property rights management system GB/T29490 certification. Meanwhile, the Group has formulated patent/ technical secrets incentive measures to encourage R&D and innovation. During the year of 2019, a total of 1,593 person times of the Group were awarded incentives on patents/ technical secrets, and the Group obtained 563 new granted patents. As at 31 December 2019, the Group held 1,521 granted patents in total.

Intellectual Property Rights Day

On 26 April 2019, in order to enhance the risk management level and improve the risk prevention mechanism of the Group and based on the changes in the internal and external environment, the Legal Affairs Department of the Company coordinated with the Human Resources Department, the Party & the Masses Office of the Company and personnel of each subsidiary on intellectual property rights and conducted the Intellectual Property Rights Day with the theme of “Controlling Risks and Achieving



| Intellectual Property Rights Seminar

Innovation, Moving Forward with Arduous Efforts (馭險致新•筆路前行)”. The activity was organized in answering questions online to win prizes and offline seminars, special trainings and symposiums. The Group carried out symposiums on the exploration and layout of new product patents and maintaining the market competitiveness advantages with intellectual property rights. The Legal Affairs Department also invited external specialists from relevant industries to discuss on common risks in patents management of enterprises as well as countermeasures, overseas patent lawsuits faced by Chinese enterprises and the technical certification on commercial secrets as well as the protection of rights.

Prevention of Intellectual Property Rights Infringement in New Media Field

With the booming development of the Internet economy, the influence of the Internet is ubiquitous. In order to strengthen the awareness of all employees of the Group on the protection of intellectual property rights in the new media industry and prevent the infringement of intellectual property rights, the Legal Affairs Department of the Company carried out a training about the “Prevention of Infringement of Intellectual Property Rights in the New Media Field” towards relevant personnel in the new media field (such as the operational maintenance personnel of the WeChat official account, the website of the Company and other platforms) in October 2019. The Legal Affairs Department also explained on the scope of industry of possible infringement of intellectual property rights by new media, the infringement forms in the operation of new media, effective measures on avoiding infringement as well as effective handling and response methods after the infringement.

Product Responsibility

PRODUCT QUALITY

Management System

Quality Principals - Think before We Leap, Striving for Excellence

The Group adopts “Think before We Leap” as the code of conduct, considering the interests of both customers and the Group, strengthening production management with the requirement of “Striving for Excellence”, and continuously improving product quality under the premise of complying with laws and regulations to provide customers with quality products.

The Group has set up a comprehensive quality management system and pursues zero-defect in product quality by strictly complying with relevant laws, regulations and systems and meeting customers’ requirements. The Group strictly abides by the national laws and regulations, such as Tort Law of the People’s Republic of China (《中華人民共和國侵權責任法》) and the Product Quality Law of the People’s Republic of China (《中華人民共和國產品質量法》). The Quality Assurance (“**Quality Assurance**”) Department of each subsidiary is the main responsible department of quality supervision and its functions include the establishment and maintenance of systems, and the hazardous substances free (“**HSF**”) management. As at 31 December 2019, three subsidiaries have passed the ISO9001 certification on quality management system. Besides, Sunny Opotech passed the certification on electro-static discharge (“**ESD**”) management system. Sunny Zhejiang Optics and Sunny Opotech passed the QC080000 certification hazardous substance process management (“**HSPM**”) system and Sunny Automotive Optech passed the IATF16949 certification on the quality management system of the automotive industry.



Sunny Automotive Optech’s certification on the quality management system of the automotive industry



Sunny Zhejiang Optics’s certification on HSPM system



Sunny Optotech’s certification on ESD management system



Sunny Optotech’s certification on quality management system

Quality Management

The Group has formulated a series of quality management systems, including the Procedures on Production Management and Control (《生產管理控制程序》), the Procedures on Monitoring the Purchase and Delivery of Products and Measurement Control (《進出貨產品監視和測量控制程序》), the Standards on Abnormal Management (《異常管理標準》), the Procedures on Control of Disqualified Products (《不合格品控制程序》) and the Procedures on Product Quality Control (《產品質量控制程序》) to conduct management and control on all links from design of products, components recognition, mass production recognition, materials, manufacturing and shipment and to guarantee the quality of products.

Product Responsibility

Take Sunny Automotive Optech as an example:

Sunny Automotive Optech adopts quality management systems in the automotive industry during the process of quality management, including five main tools named the advanced product quality planning (“**APQP**”), failure mode and effects analysis (“**FMEA**”), measurement systems analysis (“**MSA**”), statistical process control (“**SPC**”) and production part approval process (“**PPAP**”). Its quality management process includes:

1. New project development management process: the relevant departments will carry out procedures such as review of the design plan, trial production, verification and approval for mass production during the process of the acquisition of customers’ demands, review of customers’ demands, project determination, and the establishment of the APQP group, and the product shall pass the reliability tests in the R&D stage and obtain the certification from customers to ensure product quality from design;
2. Change of the management process: the relevant departments will review and verify the technology, cost and risk of product design and change throughout the entire life cycle of the product to ensure feasibility and effectiveness;
3. Product manufacturing management process: prior to the commencement of production, raw materials shall get the sampling certification before procurement and the relevant departments will prepare for the production, verify the inspection and commence production once the verification is completed. During the production process, relevant personnel will inspect the properties and appearance of the products, and segregate the defective products for collective handling, and keep the records for tracking the production batch information;
4. Handling process of abnormal production: the Regulations on the Administration of Abnormal Production (《生產異常管理規定》) specifies that when abnormal problems are spotted internally and the delivered products are exposed to risks, the relevant departments need to carry out assessment on whether to notify customers for product recalling. Sunny Automotive Optech has formulated the Regulations on Traceability Management of Products (《產品追溯管理規定》) to achieve the batches and labeling management of products in each stage, conduct management in forming process of products, achieve product traceability management and reduce quality risks;

Table of Product Traceability

Production procedure	Traceability evidence	Traceability method	Responsible department
Inspection on materials	Certificate of materials	Manufacturing and management platform	Quality Assurance Department
Materials issuing from warehouse	Transfer slip	Manufacturing and management platform	Production Management Department
Manufacturing and production	Employees’ work number	Verification List for Operation Preparation (《作業準備驗證表》)	Manufacturing Department
Inspection upon completion	Certificate of products	Manufacturing and management platform	Quality Assurance Department
Inspection on shipment	Shipment labeling	Manufacturing and management platform	Quality Assurance Department

Product Responsibility

- 5. Management process of monitoring and measuring equipment: to guarantee that the monitoring and measurement equipment of Sunny Automotive Optech are under control and ensure that its products meet the quality requirements and customers' requirements; and
- 6. Management process of product monitoring and measuring: the inspection process is conducted in a class 10,000 dust-free room and employees must wear anti-static dust-proof clothing, anti-dust masks and dust-proof gloves, and go through an air shower to reduce dust before entering the room. During the inspection, products are uniformly sampled according to the strictest military sampling standard ("**MIL-STD-1916**") and the inspection results will be determined in strict compliance with the standard of "zero based acceptance", which means no defect will be accepted, to ensure the maximization of sampling effectiveness. Relevant personnel will verify the information of finished products, conduct spot check and make sealed package.

Meanwhile, in order to strictly control product quality, conduct reliability verification of products at different stages and cater to customers' demands for diversified products, Sunny Automotive Optech has established an environment laboratory, a mechanics laboratory, a salt atmosphere laboratory, a chemical laboratory, an ESD laboratory, and cleanliness laboratory, all of which have obtained the approval of China National Accreditation Service for Conformity Assessment ("**CNAS**"). In order to ensure the accuracy of the experimental results, product properties are tested by using professional testing and analysis equipment and products which cannot be tested in the company's laboratory under special requirements will be tested by cooperating with third-party laboratories.

During the year of 2019, the quality control team of Sunny Automotive Optech also held post responsibility awareness meeting, seminar on analysis and solution for quality issue and other activities for new recruits and employees on related positions. Meanwhile, we have designed different training contents and teaching methods for employees at different levels and positions, including explanation of basic knowledge, case analysis and practical exercise.



| Seminar on Analysis and Solution for Quality Issue

Management of Hazardous Substances

The Group has complied with the Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the “**RoHS**”) of the European Union, the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (the “**REACH**”) of the European Union and other international norms and also followed other requirements raised by customers. For example, Sunny Automotive Optech has complied with the agreement on the End-of-Life Vehicles (the “**ELV**”) and green environmental requirements raised by customers. Sunny Opotech has complied with such regulations as the Waste Electrical and Electronic Equipment (the “**WEEE**”). To guarantee the timely collection, obtaining and update of relevant laws, regulations and other requirements, Sunny Zhejiang Optics has formulated the Procedures on Control of Laws and Regulations Requirements (《法律法規要求控制程序》).

The Group strongly recognizes the significance of the management of chemicals. As a result, the Group has the corresponding policies such as the Regulations on the Control and Administration of Chemicals (《化學品控制管理規定》), the Regulations on the Administration of Green Substance (《綠色物質管理規定》), the Regulations on the Administration of X-Ray Fluorescent Spectrometry (X-RF) Equipment (《X射線熒光光譜法(X-RF)設備管理規定》) and the Regulations on the Administration of Green Substance and Technology (《綠色物質技術管理規定》) to manage and control the application and use of chemicals with high concerns in the production process and finished products. The regulations also set out various requirements on the contents to be considered in design, to be controlled on the delivery of materials, to be concerned in the production and to be regularly certified. The Group has set up the list of chemicals, including all chemicals which have been used officially, and regularly updates the items on the list. In addition, the Group also requires suppliers to sign the Management of Hazardous Substances (《有害物質管控》), the Declaration of Non-use of Restricted Substances (《不使用禁用物質聲明》) and conduct management and control certification, including the RoHS, third-party reports on halogen-free tests and the Material Safety Data Sheet (the “**MSDS**”) (《化學品安全技術說明書》).

Take Sunny Opotech as an example, its management processes on hazardous substance are as below:

1. Formulation of internal control standards

Based on the requirements of the Procedures of Identification and Controlling of Hazardous Substance (《有害物質識別和控制程序》), relevant personnel identifies regulations and customers’ standards on hazardous substance and formulates standards on the management of hazardous substance, such as the Substance Standards on Environmental Management of Products (《產品環境管理物質標準》) and the List of Hazardous Substance (《有害物質清單》).

2. Introduction of suppliers

In accordance with the Procedures for Management and Control of Suppliers (《供應商管理控制程序》), the Resources Management Department formulates the development plans based on demands and conducts qualification assessment on suppliers. Qualified suppliers are listed in the resource base for review. The Resources Management Department conveys the internal control standards to the suppliers regularly or irregularly, then the relevant personnel gives feedback on dissatisfaction of the standards to the suppliers for improvement, and the suppliers confirm and sign the receipts. If the standards are not satisfied, such suppliers will not be on the list. Suppliers having passed through screening will sign the agreements, including the Declaration of Non-use of Restricted Substances and the Corporate Social Responsibility (“**CSR**”) Undertaking (《企業社會責任(「**CSR**」)承諾書》).

Product Responsibility

3. Introduction of components

The Resources Management Department initiates the process for components recognition in accordance with the Operational Regulation on Components Recognition (《部品承認作業規範》). The Product Development Department provides the technical specifications on components and the Resources Management Department provides samples to the project manager and certification of new products and collects materials for components recognition (including environmental materials) simultaneously and conducts review. If they are not satisfied, the Resources Management Department will require suppliers to provide the Technical Data Sheet (the “**TDS**”) (《技術參數表》), third-party test reports, the MSDS and HSF compliance statements, and conduct X-RF tests.

4. Sampling inspection on materials

The Resources Management Department evaluates and registers risks on materials and the Quality Assurance Department conducts sampling X-RF inspections in accordance with the Operational Regulation on Materials Inspection (《來料檢驗作業規範》) and the Standards on Testing of Hazardous Substances (《有害物質檢測標準》) based on the levels of risks on materials.

5. Management and control of manufacturing process

In accordance with the requirements of the Procedures of Identification and Controlling of Hazardous Substances (《有害物質識別和控制程序》), the Project Technology Department and the Manufacturing Department identify the substances in the manufacturing process that may get in touch with the products and formulate the Table for Identification and Appraisal of Hazardous Substances (《有害物質識別與評價表》). They assess and manage the level of the environmental risks of the substances in accordance with the assessment standards. Processes assessed with high risks shall go through reverse certification, monitor on the pollution and reduce pollution risks.

6. Sampling inspection on shipment

The Quality Assurance Department conducts sampling inspections on shipment of different types of finished products every month in accordance with the requirements of the Standards on Testing of Hazardous Substances (《有害物質檢測標準》), and conducts X-RF tests based on the requirements and ensures the environmental compliance of finished products.

7. Recall of HSF disqualified products

When HSF disqualified products are shipped, the relevant departments trigger the recall mechanism in accordance with the Procedures for Recall and Control of HSF Products (《HSF產品召回控制程序》), identify and determine if they shall be recalled. After they are confirmed to be recalled, the Quality Assurance Department shall submit the Notice for Products Recall (《產品召回通知單》), release the recall notice and conduct recall and isolation treatment. Meanwhile, it analyzes the reasons and sets up improvement and prevention measures.

8. All-process labeling and traceability

In accordance with the requirements of the Procedures for Products Labeling and Traceability Control (《產品標識和可追溯性控制程序》), the Quality Assurance Department confirms that the packages have environmental labeling and the products will enter the warehouse for storage after passing the examination. It shall guarantee the integrity of environmental labeling before the materials are put into production, confirm the environmental labeling of materials in the subsequent production processes and record the environmental conditions by the workers. Before finished products entering into the warehouse, the warehouse personnel shall confirm that the environmental status set out in the turnover orders which should be consistent with the physical subjects. Environmental labelings are posted on final products shipped.

Product Responsibility

Sunny Opotech has identified hazardous substances according to the relevant environmental regulations and imposed stringent control on different materials by grades in line with the requirements from major customers and the company's conditions, as well as referred to the RoHS2.0 requirements:

Control object by regulations	Control limit by regulations (Parts per million ("ppm"))	Scope of control of Sunny Opotech	Control limit of Sunny Opotech (ppm)
Four heavy metals	Pb<1,000	Rubber, resin, glue, oil paint, ink, coating, plastic parts Surface coating of wires, cables or leads (including plugs and connectors) covered by thermosetting/ thermoplastic resin	90
		Lead-free solder	Shall not intentionally add and shall be less than 500
		Consumables components and materials for children under 12 years old	100
		Plastic (including rubber) coatings, ink, surface coating or contactable substrate of children's products, batteries	40
		Moveable metallic lead in fibers and leather	1, should be declared
		Leather, fiber, surface parts usually contacting with the skin	Prohibited
	Cd<100	Paint, ink, plastic, packaging materials and other organic materials	Shall not intentionally add and shall be less than 5
		Solder	Shall not intentionally add and shall be less than 20
		Battery	20
		Moveable cadmium metal in fibers and leather	0.1, should be declared
		Surface parts usually contacting with the skin	Prohibited
		Leather (textile) products, fibers and parts that children may put in their mouths or touch their skin	3
	Hg<1,000	Surface coating	Shall not intentionally add and shall be less than 10
		Plastic materials, coatings, inks, non-metallic and non-ceramic coatings	Shall not intentionally add and shall be less than 60
		Other homogeneous materials	Shall not intentionally add and shall be less than 500
		Surface parts usually contacting with the skin, batteries	Prohibited
		Moveable metallic mercury in fibers and leather	0.02, should be declared
		Leather, fiber	500

Product Responsibility

Control object by regulations	Control limit by regulations (ppm)	Scope of control of Sunny Opotech	Control limit of Sunny Opotech (ppm)
	Cr6+<1,000	Metal homogeneous materials, polishing and coating	Prohibited
		Moveable chromium metal in fibers	2, should be declared
		Moveable Cr6+ in fibers	0.5, should be declared
		Moveable chromium metal and Cr6+ in leather	3, should be declared
		Water soluble Cr6+ in cement	2
		Leather (textiles)/ natural leather products contactable with the skin	Fibre: 0.5 Leather: 3
Brominated flame retardant	PBBs<1,000	Homogeneous materials	Shall not intentionally add and shall be less than 800
	PBDEs<1,000	Homogeneous materials	Shall not intentionally add and shall be less than 800
Dibutyl Phthalate	Four Phthalates: Butyl Benzyl Phthalate ("BBP")/ Dibutyl-O-Phthalate ("DBP")/ Diisobutyl Phthalate ("DIBP")/ Diethylhexyl Phthalate ("DEHP")<1,000	DEHP/ BBP/ DBP/ DIBP: Homogeneous materials	Shall not intentionally add and shall be less than 800
		25 Phthalates: Homogeneous materials	Single < 100 Total < 1,000
		DEHP+DBP+BBP: Surface coating or touchable substrate of children's products Diisononyl Phthalate ("DINP")+Diisodecyl Phthalate ("DIDP")+ Di-n-octyl Phthalate ("DNOP"): Surface coating or touchable substrate of children's products	900
		DEHP/ BBP/ DBP/ DIBP: Other than used in RoHS equipment Fiber and leather	Total < 1,000

During the year of 2019, Sunny Opotech reduced 22 hazardous substances and conducted dynamic monitoring on a monthly basis. Meanwhile, for identified restrictive substances, Sunny Opotech actively seeks more environmental materials as substitutes and strives to reduce the content of hazardous substances in products. Sunny Opotech has already identified 113 restrictive substances so far.

To better manage the use of hazardous substances, chemicals and improve the safety and quality of products, Sunny Automotive Optech provides customers with product drawings, specifications and the list of chemical components through customers' platforms, the International Material Data System (the "IMDS"), China Automotive Material Data System (the "CAMDS") and other channels.

During the year of 2019, no recall for the Group's all sold or delivered products occurred by reasons of safety and health.

Information Security Management

The Group places importance on protection of the employees' privacy and the commercial secrets and strictly abides by the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Administrative Measures for the Security Protection of Computer Information Networks Linked to the Internet (《計算機信息網絡國際聯網安全保護管理辦法》), the Cybersecurity Law of the People's Republic of China (《中華人民共和國網絡安全法》) and other laws and regulations. It is devoted to enhancing the confidential awareness of employees, strengthening management and control measures on information security and improving the management system of information security to protect data privacy and prevent customer's data leakage or missing. The Company and Sunny Opotech have passed the ISO27001 certification on the management system of information security and gradually expanded the information security work to all subsidiaries. The Group has also formulated the Information Management Policy (《信息管理制度》) and the Manual of Employees' Information Security (《僱員信息安全手冊》) to restrict and guide the behaviors with leakage risks in the daily work of employees and enhance the confidential awareness of employees. Meanwhile, the Group has formulated the Administrative Measures on the Disposal of Information Security Incidents (《信息安全事件處置管理辦法》) and the Emergency Plan on Emergencies (Information Security Incidents) (《突發事件應急預案(信息安全事件)》) to reduce the negative impact due to improper handling of information security incident.

In order to further enhance the information security level of the Group, the Group initiated the cyber security construction, the terminal security construction, the data security construction, the applications security construction and the information security system construction. In 2019, the Group set up appraisal targets on the number of leakage of key commercial and technical secrets, the control rate of the external network at the computer end, the control rate of universal serial bus ("USB") and other external storage, the control rate of documents, the cancellation efficiency of authorization of resigned employees. During the year of 2019, the Information Technology Department of the Company also carried out special work on information security, including the construction of protection system against the virus threat, the wireless network access management system, the file encryption system and the private cloud storage. Meanwhile, the Group also held trainings and publicities through offline lectures, online courses and monthly electronic journals to enhance the awareness of employees on information security.

Meanwhile, in order to promote the daily management and protection of operational and technical information, the Group has formulated the Commercial Secrets Management Policy (《商業秘密管理制度》) and has established commercial secrets management structure to enhance the Group's efforts in the protection of commercial secrets. The commercial secrets management structure of the Group includes:

1. The Commercial Secrets Management Committee: With the Chief Executive Officer of the Company as the first responsible person of commercial secrets management of the Group and vice presidents of the Company and general managers of each subsidiary as members, it is responsible for reviewing policies and strategies of the Group on commercial secrets management, reviewing the annual planning on commercial secrets, and reviewing the management systems and regulatory documents;

Product Responsibility

2. Information Security Division of the Legal Affairs Department of the Company: Being responsible for the formulation of the policies on the commercial secrets management of the Group, the preparation of the annual planning on commercial secrets, the preparation and revision of the management systems and regulatory documents on commercial secrets, organizing and implementing meetings on the commercial secrets management, and monitoring and inspecting the implementation of systems and procedures on commercial secrets;
3. Responsible persons on the commercial secrets management of subsidiaries: With the general managers or other authorized members of the general managers' office of subsidiaries as the first responsible persons of the commercial secrets management of subsidiaries, they are responsible for participating in various activities organized by the Commercial Secrets Committee, coordinating and planning the commercial secrets plans and schemes of subsidiaries, and monitoring and appraising the implementation of the work of subsidiaries on commercial secrets;
4. Commercial Secrets Management Departments of subsidiaries: Being responsible for the implementation of the policies and strategies of the Group on commercial secrets management, annual planning, policies and regulatory documents; and
5. Relevant business departments of subsidiaries: Being responsible for supporting the daily work on the commercial secrets management of the Group.

The Commercial Secrets Management Policy (《商業秘密管理制度》) made provisions on the management of secret-related information, secret-related subjects, office areas as well as systems and networks and set out punishment and incentive measures. The Group also required all employees to sign the Non-Competition Agreement (《競業禁止協議書》) to safeguard the legitimate rights and interests of the Group. During the year, 93% of all employees of the Group and 100% of secret-related employees have signed the agreement. In 2019, the Group also carried out special inspections on confidentiality labeling and regional division of each subsidiary, including on-site inspections on subsidiaries in Yuyao City, Zhejiang Province and off-site inspections on subsidiaries in other places. The inspections covered the publicity of systems, confidentiality labeling on files, the division of confidentiality degrees of files and the division and labeling of areas. Based on the inspection results, all subsidiaries have met the requirements.

Customers can make complaints and feedbacks on information security to the personnel through telephone, e-mail and other means. Relevant personnel will make feedbacks together to the Information Technology Department or the Legal Affairs Department of the Company after collecting information. During the year of 2019, the Group received 1 customer complaint in total which has been solved and no incident on information leakage occurred.

Customer Relationship

The Group adheres to the customer-oriented management concept and constantly advances customer services to maintain the customer relationship and improve customer satisfaction on the basis of ensuring the product quality. Customers can express their comments or make complaints and feedbacks through e-mail, telephone, letters and other means. Subsidiaries of the Group have set up relevant departments to follow and handle them. Sunny Zhejiang Optics formulated the Customer Complaint Management Standards (《客戶投訴管理標準》), which divides into serious complaints and general complaints according to the seriousness of the complaints. Sunny Zhejiang Optics established the “2485 Principle”, of which temporary solution should be provided in 24 hours, a formal solution should be provided in 48 hours and the improvement result should be provided in 5 days. In terms of the serious complaints, the salesperson needs to notify relevant departments immediately after receiving the information, and the Quality Assurance Department will take emergency measures on the same day (on-site processing will be carried out or technical support will be provided within one working day for local customers while the agents or foreign institutions will be entrusted to provide on-site processing for foreign customers). A report will be submitted within three working days after the investigation. In addition, Sunny Automotive Optech and Sunny Opotech also have such Procedures on Handling of Customer Complaint and Feedbacks (《客戶投訴及反饋處理程序》) and the Operational Regulation on Handling of Customer Complaint (《客訴處理作業程序》) to specify the processes for the handling of customer complaints and feedbacks and improve customer satisfaction.

In order to better understand customers’ demands and achieve the matching of products with customers’ demands, the Group has put in place the Operational Regulations on Customer Satisfaction Surveys (《客戶滿意度調查作業規範》), providing that the customer satisfaction survey shall be organized at least once every year, survey results shall be analyzed and solutions and improvement plans shall be formulated. Meanwhile, the Group makes the customer visit plan based on the locations and the extent of importance of customers every year to obtain information on customers’ demands, improve customer stickiness and satisfaction and promote long-term stable cooperation.

During the year of 2019, customer complaints of three subsidiaries and the survey on satisfaction are as below:

Name of company	Number of customer complaints	Rate of customer complaints handled	Customer satisfaction
Sunny Zhejiang Optics	165	100%	79.7/100.0
Sunny Opotech	1,087	100%	88.7/100.0
Sunny Automotive Optech	42	100%	84.7/100.0

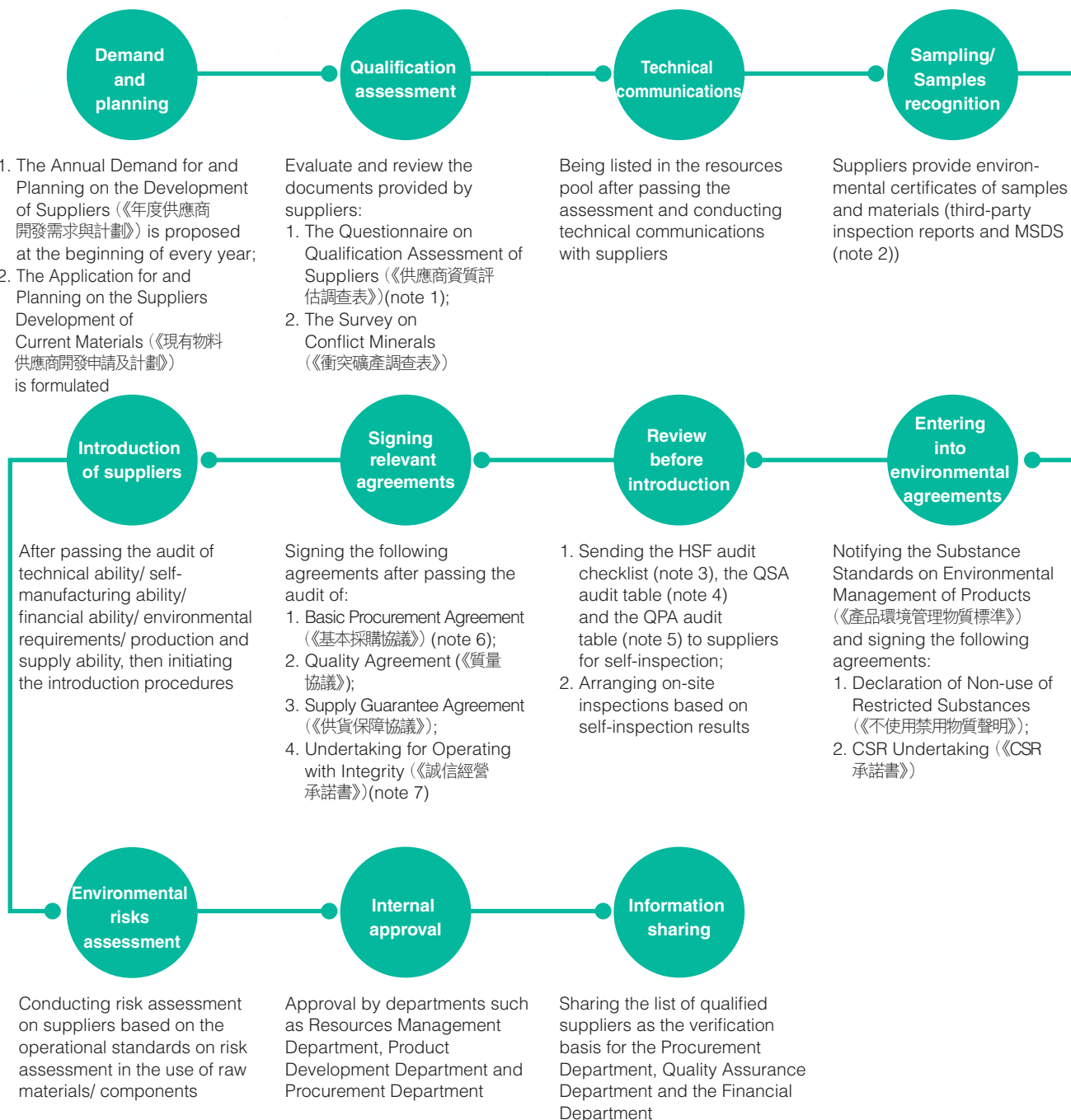
Supply Chain Management

MANAGEMENT SYSTEM

The Group treats our suppliers as partners of interest with mutual respect and support. The Group strives to create mutual beneficial and win-win partnerships with suppliers to contribute to the sustainable development of the industry and society. The Group adheres to fair and just principle with no bias when the Group selects the suppliers. The Group has established a strict introduction flow and formulated systems such as the Procedures for Management and Control of Suppliers (《供應商管理控制程序》), the Code of Managing Suppliers (《供應商管理規範》) and the Control Procedures on Development and Appraisal of Suppliers (《供應商開發和評價控制程序》) etc., based on the QC080000 system standard and customers' requirements to manage the supply chain. Among them, the Procedures for Management and Control of Suppliers mainly includes specifications and regulations on the classification of suppliers, evaluation, audit and introduction of the qualified suppliers, information of suppliers and data management, etc.; and the Code of Managing Suppliers mainly includes specifications and regulations on the processes of exception management for suppliers, processes of quarterly/ annual performance management for suppliers, controlling processes of production changes of suppliers, managing processes of annual audit, tier-two suppliers management, risk management for material supply interruption and suppliers information management.

Supply Chain Management

Take Sunny Opotech as an example, its processes of introducing suppliers are as below:



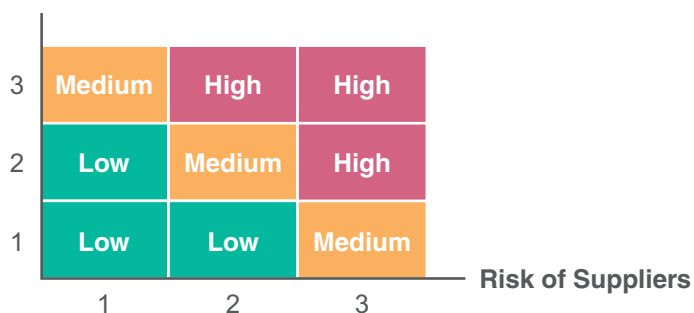
Supply Chain Management

Notes:

1. The Questionnaire on Qualification Assessment of Suppliers: to understand and assess the basic conditions, banking reputation, compliance with laws, social reputation and other credit conditions of suppliers.
2. MSDS: to require that the materials provided by suppliers shall meet the MSDS standards.
3. HSF audit checklist: to conduct audits on non-hazardous substances on raw materials provided by suppliers.
4. Quality System Assessment (“**QSA**”) audit table: to conduct audits on the quality system documents of suppliers.
5. Quality Process Audit (“**QPA**”) audit table: to conduct audits on the guideline on on-site operation and the workshop management of suppliers.
6. Basic Procurement Agreement: to specify relevant matters on business transactions between suppliers and the Company, including the supply, acceptance and delivery of materials.
7. Undertaking for Operating with Integrity: to make commitments on creating a fair market environment and jointly preventing commercial bribes, unfair competition and other improper activities.

The Group conducts reasonable and effective appraisals on the performance of suppliers to facilitate suppliers to improve their capabilities and meet the requirements on supply chain management of the Group. The Group classifies suppliers and sets different appraisal standards on different classes of suppliers. Based on the importance of materials, Sunny Zhejiang Optics classifies suppliers into classes A, B, C and D. It conducts monthly and annually appraisals on class A suppliers in terms of the quality, cost, delivery, service and technology (the “**QCDST**”), quarterly and annual appraisals on class B suppliers and annual appraisals on class C suppliers. Based on their own risks and the importance of materials provided, Sunny Opotech classifies suppliers into categories with low, medium and high risks and formulates processes on the management of abnormal suppliers, the quarterly/ annually performance management of suppliers and the controlling procedures of production changes of suppliers. The Resources Management Department, the Product Development Department and the Procurement Department conduct appraisals on the quality, procurement, product development and engineering technology of suppliers with different extents of risks in accordance with the Suppliers Performance Appraisal (《供應商績效考核》) each quarter and year. Sunny Automotive Optech classifies suppliers into classes I, II, III and other classes and formulates rules on monthly appraisal to assess the quality, cost, delivery and service (the “**QCDS**”) of suppliers. If the appraisal scores fail to meet the requirements, the suppliers are required to improve within a prescribed period.

Importance of Materials



Classification Analysis Table of Suppliers of Sunny Opotech

Supply Chain Management

Meanwhile, the Group has established a supplier removal mechanism. Take Sunny Automotive Optech as an example, except when the suppliers fail to meet QCDS standards, suppliers involved in the following situations may also be disqualified:

1. Suppliers have internal changes but they fail to notify the relevant departments, which caused serious problems on product quality;
2. The scores of suppliers on the QCDS performance appraisal have been Grade C for three consecutive months or the grade of scores on the annual inspection remains Grade C or below after improvement in a prescribed period, the quality guarantee system shall be deemed as invalid; or they have significant product quality problems but cannot conduct effective improvement as required;
3. All materials fail to meet the latest environmental and green requirements and they have no effective improvement measures; and
4. Other special situations.

CORPORATE SOCIAL RESPONSIBILITIES MANAGEMENT

In order to achieve healthy, stable and long-term development with suppliers, the Group also pays attention to the management of social responsibilities and environmental protection of suppliers. The Group requires suppliers to sign the Agreement on Social Responsibilities (《社會責任協議書》), the CSR Undertaking (《CSR承諾書》), the Non-use Warranty for Environment Controlled Substances (《不使用環境物質證明書》) and the Environmental Safety Notification (《環境安全告知書》). In addition, the Group conducts risk assessments on suppliers every year, mainly including: the places where the suppliers are located, the types of products and services provided, the risks on green and environmental products, CSR and business ethics. In order to achieve environmental procurement, the Group requires suppliers to sign relevant agreements and undertakings, and also raises requirements on the products/ services provided by them. For example, Sunny Zhejiang Optics requires its suppliers to reduce fillers in packaging materials to reduce waste and requires the suppliers to carry out the treatment on chemical effluent during the production processes.

Take Sunny Optech as an example, it has formulated the Agreement on Social Responsibilities and has raised requirements on its suppliers on the aspects of labors' interests, environmental protection, occupational health and safety, business ethics and other aspects, including but not limited to:

1. Committing to safeguard the human rights of employees in accordance with internationally recognized standards and respect their dignity;
2. Not to carry out compulsory work or use of child or juvenile labors;
3. Not to discriminate employees due to race, skin color, age, gender, sexual orientation, gender identity and gender presentation, race or ethnicity, disability, pregnancy, religious belief or political faction;
4. Respecting the rights of employees to freely joining groups and the trade unions, collective negotiation and peaceful assembly;
5. Providing all employees with healthy and safe working places;
6. Obtaining, maintaining and updating the necessary environmental permits;

Supply Chain Management

7. Reducing energy consumption and emission of greenhouse gas through practice (such as improving the process, replacing materials, saving resources and recycling);
8. Identifying and controlling chemicals and other materials which may cause dangers to the environment and ensuring their safe handling, transportation, storage, use, recycling or re-use;
9. Reducing the emission of waste water, waste gas and solid waste;
10. Operating with integrity and prohibiting any forms of bribery, corruption, racketeering or embezzlement of public funds;
11. Respecting intellectual property rights and safeguarding the information security of customers;
12. Conducting fair trading; and
13. Not to use conflict minerals.

Meanwhile, Sunny Opotech has formulated the CSR Audit Table (《CSR稽核表》) to carry out on-site CSR audits on suppliers or the self-audit of suppliers every year.

As at 31 December 2019, the Group has 1,205 suppliers, 1,120 of which are located in China.

Category	As at 31 December 2019		
	Sunny Zhejiang Optics	Sunny Opotech	Sunny Automotive Optech
Number of new suppliers	17	15	109
Accumulative number of suppliers signed the CSR Undertaking (《CSR承諾書》)	91	240	83
Accumulative number of suppliers conducted on-site audits based on the CSR standards	14	38	20
Accumulative number of suppliers signed the Environmental Undertaking on Hazardous Substances (《有害物質環保承諾書》)	91	209	325
Accumulative number of suppliers conducted on-site audits on hazardous substances	15	54	20
Accumulative number of suppliers recognized as having actual and potential negative environmental and social effects	0	0	0
Accumulative number of suppliers recognized as having actual and potential negative environmental and social effects and having terminated the relationship with them after assessment	0	0	0
Accumulative number of suppliers using environmental products and services and achieving management on environmental procurement	91	245	426

CONFLICT MINERALS MANAGEMENT

The Group attaches great importance to the issue of conflict minerals and commits not to support or use conflict metals from conflict mines. It also requires all suppliers to abide by regulations on non-conflict metals and conduct investigations on suppliers with conflict metals in their products, ensuring that such metals are from qualified smelters.

Upon identification, the Group finds that Sunny Opotech is the subsidiary involved in such problem as its production and manufacturing processes involving the use of metal components. In order to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act and ensure no use of conflict minerals to safeguard customers' interests and perform social responsibilities, Sunny Opotech has formulated the Administrative Measures on the Control of Conflict Minerals (《衝突礦產控制管理辦法》), which specifies that it shall not procure stannum, tungsten, tantalum, gold and other rare metals from Democratic Republic of Congo or its surrounding countries/ regions and raises such requirements on suppliers:

1. The Resources Management Department requires investigating the use of conflict minerals by suppliers when collecting information and requires suppliers to fill in the Survey on Conflict Minerals (《衝突礦產調查表》);
2. The Resources Management Department selects appropriate suppliers based on the specifications and quality of materials and the requirements of policies on conflict minerals;
3. When the Survey on Conflict Minerals is updated or customers raise requirements on investigations, the Resources Management Department shall collect and make feedbacks based on the list of surveys; and
4. The Resources Management Department shall conduct on-site audits on conflict minerals on at least one supplier each year and fill in the CSR Audit Table (《CSR稽核表》). If abnormal conditions are found in the audit, the supplier shall provide the rectification plan within one month and conduct rectification. It will be removed from the list of suppliers if the rectification is not qualified.

In addition, suppliers shall sign the CSR Undertaking (《CSR承諾書》) and commit that they will formulate policies to ensure that the stannum, tungsten, tantalum and gold contained in their products will not directly or indirectly provide funds or benefits to armed groups involved in serious violations of human rights in the Democratic Republic of Congo or its surrounding countries/ regions, and they shall not procure or use conflict minerals. It also requires the subordinate suppliers not to procure conflict minerals. It shall conduct due diligence on the sources of such minerals and the regulation chain on production and sales when necessary and provide customers with responsible investigation measures based on their requirements. According to the Responsible Minerals Initiative (《負責任礦物計劃》) ("RMI") made by Conflict Minerals Reporting Template (《衝突礦產報告》) ("CMRT"), raw materials of 132 suppliers of Sunny Opotech from qualified smelters have been certified by third-parties like RMI.

Sunny Zhejiang Optics and Sunny Automotive Optech also raised requirements on their suppliers in terms of the management of conflict minerals, including sign the Certificates on No Use of Conflict Minerals (《不使用衝突礦產證明書》). During the year of 2019, the Group spotted no use of raw materials involving conflict minerals, raw materials used have passed customers' certification and met customers' requirements.

As at 31 December 2019, no supplier of Sunny Opotech was involved in use of conflict minerals and the audit on conflict minerals is as below:

Category	Number
Accumulative number of suppliers involved in conflict minerals	141
Accumulative number of suppliers filled in the conflict minerals reporting template	132
Accumulative number of suppliers conducted audits on conflict minerals	38

Supply Chain Management

COMMUNICATIONS WITH SUPPLIERS

The Group establishes and maintains long-term partnership with suppliers and provides full support to suppliers on technology and management to advance two-way communications and knowledge sharing and promote cooperation and win-win results. The three subsidiaries established different communication channels and orientations for different classifications of suppliers, including telephone, e-mail, meeting and on-site communication. Meanwhile, the three subsidiaries hold annual communicational meetings with suppliers every year to review the cooperation of previous year and reward outstanding suppliers, and propose targets and expectations on cooperation for the following year.

Take Sunny Zhejiang Optics as an example, it has formulated the below communication channels and methods with suppliers:

Classifications	Communication channel	Methods and contents of communication
Key suppliers	Telephone, e-mail, meeting, visit, lecture, on-site work, etc.	Annual meetings with core suppliers, half-year communications with senior management, quarterly special technology communications, routine meetings on quality, irregular mutual visits and lectures, symposiums on new projects/ new technology R&D, etc.
General suppliers	Telephone, e-mail, meeting, visit, lecture, on-site work, etc.	Annual on-site inspections, annual communications with senior management, special technology communications, routine meetings on quality, etc.
Suppliers to be developed	Telephone, e-mail, visit, etc.	Irregular inspections, communications, annual visits, etc.

Technological Innovation to Promote Joint Progress

On 2 April 2019, Sunny Zhejiang Optics convened the 2018 symposium with core suppliers. Its management, representatives of supply chain management teams and senior management of 13 core global suppliers attended the symposium. The symposium reviewed the operation conditions and the cooperation with core suppliers in 2018 and proposed the “value-added service” concept and expectation on its partners based on the annual targets and market environment in 2019. In addition, lectures on “Products and Technology Development Planning”, “Quality Planning” and “Procurement Planning” were given at the symposium. It aimed at establishing a more stable and long-term partnership with core suppliers through the holding of the symposium and achieving the targets of information sharing, creating together and common takeoff.



2018 Symposium with Core Suppliers of Sunny Zhejiang Optics

EMPLOYEES' INTERESTS

The Group considers the employee as an indispensable element to the sustainable development of the enterprise. Attracting and retaining outstanding talents and building strong and stable human capitals have been the orientation of the Group's consistent strivings. The Group has been following the "12345 Talent Development Mechanism" with Sunny's characteristics proposed by the founder Mr. Wang Wenjian in the human resources work, which provided talent guarantee to the stable and rapid development of the Group.

12345 Talent Development Mechanism

One enhancing	Enhancing the awareness on talent work: Human resources are the primary resources of enterprises and the general manager is the first person responsible for the human resources work		
Two ensurings	Ensuring that enterprises have "sufficient and appropriate talents" at each development stage	Ensuring that management members at each level have a convincing planning on talents fostering and team building	
Three smoothenings	Smoothening communication channels	Smoothening introduction channels	Smoothening capability enhancing channels
Four relationships	Properly handling the relationship between the fostering and use of current talents and the future development demands	Properly handling the relationship between the remunerations of newly-introduced talents and the current talents	
	Properly handling the relationship between the "ownership" and "presence" of professional technical talents	Properly handling the relationship between the education and cultivating of the subordinates and the improvement of own quality	
Five mechanisms	Cultivating and development mechanism		Appraisal and discovery mechanism
	Promotion and appointment mechanism	Flow and allocation mechanism	Incentive and guarantee mechanism

* Employee management: this section covers all employees of the Group.

Employee Management

The Group strictly abides by the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) in terms of employee management. To select talents required by the Group in a timely, reasonable and effective way, expand recruitment channels, standardize the processes of the recruitment and employment of employees and rapidly allocate human resources to positions of each subsidiary, the Group has formulated the Recruitment and Employment Implementation Measures (《招聘錄用實施辦法》), the Administrative Measures on Internal Recruitment (《內部招聘管理辦法》), the Regulations on the Management of Employee Work Resumption (《僱員復職管理規定》), the Policy on Tracking Management During the Probation Period (《試用期跟蹤管理制度》), the Policy on Introduction and Recommendation of External Talents (《外部人才引薦制度》) and other documents. Meanwhile, to further optimize employees management, the Group is formulating the Administrative Measures on Employment and Resignation of Employees (《僱員入離職管理辦法》) to make explanations on the employment and resignation processes for employees and the list of materials need to be provided.

The Group encourages and advocates equal opportunities and diversity, opposes to compulsory work and commits that:

1. The Group opposes to discrimination, treats each employee equally and does not treat employees unfairly in employment, remuneration or promotion on the basis of their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political faction and marriage;
2. The Group advocates equal communications, respects employees' personality, listens to their comments and adopts their reasonable suggestions;
3. All employees are equal in personality in spite of different positions;
4. The Group forbids the forcing of employees to work in a certain post and to compel employees to work, and the Group forbids all forms of compulsory work; and
5. The Group forbids the taking of punitive measures, management means and behaviours in the forms of abuse, corporal punishment, violence, spiritual oppression, sexual harassment (including improper language, posture and body contact) or sexual abuse for any reason.

The Group implements a working system with two-day weekend every week and a working time of no more than 8 hours per day. The Group ensures that employees enjoy local statutory holidays and leaves. It has formulated the Rules of Attendance Management (《考勤管理辦法》), specifying that when employees work overtime due to work arrangements, they shall make applications in advance and fill in the forms for the confirmation and approval by the superior leaders. In order to further prevent compulsory work, the Group regularly provides educational trainings on the management capabilities. The Group raised labor management requirements on suppliers as well, including prohibiting compulsory or forced labor and use of child labor and safeguarding the basic salary and social insurance of employees.

Employee Management

Meanwhile, to fulfill the regulations of the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》) and thus avoid misuse of child labor, protect the physical and mental health of juveniles and safeguard the legitimate rights and interests of juveniles, the Group expressly specifies the following:

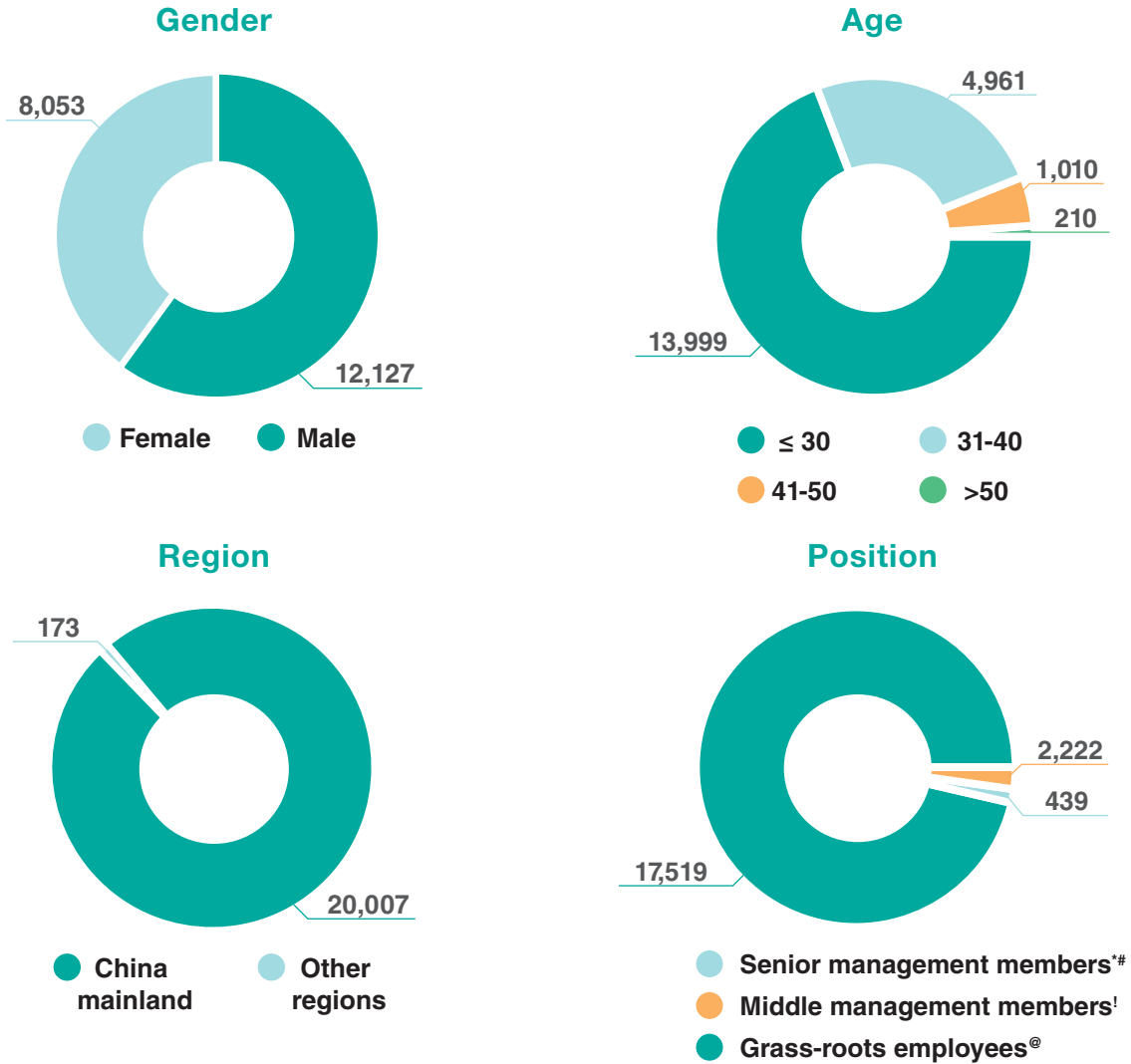
1. The recruitment brochures and related recruitment materials must indicate that applicants must be over 16 years old;
2. The recruitment procedures should include strict inspections of applicants' ID cards to avoid hiring child labor by mistake;
3. The authenticity of ID cards should be verified; those who hold fake ID cards should be rejected;
4. Applicants should be checked to verify if they are aged 16 years old; applicants under the age of 16 should be rejected (including interns, etc.);
5. Applicants should be checked to verify if they are using their own ID cards; applicants who use someone else's ID card should be rejected;
6. Recruitment personnel should implement strict controls to prevent and avoid hiring of child labor by mistake. If a child labor is hired on purpose, the Group will terminate the labor contract and serious cases will be passed on to the judicial authorities. If a child labor is hired due to negligence, the Group will take disciplinary action against the leader directly responsible, and the immediate supervisor will be issued a joint warning;
7. To keep complete personnel records, retain employee-related information, including date of entry, date of birth, home address, and emergency contact, etc., and attach a copy of ID card for inspection; and
8. To prevent negligence and avoid impostor from starting work instead of the person who applied and completed the entry procedure, the head of the department where a new employee starts work must carefully check the information of the new employee (including checking whether the photo on the employee's working card matches the person); any abnormalities found should be immediately reported to the Human Resources Department of the Company for proper handling.

In case of any non-compliance, the Company will immediately rescind the employment contract with them and contact their schools or guardians. It will arrange the child labors to return to their original residence and send them to their parents or other statutory guardians to protect the child labors. During the year of 2019, the Group recorded no employment of child labor.

Meanwhile, in order to resolve labor disputes in a fair and timely manner, protect the legitimate rights and interests of both employees and companies, and promote harmonious and stable labor relations, the Group strictly follows the requirements of national laws and regulations, such as the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), and the Labor Dispute Mediation and Arbitration Law of the People's Republic of China (《中華人民共和國勞動爭議調解仲裁法》), and handles labor disputes in accordance with the principles of legality, fairness, timeliness and mediation. In the event of labor dispute, the Group first negotiates or mediates with the labor. If both parties are unwilling to negotiate or mediate, either party can file a lawsuit with the People's Court. The Group has formulated the Emergency Management of Labor Relations and Emergency Response Plan for Sudden Events (《勞動關係應急管理和突發性事件應急處置預案》) to respond to strikes staged by employees who were dissatisfied with their work status or sudden situations of reduced production capacity. During the year of 2019, the Group has not experienced any such incidents.

Employee Management

As at 31 December 2019, the Group had a total of 20,180 full-time employees, including formal employees, interns and temporary personnel, and no part-time employees.



* Female accounted for 17.1% of senior management members

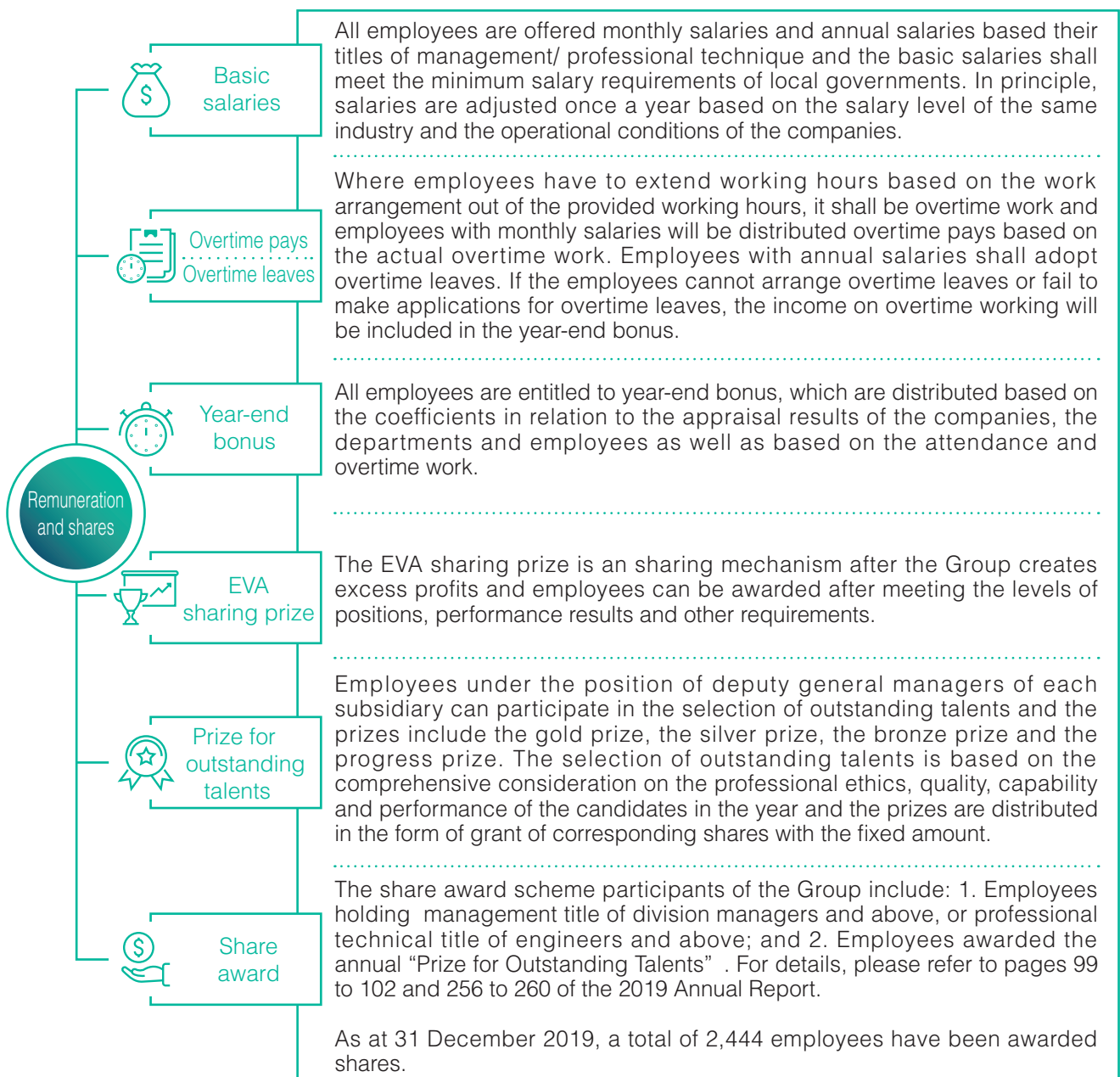
Following the principle of “adapting to market conditions, representing the value of talents and playing incentive effect”, the Group has established a fair and competitive remuneration system, makes efforts to achieve the targets of “consistence in responsibilities and interests, abilities and values, risks and returns, performance and income”, and effectively gives play to the incentive of remuneration to promote the sustainable, stable and healthy development of the Group.

[#] Senior management members include personnel with management title of associate department manager and above or with professional technical title of senior engineer and above.

[!] Middle management members include personnel with the management title of division manager and assistant of department manager or with professional technical title of engineer.

[@] Grass-roots employees include personnel who are not regarded as senior management members or middle management members.

The Group has formulated the Remuneration Management Policy (《薪酬管理制度》), the Administrative Measures on Economic Value Added (EVA) Sharing Prize (《EVA分享獎管理辦法》), the Performance Management Policy (《績效管理制度》), the Restricted Share Award Scheme (《限制性股份獎勵計劃》), and the Selection and Incentive Measures on Outstanding Talents (《優秀人才評選與激勵辦法》) and other systems to effectively implement remuneration and share incentives. In order to provide all employees with competitive remunerations and shares, the Group has diversified performance appraisals methods. For example, executive Directors are assessed by the Board through their annual work report; those employees who hold the positions of deputy general manager and above adopt annual work report and performance appraisal (including financial indicators such as sales revenue and economic value added, and operational indicators such as safe production targets); and those employees who hold the positions of general manager assistant, department manager and below adopt appraisals on the achievement of annual targets.



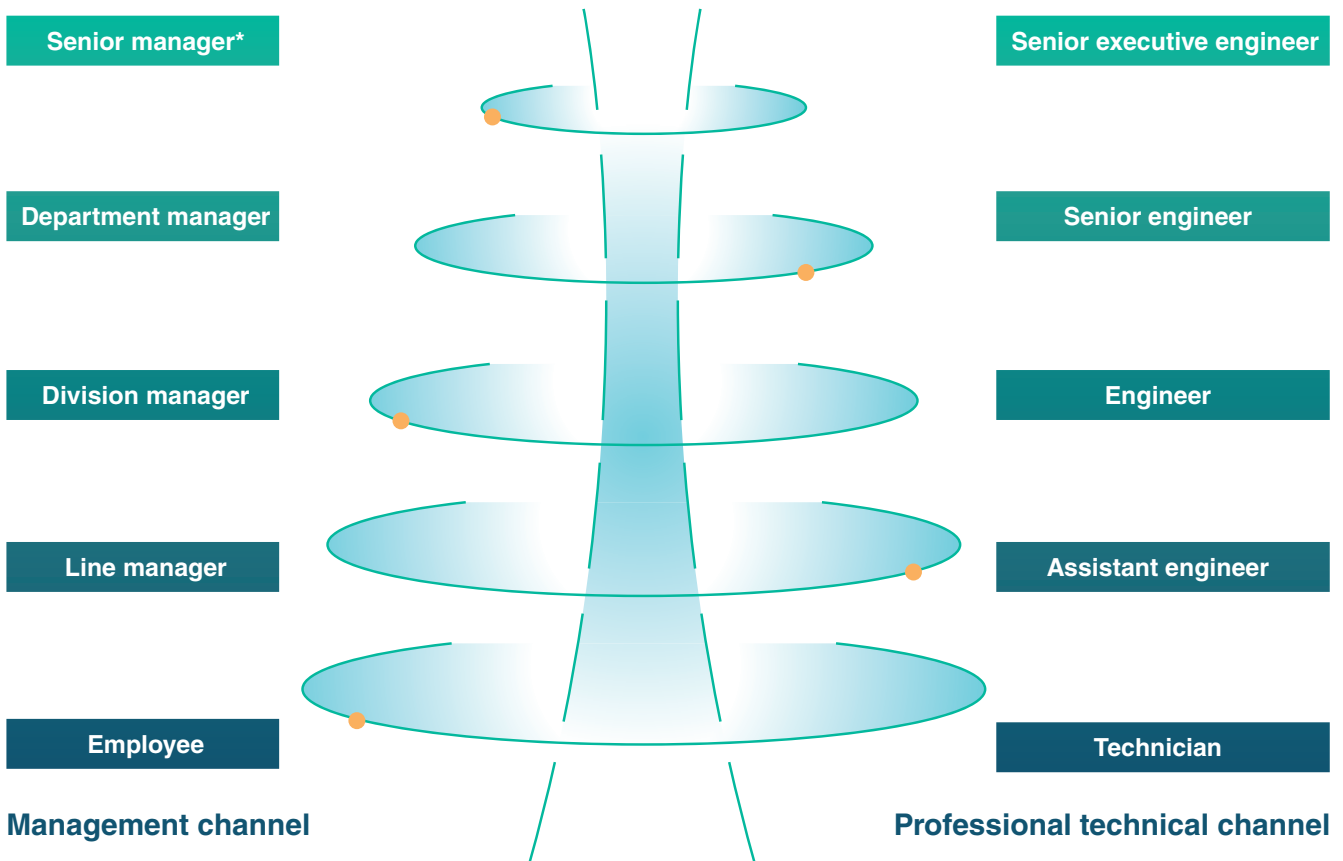
Employee Management

Career Development Channels

The Group provides employees with two career development channels, namely the management channel and the professional technical channel. While meeting the career development aspirations of different employees, it also provides a clear direction for corporate training and the self-learning and development of employees, consistently leading employees to keep learning.

In order to establish and improve the career development channels, encourage employees to continuously improve the competence for their positions and promote the establishment of the talent echelon, the Group has formulated the Rules of Cadre Management (《幹部管理辦法》), the Professional Position Qualification Certification and Appointment Management Measures (《專業崗位任職資格認定與聘任管理辦法》), the Administrative Measures on the Organizations of Professional Position Qualification (《專業崗位任職資格組織機構管理辦法》) and other policies, making provisions on the selection, appraisal, appointment and promotion through different channels. For employees at each level on the management channel, the Group inspects their educational degrees, training experience, management experience, performance, leadership and values. Qualified employees can be promoted after the appraisal by the Human Resources Operation Committee, the enterprise culture group and the Human Resources Departments of subsidiaries. For the professional technical channel, the Group classifies all positions into different professionals based on the nature of the positions of each subsidiary and the similarity of the required knowledge and skills, and established the Professional Committee (the “**Professional Committee**”). Employees can be promoted after meeting the requirements on the educational degree, seniority, performance, knowledge and skills, quality capability and the code of behavior and passing the review of the Professional Committee.

Dual-channel for promotion and development:



* Senior manager means management title of deputy general manager and above.

Employee Communications

The Group encourages equal communications among employees and between the superiors and the subordinates. An effective, harmonious and honest interpersonal relationship and communications can maintain a harmonious working atmosphere for mutual trust and progress. It is the basis for effective coordination and can consistently promote the progress of employees and the management.

In order to improve and establish effective communication channels, allow employees to actively participate in, recognize and support the relevant decision-making of the Group, and motivate all employees to make contributions to seeking solutions to the hotspots, difficulties and focuses in the process of development of the Group, the Group provides employees with diversified communication channels, including:



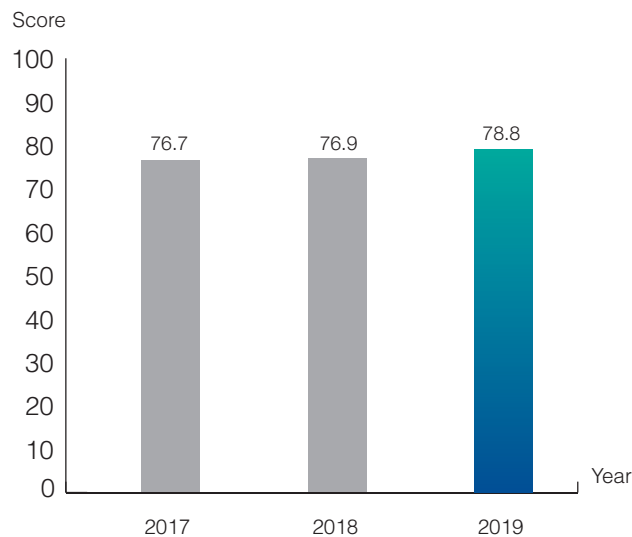
Employee Management

The Group always prioritizes listening to employees' voices, understanding employees' demands and solving employees' difficulties in its routine operation and work and keeps close communications and negotiation with the Trade Union on matters involving the immediate interests of employees to earnestly protect the legitimate interests of employees. In accordance with the Trade Union Law of the People's Republic of China (《中華人民共和國工會法》) and to safeguard the legitimate interests and democratic rights of employees, the Group has established the Trade Union with 100% of employees participation. Every year, the Trade Union holds the employee representatives congress, and signing ceremony of the collective negotiation on salaries, to implement the mechanism on safeguarding their rights and coordinate the labor relationship. In 2019, the employee representatives congress considered and approved the Draft of the 2019 Collective Contract & Salary Agreement (《二零一九年集體合同暨工資協議草案》), the 2018 Audit Report on Trade Union's Fees (《二零一八年度工會經費審計報告》), the 2018 Audit Report on Emergency Relief Fund (《二零一八年度急難救助基金審計報告》), the 2019 Budget on Income and Expenditure of Trade Union's Fees (《二零一九年工會經費收支預算表》) and the Proposal on Improving the Traffic Environment of Sunny's New Production Base (《關於改善舜宇新基地交通環境的提案》). Based on the requirements of "benefiting the motivation of employees' enthusiasm, the stabilization of the employee team and the healthy development of the company" and meeting the requirements on the minimum salary of the local government, the Group specified that salary for different sorts of employee will be adjusted according to the rise of national consumer price index in 2018 or rise of High-Tech industry expected salary in 2019.

During the year of 2019, the employee complaint platform of the "Sunny Family" WeChat official account collected 2,761 cases of effective complaints with a response rate of 100% and 92% of complaints have been well solved. The remaining is still being processed.

In addition, the Group conducts an employee satisfaction survey every year. Through understanding the demands of internal employees, it consistently improves the work of the human resources management of the Group and creates an enterprise culture conducive to improve the satisfaction of internal employees.

The results of employee satisfaction surveys of the Group in the past three years are as below:

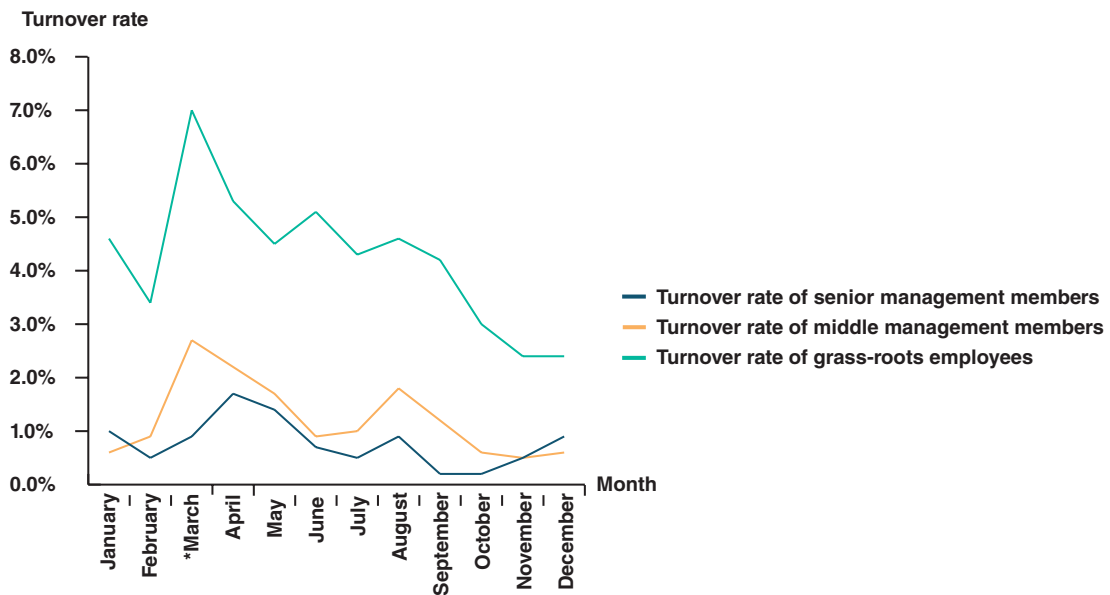


Employee satisfaction survey results in the past three years

Employee Management

The average monthly turnover rates of formal employees by different types of the Group in 2019 are as below:

Gender		Age				Region		Position		
Male	Female	≤30	31-40	41-50	>50	China mainland	Other regions	Senior management members	Middle management members	Grass-roots employees
3.8%	3.9%	4.1%	3.8%	1.4%	1.2%	3.8%	0.9%	0.8%	1.2%	4.2%



The monthly turnover rate of employees by employment position of the Group in 2019

* The higher turnover rate for this month was because the employees resigned to return home for the Spring Festival.

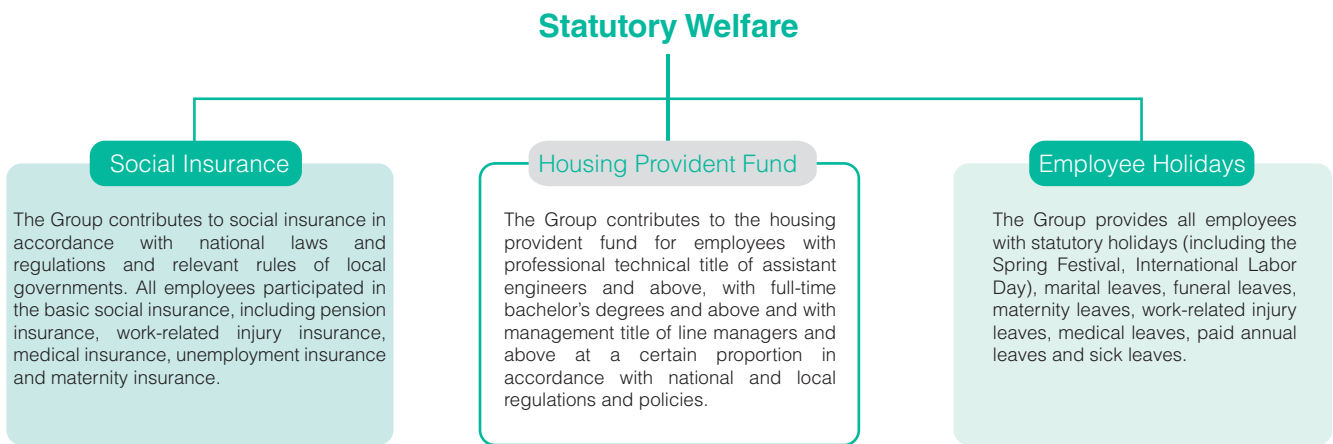
The Group identifies that the period around the Spring Festival is a peak season of employee loss. For the purpose of reducing the employee turnover rate, the Group prepares the Spring Festival dinner for employees and conducts the Spring Festival party and leader visiting for those employees who don't return home while reimburses train tickets for those employees who return home reflecting the enterprise culture of "People-Oriented".

Employee Management

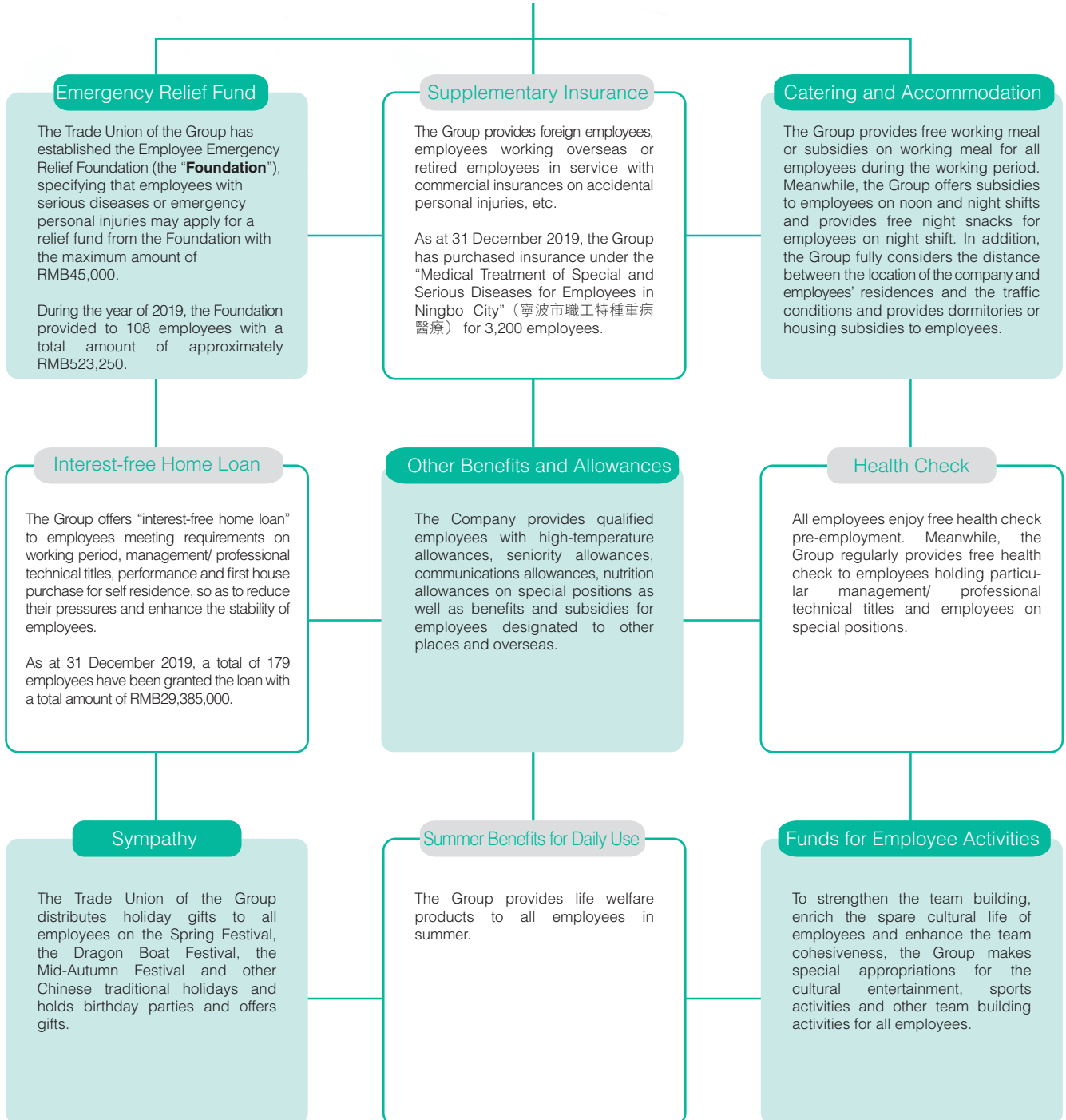
EMPLOYEE WELFARE

In order to enhance the cohesiveness, stabilize the team and reduce the worries of employees, the Group has established a welfare system with competitive advantage in the market. The welfare includes statutory welfare and complementary welfare. Statutory welfare is essential condition to guarantee the normal work of employees and refers to the welfare enjoyed by employees as specified by the state in laws and regulations. Supplementary welfare refers to complementary welfare provided as a result of the Group's increased profitability.

The welfare system of the Group in 2019 is as below:



Complementary Welfare



Employee Management

Caring for Female Employees

The Group pays particular attention to caring for female employees. In 2019, we arranged 68 female employees to conduct reproductive health check. Meanwhile, the Group requires not to extend the working hours or arrange night shift for female employees with over 7 months of pregnancy and arranges certain rest time during the working hours. Besides, we have set up several infant rooms in the factories to provide convenience to female employees in the suckling period, fully guaranteeing the interests of female employees.



| Infant Room

Traffic Environment Improvement in Factory Area

As the Yuyao Chengxi production base of the Group is still under construction, the road facilities surrounding the factory area are poor with serious pavement distress. To solve the shuttling traffic problems of employees, the Trade Union proposed the resolution on improvement of the traffic environment of this production base at the employee representatives congress and it was approved. During the year of 2019, the Group communicated with relevant authorities of local government for several times and the road conditions have been preliminarily improved. At the same time, in order to improve the working efficiency of employees and make travel convenient, the Group also has the following measures:



| Road Improvement in the Yuyao Chengxi Production Base

1. Daily official vehicles: to facilitate short-distance business travelling of employees and picking up guests;
2. Shuttle buses: to facilitate employees in handling business affairs in urban areas;
3. Commuter buses: to facilitate the shuttling of employees with stops in the dormitory areas and different factory areas; and
4. Working buses in the factory area: to facilitate employees shuttling among each factory to handle business affairs during the working hours.

Exclusive Preferential Projects for Employees

Based on the employees' demands, the Trade Union of the Group takes the social service work with inclusive nature as the priority projects to enhance the sense of pride and happiness of employees as "Sunny people". As at 31 December 2019, we have established partnership with 89 preferential merchants, covering catering, entertainment, vehicles purchase and maintenance, housing decoration, medical treatment and other fields. Our employees can enjoy exclusive discounts only by showing their working cards. In 2019, employees of the Group enjoyed 72,000 times of discounts with a discount amount of over RMB5,500,000.

EMPLOYEE ACTIVITIES

In order to enrich employee activities and create a harmonious working atmosphere, the Group carried out various activities during the year of 2019, including socializing event for single youths, fitness sports, "Lingying Cup" basketball match, New Year party and birthday parties.

Fate Brings Us Together

In 2019, we organized 6 socializing events for single youths. Through various forms of activities, it narrowed the distance among single youths, enhanced their understanding with each other and expanded their circle of friends. Over 200 employees participated in socializing events for single youths and the events included the "Youth Goes the Same Way, Meets the Blooming" flower arrangement activity, the "Heart Beats with Movies" video watching activity and the "Thousands Years of Love and Being Together with You Forever" Han-style clothes singles' party.



| Han-style Clothes Events for Singles



| Singles' Party

Group Wedding to Create Together

Meeting you is my fate and concomitance is destiny. 2019 is the 35th anniversary of the establishment of the Group. The Trade Union organized the group wedding with the theme of "Group Wedding to Create Together", witnessing the love of 26 employee couples. It invited 16 newly-wed couples and 10 couples married five, ten or fifteen years and the Trade Union arranged wedding ceremony for them. It also arranged romantic and sweet theme activities such as hanging love locks and travelling on Yaojiang on boats together.



| Group Wedding for Employees



| Traveling on Yaojiang on Boats Together

Employee Management

Integrate into Harmonious Sunny and Visit in Happy Yuyao

Fresh graduates are new blood injected in the company every year. We organized visits to well-known scenic spots in Yuyao City, such as Zhilin Village in east Zhejiang, Hengkantou Village, Hemudu Site, Danshan Chishui, Yuyao Museum and Yuyao Hall of Fame, to facilitate graduates to better understand the history and culture of Yuyao City and share the results in the reform and development. We help them love the city for their jobs, stimulate employees' enthusiasm and enhance their sense of belonging and recognition.



Integrate into Harmonious Sunny and Visit in Happy Yuyao

Display Sports Skills and Create Brilliant Development of Enterprises

The Group attaches great importance to the enhancement of the comprehensive physical conditions of employees. During the year of 2019, we organized fitness sports, basketball and football matches, 1,000-people rope skipping and other fun activities to cultivate the team spirit of employees and improve the corporate cohesiveness.



Employee Fitness Sports



Basketball Match



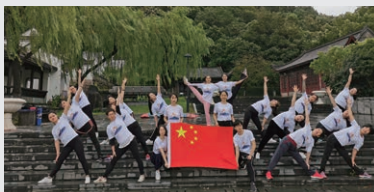
Football Match

Enjoy Colorful Life with Same Interest

The Group has established 44 interest groups and all employees can join voluntarily based on their interest. The interest groups cover chorus, yoga, baking, badminton, outdoor exercises, etc. In 2019, there were three sessions of yoga class held with over 300 participants. It also organized the mountain climbing activity with the theme of "Keep Fit and Protect Environment". The chorus arranges trainings every two weeks, providing professional training courses on basic music knowledge and chorus skills. It also participated in performances, and contests in and outside the city as representatives of all employees in the city.



Chorus



Activities of Yoga Group



Activities of Outdoor Interest Group

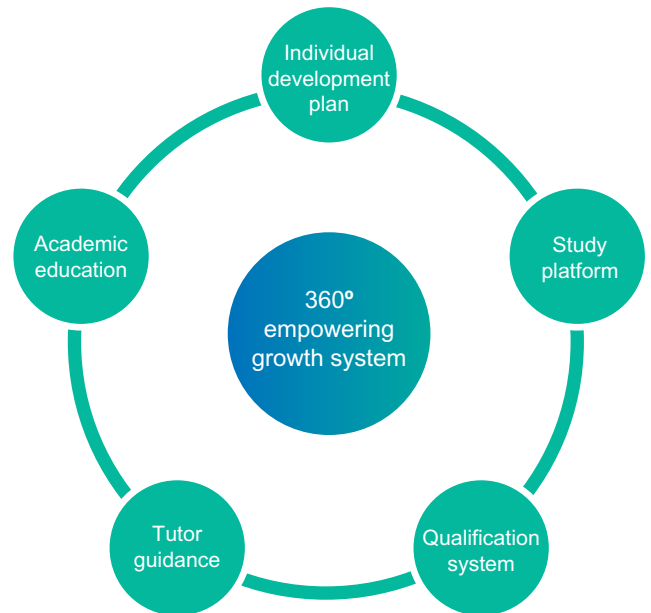
EMPLOYEE TRAINING

Talent is the primary resources of enterprise development and talent cultivation enjoys priority in various work. As a result, the Group further enhances human resources construction, strengthens talent cultivation and development, promotes the value added to human capitals and establishes a cultivation and development system covering all employees.

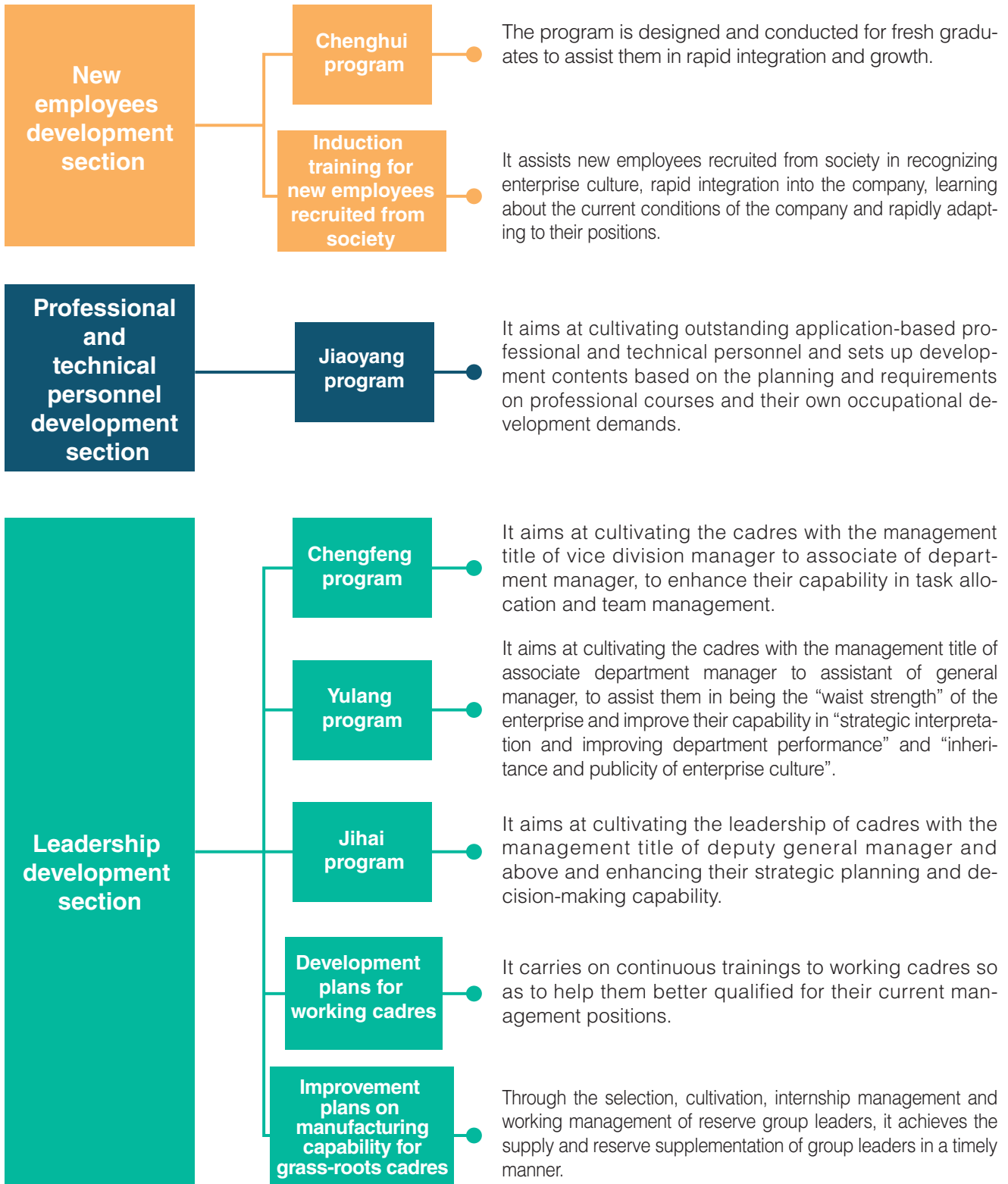
The Group practices the concept of “People-Oriented”, cares about employees’ development demands, creates a strong study atmosphere and builds a scientific cultivation system. With the joint efforts of the company and personnel, employees with management potentials have the opportunity to become managers, and those devote to research on skills have the opportunity to become technical

experts. It strives to provide equal opportunities and broad platforms to every employee to fully display their skills. In order to standardize and improve the training and management system and conduct employee trainings as planned. In terms of systems and policies, the Group has formulated the Management Policy on Training (《培訓管理制度》), the Whitepaper on Talent Study and Development (《人才學習發展白皮書》), the Skilled Worker Education and Training Policy (《技能工教育培訓制度》), the Policy on Qualifications for Positions (《崗位任職資格制度》) and other documents. Based on the requirements on cultivation and development, the Group provides employees with various studies and improvement methods such as occupational development plans, tutors’ guidance, special trainings and academic education.

To build a systematic and comprehensive cultivation and development system, the Group implements development plans based on new employees development section, professional and technical personnel development section and leadership development section.



Employee Management



Employee Management

During the year of 2019, the Group carried out various training programs based on the training and development system and development demands of employees, such as:

- Arranging 50 cadres with the management title of associate department manager to assistant of the general manager to participate in trainings under the Yulang Program, which have 20 courses (customers first, innovation management, etc.) with a total of approximately 120 hours/ person;
- Arranging 50 cadres with the management title of vice division manager to assistant of the department manager to participate in trainings under the Chengfeng Program, which have 8 courses (recognition of roles of grassroots managers, task management and personnel management) with a total of approximately 75 hours/ person;
- Organizing trainings under the Jiaoyang Program with R&D technologies personnel' participation and conducting the communications based on the projects, which have successfully delivered 11 effective projects; and
- Conducting 24 trainings for professional technical personnel on marketing management, R&D and technology management, supply chain management and human resources management, which cover 1,250 attendance with a total of more than 19,200 hours for learning.



| Chenghui Program



| Seminar on Training Systems and Procedures | Chenghui Program



| Yulang Program



| Jiaoyang Program



| Chengfeng Program

Employee Management

The Group encourages and guides its employees to participate in various trainings and studies and requires all employees to continuous learning of system. Meanwhile, it sets up awards/ project recognition in various training activities to stimulate employees' interest in learning. The Group conducts training in the forms of online learning, third-party training and self-learning. In 2019, the Group vigorously promoted online learning platforms, which have 3,800 general courses in 11 areas, covering 8,417 employees with an annual average of 39.4 learning hours/ person. At the same time, the Group actively promoted the development and introduction of internal online courses. As at 31 December 2019, the Group developed a total of 556 online courses.

To meet the training demands and build its internal lecturer team of the Group and promote the accumulation, sharing and transmission of internal knowledge, the Group has formulated the Internal Lecturer Management Policy (《內部講師管理制度》), the Tutor Management Measures (《導師管理辦法》) and other policies to stimulate experienced managers and experts to become internal lecturers. In 2019, the Group added 167 new internal lecturers, sharing their professional experiences on their positions to other employees.

The Group requires that monthly average learning hours of gross-roots employees shall be no less than 2 hours. During the year of 2019, the training participation rate of the Group's working employees reached 100%, with an annual average of 59.7 hours/ person.

The employees participation in trainings of the Group in 2019 are as below:

Type	Annual average number of learning hours per person (hours/ person)	Training participation rate
Senior management members	17.1	100%
Middle management members	18.0	100%
Grass-roots employees	66.0	100%
Male employees	59.7	100%
Female employees	59.7	100%

MANAGEMENT SYSTEM

Occupational safety and health policy:



Engage in work with the goal of being no-disaster and no-accident to ensure the safety of employees and factories



Ensure the safety of raw materials, work in progress and finished products, and prevent damage to human health in all aspects of manufacturing, distribution and use



Strengthen the training of occupational safety and health knowledge to all employees, to continuously eliminate sources of danger and improve the standard of safety management

The Group continuously devotes resources to safe production and protects employees from occupational hazards. Apart from strictly complying with relevant national laws and regulations such as Fire Protection Law of the People's Republic of China (《中華人民共和國消防法》), Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) and Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), as at 31 December 2019, three subsidiaries of the Group have passed the OHSAS18001 or ISO45001 certification on occupational health and safety management system. Meanwhile, the three subsidiaries have established seiri, seiton, seiso, seiketsu, shitsuke, and security ("6S") management regulations, requiring dividing smoking areas, cutting off the unnecessary electricity for equipment after leaving, keeping the escape channels smooth and equipping with fire prevention instruments in terms of safety.

SAFE PRODUCTION

The Group has set up a safety management organizational structure:

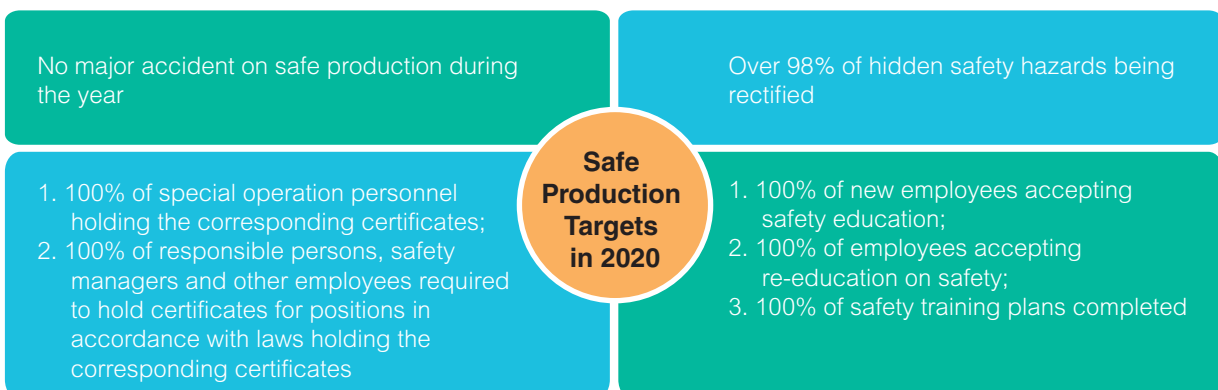
1. The Chief Executive Officer of the Company is the first responsible person on safe production of the Group, and is responsible for the establishment of rules on safe production management, regularly meetings of the safety leading group, necessary investments on safe production, solving relevant problems and preparing proposals on emergency rescue;

* Health and safety: this section covers all employees of the Group.

Health and Safety

2. The Safe Production Management Division (the “**Safety Division**”) implements safety policies and relevant practices, organizes the establishment of employees safety and health management systems and safety and technology procedures of the Group, organizes the convening of meetings on safety inspections and safe production, and is responsible for the inspection and appraisal on the safety work of subsidiaries and reporting to the management;
3. The general manager of each subsidiary is the first responsible person on safe production and is responsible for the safe production work and the establishment of relevant rules and policies to urge the implementation of safe production work within the subsidiary;
4. The safety manager# of each subsidiary is responsible for fully managing the safe production work, establishing and complementing of safe production plans, regularly convening meetings on safe production work and reporting production safety accidents within the subsidiary; and
5. The Safety Division of Group assists the safety manager of each subsidiary in handling routine matters on safe production, organizing safe production education activities, trainings and exercises, conducting inspections on safe production to eliminate safety hazards and implementing of measures on safe production within the subsidiary.

In order to implement relevant laws and regulations as well as relevant rules of governmental authorities on enhancing safe production work, fully implement the safe production policy of “prioritizing safety, focusing on prevention with comprehensive treatment” and the fire prevention policy of “focusing on prevention and combining prevention and fire-fighting” and following the principle of “supervisors assuming responsibilities”, the Company and each subsidiary have signed the Targets and Responsibilities on Safe Production (《安全生產目標責任書》) and established the Appraisal Measures on Safe Production (《安全生產責任考核辦法》) responsibilities to enhance the responsibilities of entities on safe production, earnestly improve the safety management level of each subsidiary and the safety awareness of employees and prevent accidents. They also set safe production targets and conduct assessments. The assessment results are linked with the performance coefficient and reflected in the year-end bonus. In case of safety accidents, besides economic punishments, corresponding administrative punishments (such as criticism, warnings, disciplinary actions and the termination of the employment contract) will be given based on the levels of seriousness of the accidents and the responsibilities of relevant responsible persons for the year.



Safety manager: The person authorised by the subsidiary’s general manager to manage the safe production work of the company.

To respond to the advocates of the Group and achieve the annual targets on safe production, three subsidiaries have formulated relevant regulations and carried out activities based on their own conditions:

1. Sunny Zhejiang Optics carried out the identification of sources of dangers on all departments during the year 2019. For example, the Manufacturing Department identified fire risk from ageing wires of air-conditioning system, machinery and equipment and developed improvement measures. Sunny Zhejiang Optics formulated the Procedures on the Management and Control of Behaviors of Related Parties (《相關方行為管理控制程序》) to conduct environment and occupational health and safety management on suppliers, recycling parties, leases and equipment repairers. It required that they shall meet relevant national/ local/ industrial laws and regulations on environment, health and safety in providing products and services, carry out safe production without major fire disasters/ safety accidents occurred and properly safeguard inflammables, explosives, poisonous, harmful or dangerous articles. Besides, Sunny Zhejiang Optics implemented environmental/ occupational safety examination on construction personnel of third-parties in the company, requiring relevant personnel holding the corresponding certificates and meeting operation regulations;
2. Sunny Opotech has adjusted the safe production group and the structure of the safety management agencies to implement safe production work. The general manager of the subsidiary acted as the group leader and established the network of safe production management to specify duties. Sunny Opotech also required third-parties on relevant operation to sign the Safety Management Agreement (《安全管理協議》) and formulated the Policy on Safe Production Trainings (《安全生產培訓制度》) to enhance the internal and external personnel awareness on safety; and
3. Sunny Automotive Optech established the Relevant Policies on Occupational Health and Safety (《職業健康安全相關制度》), which involves requirements on the protection, health check, safety operation, labor protection of various employees.

The Safety Division of the Company and safety personnel of each subsidiary conduct at least three safety inspections on all subsidiaries each year, covering fire safety, dangerous chemicals safety, safety protection, equipment safety and electric safety. Inspectors give feedbacks on the inspection results to relevant employees of each subsidiary and propose rectification requirements and deadlines. The inspection results will be included in performance assessment.

The Group recognizes that fire is the biggest safety hazard in the operation process. Therefore, the Group has made regulations in terms of fire hazard: 1. New employees would be subject to a three-level safety training when they are hired, and fire evacuation drills and fire extinguisher operation exercises are conducted annually; 2. Carry out monthly safety inspections on production areas and spot inspections on employee safety knowledge; 3. Fire extinguishers are checked monthly to ensure that the equipment could be used normally; and 4. A mini fire station is set up and a designated personnel is on 24-hour duty every day. In addition, the Group carries out the “safety month” and “fire prevention month” activities, and encourages each subsidiary to conduct relevant activities to reduce safety hazard and enhance the safety awareness of employees. During the year of 2019, each subsidiary has carried out relevant activities and trainings.

Health and Safety

In terms of hazardous chemicals management, the Group controls and manages the hazardous substances included in the national catalogue of hazardous substances or in accordance with national standards and methods on the identification of hazardous substances. The three subsidiaries have formulated the Procedures on the Control of Hazardous Chemicals (《危險化學品控制程序》), the Procedures on the Management of Hazardous Chemicals (《危險化學品管理程序》) and other regulations to standardize the procurement, transportation, storage, use and disposal of chemicals and prevent the harmful influence of chemicals on persons and the environment. Firstly, the department raises chemicals procurement demands based on the process requirements, and Procurement Department collects technical specifications on chemicals from suppliers for review and assessment by the Safety Division. The Application for Approval on Introduction of Chemicals (《化學品引入放行申請單》) or the Assessment Report on Introduction of Chemicals (《化學品導入評估報告單》) are filled in and then the Procurement Department conducts procurement and uses after issuing safety information and proposing safety measures. Besides, the Group has requirements on the storage and use of chemicals: the placing of hazardous chemicals shall meet the requirements on fire and explosion prevention and shall be managed by professional technicians. Labels shall be posted at the storage and use places. The storage amount shall be controlled and leak-proof facilities shall be set up. The reception slips shall be displayed upon receiving chemicals. Employees shall be trained and notified of the use methods set out on the safety labels and instruction book of chemical as well as necessary emergency measures before the use and protective equipment shall be worn during operation. Chemicals shall be sealed in containers after use.

The Group also issued the Procedures on Emergency Preparation, Response and Control (《應急準備和響應控制程序》) and the Emergency Plan on Chemical Leakage (《化學品洩漏應急預案》), which are mainly used for emergency in response to leakage of oil and hazardous chemicals of the companies to reduce economic losses and human injuries. The Safety Division of the Company initiated special spot inspections on hazardous chemicals during the year of 2019 and proposed opinions on the improvement of the design, personnel management and emergency facilities in hazardous chemicals warehouses. As at 31 December 2019, all of the above opinions have been implemented.

Safety Inspection

The Safety Division of the Company conducts two wide-range safety inspections annually, and also conducts monthly inspections, inspections before the holiday and various special inspections. The Safety Division of the Company and safety employees of each subsidiary conducted the safety inspection during 2019, and found that three subsidiaries had problems in the storage of chemicals and labeling during the inspections. The Safety Division and inspection employees proposed rectification opinions on the above problems and required those three subsidiaries to complete the rectification within a prescribed period. As at 31 December 2019, all of the problems have been solved.

Safety Month

The Group has set June as the safety month every year to conduct activities with the theme of publicizing safety knowledge, safety trainings, safety knowledge contest, drills on emergency plans and inspections on safety risks. In 2019, the Group publicized safety knowledge through hanging banners, posting posters and other means at the production area, canteens, dormitories and other areas. It also published over 30 articles on fire safety, electric safety and traffic safety on the WeChat official account of each subsidiary with a total of 18,000 times of views. Besides, the Group arranged employees to watch videos on safety education. In terms of training, the Group organized various safety trainings for all employees. Relevant employees on safety and systems of each subsidiary attended trainings on safety management systems and responsible persons and safety employees attended trainings on qualification. Meanwhile, each subsidiary formulated and conducted drills on emergency escape, hazardous chemicals leakage, etc.. In 2019, the Safety Division of the Company organized online safety knowledge questions with more than 10,000 participants. It also conducted offline knowledge contests and solicited articles on safety to improve the participation of employees.



Safety Knowledge Contest



Safety Knowledge Posters



Safety Warning Banners



Drill of Hazardous Chemicals Leakage



Exercise of First-aid

Health and Safety

Fire Prevention Month

In 2019, the Group conducted the 7th fire prevention month activities. With the theme of “preventing fire risks and building a beautiful home”, the Group carried out activities such as the publicities and trainings on fire prevention knowledge, contests on fire prevention skills, fire prevention drills and hidden danger investigations. The Group publicizes and delivers fire prevention knowledge to all employees through hanging fire prevention banners at employee passages, posting fire prevention knowledge on bulletins, showing fire prevention slogans on electronic screens, publishing articles on WeChat official accounts, and provides relevant publicity and trainings, such as video demonstrations on fire prevention and online knowledge contests.



Fire Prevention Training



Fire Prevention Skill Contest

Meanwhile, the Group arranges each subsidiary to conduct contests on fire prevention skills, theories and knowledge on fire prevention to enhance employee participation and allow employees to obtain knowledge in lively activities. To reduce accidents, the Safety Division of the Company carries out inspections on hidden dangers and proposes rectification suggestions on any non-compliance circumstance.

Reactions after Accident

On 30 June 2019, an employee of the General Affairs Department of Xinyang Sunny Optics Co., Ltd. fell from height when inspecting and repairing the cooling tower at the roof of the water chiller room and died after rescue. To learn from the accident and achieve the purpose of education and alarming, the Group reported the accident throughout the companies and imposed performance punishment on relevant responsible persons. Meanwhile, the Group reviewed reasons of such accident and carried out screening and controlling of hidden dangers as well as special trainings on height operation to enhance the safety awareness and professional skills of employees in each subsidiary. In addition, the Group also added protection measures in height operation areas, such as height fences and ladder fences.



Ladder Fences



Height Fences



Special Training on Height Operation

During the year of 2019, the Group had a total of 1,296 working days lost due to work injury. The number of work-related death in the past three years is as below:

	2017	2018	2019
Number of work-related death	0	0	1

PREVENTION OF OCCUPATIONAL DISEASES

In order to optimize the operating environment and guarantee the physical health and safety of employees, the Group appointed third-party agencies to conduct regular inspections on the working places of three subsidiaries on hazardous factors of occupational diseases. Third-party agencies believed that noise and chemicals are hazardous factors of occupational diseases involved in the working places of the Group after on-site inspections. Noise intensity and chemicals concentration exposed to the occupational disease hazards have met requirements during the year.

The Group committed to: 1. Providing a healthy and safe work environment for employees and distributing labor protection appliances and supplies, such as dust masks and protective gloves, as per requirements; 2. Performing annual occupational health examinations for those employees who work at positions that are exposed to occupational disease hazards according to the requirements of relevant national laws on the prevention and control of occupational diseases. In addition to fulfilling the above commitments, the Group also issued notification on occupational diseases to employees on special positions and conducted trainings; implemented ventilation and isolation measures for certain positions involving occupational disease hazard factors, added prompts and signs, improved security measures and strengthened supervision and inspection, arranged and adjusted the sites in some areas by utilizing workplace renovation, and made continuous technology modifications on certain original processes involving toxic and harmful raw materials to get such materials cancelled or replaced, so as to lower occupational disease hazard risks.

Since the outbreak of the COVID-19 in China since January 2020, various emergency public health measures and actions have been imposed by multiple provinces and municipalities in China to curb the spread of the epidemic. On 23 January 2020, the Group activated the first-level emergency plan, which was executed under the leadership of the Chairman of the Board Mr. Ye Liaoning and the Chief Executive Officer Mr. Sun Yang, formulated the Working Plan of Emergency Response Organizations and Management Groups for Epidemic Prevention (《防疫應急響應組織及各管理小組的工作方案》), and established 11 working teams covering overall coordination, temperature measurement, sterilization, quarantine, canteen, dormitory, procurement, human resources, finance, monitoring and outreach publicity in order to make deliberate arrangement and deployment for the epidemic prevention and strictly implement various prevention and control measures in various departments of the Group. The Group has specially appointed two famous medical doctors as its health consultants to provide professional medical guidance on the epidemic prevention to effectively protect the health and safety of employees. Meanwhile, the Group provided all employees with masks, gloves, ethyl alcohol and other protective articles and carried out temperature taking and monitoring every day.

As at the date of issuance of the Annual Results Announcement for the Year Ended 31 December 2019, the capacity utilization of the Group has resumed normal. As at the date of issuance of this report, the Group has no case of infection.

Green Operation

The factories of the Group are located in general industrial areas and are far from natural reserves, tourist attractions and other environmentally sensitive areas. It will not affect local biodiversity and important water sources. All key construction projects have been granted the necessary approvals on environmental impact assessment based on requirements.

CLIMATE CHANGE

The Group deeply knows that climate changes constitute risks on the businesses of the companies. With reference to the suggestions of the Task Force on Climate-related Financial Disclosures (“TCFD”) established by the Financial Stability Board, the Group releases relevant information on four core categories, namely “Governance”, “Strategy”, “Risk Management” and “Indicators and Targets”.



Meanwhile, to ensure rapid, timely and effective responses to emergencies (including but not limited to fire, chemicals leakage, explosion, typhoon, electric shock, lightning stroke and infectious diseases) and prevent the accident and reduce the influence of emergency, the Group has formulated the Procedures on Emergency Preparation, Response and Control (《應急準備和響應控制程序》). In October 2013, the production base of the Group located in Yuyao City, Zhejiang Province suffered from serious floods, which suspended the operation of local production facilities. Subsequently, the Group considered floods as one of the significant risks on climate change which may be exposed to in the production and operation. It has formulated the Working Handbook on Preventing Flood and Typhoon (《防汛防颱工作手冊》) and has established isolation belts and drainage systems. The Group’s work on prevention of flood and typhoon include:

1. Routine management: weather information monitoring, drainage pipeline maintenance, emergency supply management, etc.;
2. Alarming management: releasing alarming information, preparation of disaster relief materials, inspections on hidden dangers, etc.;
3. Emergency management: establishing the emergency task force to conduct relevant emergency work; and
4. Subsequent management: post-disaster assessment, post-disaster summary, equipment inspection and maintenance, etc.

ENERGY MANAGEMENT

Having appreciated the preciousness of resources, with an aim to improve the resource usage efficiency, the Group has formulated the Regulation on the Administration of Energy and Resources (《能源資源管理規定》). This regulation is mainly applicable for raw materials, equipment, office supplies, water, electricity and other resources and energy that are used by the Group in the scope of production and operation. The regulations primarily specify the duties and responsibilities of the Production Management Department and the Procurement Department, and singly make refinements on the consumption of raw materials, accessories, water and paper, so as to take control on the use of resources and energy. In addition, the largest energy consumption of the Group in the operation process is the use of electricity, the Group strictly controlled the consumption of non-production electricity and adjusted cable lines, in order to save energy as much as possible.

In order to enhance the awareness on energy-saving and consumption reduction and increase the employee participation, the Group carried out reasonable proposals appraisal, special improvements and other activities. During the year of 2019, the energy-saving and consumption reduction projects carried out by the Group include:

Energy-saving and consumption reduction projects	Results
<p>Sunny Zhejiang Optics Replacing alternating-current motors with direct current motors</p>	<p>The consumption of electricity reduced by 467,200 kWh/year</p>
<p>Sunny Opotech Using the air-conditioning atomization cooling system</p>	<p>The consumption of electricity reduced by 786,832 kWh/year</p>
<p>Sunny Automotive Optech Replacing high-energy consumption motor equipment with low-energy consumption motor equipment Replacing fluorescent lamps with sensor lamps in public areas</p>	<p>The consumption of electricity reduced by 6%/year The consumption of electricity reduced by 89%/year</p>

Green Operation

WATER RESOURCES MANAGEMENT

The Group has been paying attention to improving water consumption efficiency and saving water, although the Group has no trouble in seeking for applicable water resources. The Group persisted in innovation management and continued to improve its production processes by combining reasonable proposals and conducted the recycling of reclaimed water*. During the year of 2019, the Group recycled a total of 80,000 tonnes of water through the recycling system on reclaimed water and they are used as water filled in the cooling tower of air-conditioning compressors, spraying water in the atomization cooling system, bathroom water and other clean water.

PACKAGING MATERIALS MANAGEMENT

Due to the various and complicated categories of products, the Group uses various packaging materials, including paper boxes, blister boxes, corrugated paper and vacuum bags. Following the environmental and saving principle, the Group recycles packaging materials through recycled resources companies. Meanwhile, to reduce the use of packaging materials, the Group takes measures such as the recycling of hard blister boxes and the use of light packaging materials with large capacity. During the year of 2019, the Group recycled a total of 181.0 tonnes of packaging materials.

SAVING PAPER

In order to further implement measures on energy saving and consumption reduction, the Group has formulated the 6S Management Regulations (《6S管理規定》) and the Regulations on the Use of Air-Conditioners (《空調使用管理規定》) to standardize the management of daily behaviors, such as the use of air-conditioners, use of electricity in the office area and the use of paper. For example, to achieve the target of reducing paper consumption by 5% as set out at the beginning of the year, Sunny Opotech promoted paperless office. It carried out measures such as using e-documents for internal and external communications, using electronic seals to affix on contracts, showing employees' working cards to print documents. In order to reduce the paper consumption, Sunny Zhejiang Optics also restricts the number of paper used every week.

* Reclaimed Water: Undrinkable water that can be reused within certain range after proper treatment to reach the water standard.

Green Operation

In 2019, the Group's green operation related data are summarized as below:

Category	Unit	2019	2018	2017
Total direct energy (note 1)	MWh	7,016.0	3,701.5	3,614.1
Natural Gas (note 2)	MWh	3,151.8	2,754.7	2,638.9
Liquefied petroleum gas (note 2)	MWh	2,041.7	/	/
Diesel (note 2)	MWh	952.1	/	/
Gasoline (note 2)	MWh	870.4	946.8	975.2
Total indirect energy (note 3)	MWh	416,995.8	266,703.1	185,714.7
Electricity	MWh	416,995.8	266,703.1	185,714.7
Total energy consumption	MWh	424,011.8	270,404.6	189,328.8
Energy consumption density	MWh/RMB million output value	11.2	10.2	8.9
Packaging materials (note 4)	tonnes	1,604.2	352.0	280.2
Packaging materials density	kg/RMB million output value	42.3	13.3	13.2
Water consumption	tonnes	1,512,331.4	1,251,673.0	981,335.0
Water consumption density (note 5)	tonnes/RMB million output value	39.9	47.4	46.2

Notes:

1. In 2019, 154,828kg of liquefied petroleum gas were used because the natural gas pipeline was not accessed in the canteens at the Yuyao Chengxi production base of the Group and 96,117 litres of diesel were used in electricity generation with leased generators due to the lines adjustment in the plant. As a result, total direct energy consumption increased by 89.5% year-on-year;
2. The average low calorific value coefficients of the natural gas, the liquefied petroleum gas, the diesel and the gasoline used by the Group were reference to Chinese Energy Statistical Yearbook (《中國能源統計年鑒》);
3. In 2019, indirect energy consumption increased by 56.4% year-on-year as a result of the capacity expansion of the Group;
4. In 2019, packaging materials increased by 355.7% year-on-year as Sunny Opotech incorporated the use of blister boxes into the scope of packaging materials used;
5. In 2019, water consumption density decreased by 15.8% year-on-year as the Group adopted the recycling of reclaimed water and other water-saving measures and achieved results.

Emissions Compliance

ENVIRONMENTAL PRINCIPLES

- Strengthen the management of pollution sources and take effective precaution measures to reduce or avoid the impact of waste water, waste gas and solid waste on the environment;
- Continuously improve production technology, strictly control the process, improve product yield rates and save resources and energy as much as possible;
- Strive to seek substitutes for hazardous and noxious substances to make the Group's products meet the requirements of customers as well as the laws and regulations of importing countries, and the materials entering the companies must have green products warranty certificates and testing qualified reports issued by third-party testing agencies which are recognised by the Group; and
- Encourage the employees to raise environmental protection awareness and master knowledge and skills in environmental protection.

EMISSIONS MANAGEMENT

The Group attaches great importance to environmental protection, energy conservation and emission reduction work, therefore we strictly comply with laws, regulations and policies such as Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), Integrated Wastewater Discharge Standard (《污水綜合排放標準》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and Hazardous Waste Pollution Prevention Technology Policy (《危險廢物污染防治技術政策》), and review the compliance of the Group's operation activities with environmental laws and regulations regularly.

In addition, to identify and reduce the environmental impact of production and operation activities, continuously improve environmental management measures, and respond to major environmental events, the Group has formulated systems such as the Environmental Factor Identification and Evaluation Control Procedure (《環境因素識別和評價控制程序》), Administrative Measures on Waste Gas, Effluent, Noise and Solid Waste (《廢氣、廢液、噪聲及固體廢棄物管理規定》), Environmental Operation Control Procedure (《環境運行控制程序》), Environmental Management Standards (《環境管理標準》), Environmental Performance Testing and Measurement Control Procedures (《環境績效檢測與測量控制程序》). In order to reduce environmental risks, the Group has established an environmental management system in accordance with the ISO14001 standard. As at 31 December 2019, the Company and three subsidiaries have obtained the ISO14001 certification. Meanwhile, the Group appoints third-party inspection agencies to test the waste water, waste gas and noise of the Group every year. During the year of 2019, the emissions of the Group fulfilled the standards.

Emissions Compliance

In order to improve employees' environmental awareness and acquire the necessary knowledge and skills, the Group publicizes the objectives and requirements of environmental management to all employees through the bulletin board, WeChat official account and trainings. It makes employees understand the impact of their work on the environment and the risks and consequences of not complying with laws, regulations and the relevant systems. In addition, the Group communicates with environmental regulatory authorities on a regular or irregular basis, actively cooperates with the inspections of regulatory authorities, and proactively reports major environmental issues. During the year of 2019, the Group's business activities did not have material impact on the environment and natural resources. No fines or penalties have been imposed for violating environmental laws and regulations.

WASTE WATER AND WASTE GAS

The waste water generated by the Group mainly includes waste water generated from our daily life and the production and operation activities. In order to reduce the environmental impact of the Group's business, the Group has established a waste water treatment system to treat various waste water in the plant area and is committed to improving the usage of water resources. The waste water discharged by the Group is managed according to the Class III standard of Integrated Wastewater Discharge Standard (《污水綜合排放標準》)(GB 8978-1996), waste water of daily life and production can be discharges into the municipal sewage drainage network after treatment and has obtained the permit for the discharge of urban waste water into the municipal sewage drainage network. In addition, the Group strictly implements rainwater and waste water diversion in the plant area, and diverts rainwater into the pipeline to nearby rivers.

During the daily operations, nitrogen oxides, sulfur dioxides and particles are the main air pollutants produced by the Group, which are mainly generated from vehicles exhaust emission and combustion of natural gas. To reduce the emission of waste gas, the Group has formulated plans on reasonable travelling by company cars during the year of 2019.

Emissions Compliance

WASTE MANAGEMENT

The Group produced hazardous liquid waste and solid waste (the “**Hazardous Waste**”) during production. In response, the Group has established the Administrative Measures on Waste Gas, Effluent, Noise and Solid Waste (《廢氣、廢液、噪聲及固體廢棄物管理規定》) to clarify the methods for classification, collection, storage and disposal of various types of waste, and to achieve reduction, harmlessness and resource disposal of various types of waste in compliance with national laws, regulations and standards. Meanwhile, to prevent various accidents when Hazardous Wastes are produced, stored, transported and disposed, the Group introduced the Hazardous Waste Accident Emergency Plan (《危險廢棄物事故應急預案》) (the “**Plan**”). The Plan mainly specifies the names, sources, features and hazards and treatment measures of various Hazardous Wastes, the organisations and structures responding to accidents and their duties and the precautionary measures against accidents.

The Group has established a Hazardous Waste storage warehouse, and requires each department to deliver the wastes to the storage place in a timely manner according to their classifications and the corresponding requirements. The Logistics Department is responsible for the storage, transportation, sale and other management activities of the waste. Turning waste into resources and secondary utilization of wastes are the longstanding principles of the Group. The Group divides waste into two main types, non-hazardous waste and hazardous waste. If non-hazardous waste is recyclable, it will be sold or sub-processed while those, which cannot be recycled, will be sent to the sanitation unit regularly for processing. Hazardous waste is processed together by qualified third-party agencies.

To reduce waste, the Group promoted the use of environmentally-friendly paper and conducted the publicity of garbage sorting and other activities. Meanwhile, Sunny Zhejiang Optics required suppliers replacing the disposable plastic bags with recyclable plastic boxes as packaging materials for materials, reducing the use and waste of disposable plastic bags. Sunny Automotive Optech takes measures including using the dustless cloth without hazardous contents, and adding pistons in the dispensing process to reduce the generation of Hazardous Waste.

During the year of 2019, a total of 6,885 tonnes of non-hazardous waste has been recycled by the Group.

In 2019, the Group’s emissions compliance related data are summarized as below:

Category	Unit	2019	2018	2017
Greenhouse gases scope one	tCO ₂ e	3,345.6	2,454.8	1,592.5
Natural gas (note 1)	tCO ₂ e	630.2	550.8	527.6
Air conditioning refrigerants (note 2)	tCO ₂ e	1,776.0	1,674.9	829.0
Liquefied petroleum gas (note 1)	tCO ₂ e	480.2	/	/
Diesel (note 1)	tCO ₂ e	248.5	/	/
Gasoline (note 2)	tCO ₂ e	210.7	229.1	235.9
Greenhouse gases scope two	tCO ₂ e	293,356.6	187,625.6	130,650.3
Electricity (note 3)	tCO ₂ e	293,356.6	187,625.6	130,650.3
Total greenhouse gases (notes 4, 5)	tCO ₂ e	296,702.2	190,080.4	132,242.8
Greenhouse gas emissions density	tCO ₂ e/RMB million output value	7.8	7.2	6.2
Volume of sulfur dioxide emissions (notes 6, 7, 8, 9, 10)	kg	446.6	14.0	13.5
Volume of nitrogen oxides emissions (notes 6, 7, 8, 11)	kg	1,902.3	950.0	897.0
Volume of particles emissions (notes 6, 7, 8, 10)	kg	143.8	75.9	71.5

Emissions Compliance

Category	Unit	2019	2018	2017
Hazardous waste (note 12)	tonnes	9.6	4.4	5.1
Hazardous waste density	kg/RMB million output value	0.3	0.2	0.2
Total non-hazardous waste (note 13)	tonnes	13,085.0	5,470.0	5,240.0
General non-hazardous waste	tonnes	6,200.0	5,470.0	5,240.0
Recyclable non-hazardous waste	tonnes	6,885.0	/	/
Total non-hazardous waste density	kg/RMB million output value	345.2	207.3	246.3

Notes:

- The carbon dioxide emissions coefficients of natural gas, liquefied petroleum gas and diesel used by the Group were reference to the Provincial Guidance on the Compilation of Greenhouse Gas Inventories (《省級溫室氣體清單編製指南》) (the National Development and Reform Commission of Climate Change [2011] No. 1041);
- The global warming potential coefficient of air conditioning refrigerant and the carbon dioxide emissions coefficient of gasoline used by the Group were reference to the 2014 Intergovernmental Panel on Climate Change (IPCC) Guidelines for National Greenhouse Gas Inventories (《2014年聯合國政府間氣候變化專門委員會 (IPCC) 國家溫室氣體清單指南》);
- The carbon dioxide emission factor of the purchased electricity used by the Group was adjusted from the 2014 China Regional Grid Emission Factor Base (《2014年中國區域電網基準線排放因子》) to the 2012 China Regional Grid Average Carbon Dioxide Emission Factor (《2012年中國區域電網平均二氧化碳排放因子》);
- In 2019, total greenhouse gas emissions increased by 56.1% year-on-year as a result of the capacity expansion of the Group;
- For the statistics on greenhouse gas, scope three (Water Use and Waste water Treatment, Business Travel by Employees) was no longer included and disclosed;
- In 2019, 154,828kg of liquefied petroleum gas were used as the natural gas pipeline was not accessed in the canteens at the Yuyao Chengxi production base of the Group and 96,117 litres of diesel were used in electricity generation with leased generators due to the lines adjustment in the plant. As a result, volume of sulfur dioxide emissions increased by 3,096.2%; volume of nitrogen oxides emissions increased by 100.2% year-on-year; and volume of particles emissions increased by 89.5% year-on-year;
- The emissions coefficients of nitrogen oxides, sulfur dioxide and particles from the diesel used by the Group were reference to the Environmental Impact Assessment on Social Regional (《社會區域類環境影響評價》), a registered training material on environmental impact assessment engineers;
- The emissions coefficients of nitrogen oxides, sulfur dioxide and particles from light vehicles weight of no more than 2.5 tonnes of gasoline used by the Group were reference to the Vehicle Emission Factor Model Calculation of Hong Kong Environmental Protection Department (《香港環境保護署汽車排放計算模型》);
- The sulfur dioxide emissions coefficient from the natural gas of the Group were changed from the Manual on Data Used on Environmental Protection (《環境保護實用數據手冊》) to the Notice of the Beijing Municipal Environmental Protection Bureau on Sulfur Dioxide Emissions Coefficient from Gas Facilities (Municipal Pipelined Natural Gas for Burning Purposes) (《北京市環境保護局關於燃氣設施(燃用市政管道天然氣)二氧化硫排污係數的通知》);
- The particles emissions coefficient of natural gas and liquefied petroleum gas and the sulfur dioxide emissions coefficient of liquefied Petroleum gas of the Group were reference to the Handbook on Sources Urban Life Waste Discharge in the First National Survey on Pollution Sources (《第一次全國污染源普查城鎮生活源產排污係數手冊》);
- The coefficient for nitrogen oxides emissions from natural gas and liquefied petroleum gas used by the Group were reference to the Manual on Data Used on Environmental Protection;
- In 2019, volume of hazardous waste increased by 118.2% year-on-year as a result of the adjustments to the scope of hazardous waste by Sunny Optech and Sunny Automotive Optech.
- In 2019, total volume of non-hazardous waste increased by 139.2% year-on-year as a result of an addition to the statistics of the volume of recyclable waste.

As the Group has no substantial impacts on the environment and natural resources in the operation, A3 (Environmental and Natural Resources) and its KPI A3.1 (Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them) are not applicable to the Group. Therefore, they are not disclosed in this report.

Community Welfare

We believe that the harmonious development of the society requires the joint efforts of every one and every organization. An enterprise can be likened to a cell of society that can only achieve growth under the auspices of its mother – namely our society – and that we should therefore shoulder the responsibility of giving back to society. Joining hands with individuals from all walks of life in creating a civilised, ever-progressing society as well as making contributions to social development has always been one of our objectives pursued by us. Over the years, the Group adhered to contributing to the society on an ongoing basis, actively devotes to the public welfare such as education, poverty alleviation, environmental protection and social charity, encouraging its employees to give back to society with actions. In 2019, over 600 employees of the Group participated in public welfare activities with over 140 hours devoted.

BREAKDOWN OF DONATIONS OF THE GROUP IN 2019

Type of donation	Project	Amount (RMB)
For education	Yuyao Charity Federation	320,000
	Optoelectronic Design Contest of National College Students in Zhejiang University	100,000
	Education foundation of Changchun University of Science and Technology	100,000
For poverty alleviation	Yuyao Leshan Public Welfare Foundation	200,000
	Accounting work station in Xiaodian Xiang, Pingqiao District, Xinyang City	70,000
	Total	790,000

PUBLIC PRACTICE AND ACTIVITIES

College-Enterprise Cooperation to Achieve Win-Win Results

We have been adhering to the development philosophy of “support for education is synonymous with support for the enterprise itself” and always keep returning education in mind during our development. At the inception of the Group, the Group designated three batches of employees to the optical instruments intermediate test base of Zhejiang University for optical cold processing trainings. Later, we conducted manufacturer-college cooperation and joint cultivation of top talents, which provided strong support to the development of the Group.

The Group set up scholarship in the College of Optical Science and Engineering of Zhejiang University since 1995 and nearly 1,500 times benefited. Meanwhile, the Group donated RMB10,000,000 to the establishment of “Sunny Development Fund under the Education Foundation of Zhejiang University at the 120th anniversary of the establishment of Zhejiang University” to support and promote the construction and development of Zhejiang University. In addition, the Group established long-term partnership on talent cooperation with Changchun University of Science and Technology, the University of Rochester in the U.S. and other universities to conduct cooperation on scientific research cooperation and technical communications and establish employment bases to support the development of universities and students.



Sunny Automotive Optech Introduces Technology to Campus



Sunny Zhejiang Optics Donated Desks and Chairs to Yaoyuan Primary School



28 Students of Changchun University of Science and Technology Awarded Scholarship



Subsidies Granted to Outstanding Students in the Central Primary School in Dalan Town, Yuyao City



Caring for Students in Special Schools in Yuyao City

Community Welfare

Blood Donation Shows Love in Sunny

To promote the development of blood donation without compensation, guarantee the blood supply for clinical purposes and better show employees' selfless contribution and willingness in helping others, we called for employees to make contributions to the society with actions since 2000 to rescue lives and bring more warmth to the society. We are one of the first enterprises initiated group blood donation without compensation in Yuyao City.



Blood Donation Without Compensation by Employees

In 2019, a total of 325 employees of the Group participated in blood donation without compensation and donated a total of 101,500 milliliters of blood. As at 31 December 2019, 86 employees of the Group have become volunteers for donation of hematopoietic stem cells.

Poverty Alleviation Warms Others

To further promote work on subsidizing the disadvantaged groups in communities and lift them out of difficulties, the Group cares about communities and consistently conducts public welfare activities on poverty alleviation. Meanwhile, it also pooled employees' love, created a warm humane atmosphere and fulfilled the social responsibility. In 2019, the Group held charity sale of idle items and all proceeds were donated to Yuyao Children's Welfare Home. It recycled 801 old clothes, which were sent to poor families in Daliang Mountains in Sichuan Province through the Yuyao recycling station for recyclable resources. It assisted local vegetable farmers in Xinyang to solve difficulties in vegetable sale and joined food suppliers of the Company in assisting impoverished farmers. It also assisted Yangming Sub-district in Yuyao City in conducting the "Tiny Wish" claiming activity and realizing the "Tiny Wish" of impoverished families with the community to meet their urgent life demands.



Charity Sale



Recycling of Old Clothes



"Tiny Wish"

Environmental Actions to Build Green Homeland

Besides the environmental protection and control within the enterprise, the Group deeply knows the importance of protecting the community environment. In 2019, the Group carried out various voluntary activities on environmental protection to protect the environment with actions and sincerity. It also called for all employees to keep the habit of garbage sorting to build a green homeland together.



Protecting the Mother River and Taking Green Actions along Yaojiang



Healthy Walk with Environmental Actions

HKEX ESG REPORTING GUIDE INDEX

Aspect, general disclosure and KPIs	Description	Corresponding chapter	Page(s)
A Environmental			
Aspect A1	Emissions		
General disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Emissions Compliance	72-74
KPI A1.1	The types of emissions and respective emissions data	Emissions Compliance	74-75
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Emissions Compliance	74
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Emissions Compliance	75
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Emissions Compliance	75
KPI A1.5	Description of measures to mitigate emissions and results achieved	Emissions Compliance	72-74
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives, and results achieved	Emissions Compliance	72-74
Aspect A2	Use of Resources		
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Green Operation	68-70
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	Green Operation	71
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Green Operation	71
KPI A2.3	Description of energy use efficiency initiatives and results achieved	Green Operation	69
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Green Operation	70
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Green Operation	71
Aspect A3	The Environment and Natural Resources		
General disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	Emissions Compliance	75
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Emissions Compliance	75

Aspect, general disclosure and KPIs	Description	Corresponding chapter	Page(s)
B Social			
Aspect B1 General disclosure	Employment Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Employee Management	43-53
KPI B1.1	Total number of employees by gender, employment type, age group, and geographical region	Employee Management	46
KPI B1.2	Employee turnover rate by gender, age group and geographical regions	Employee Management	51
Aspect B2 General disclosure	Health and Safety Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Health and Safety	61-67
KPI B2.1	Number and rate of work-related fatalities	Health and Safety	66
KPI B2.2	Lost days due to work injury	Health and Safety	66
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Health and Safety	61-67
Aspect B3 General disclosure	Development and Training Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Employee Management	57-60
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Employee Management	60
KPI B3.2	The average training hours completed per employee by gender and employee category	Employee Management	60
Aspect B4 General disclosure	Labor Standards Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor	Employee Management	44-45
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor	Employee Management	44-45
KPI B4.2	Description of steps taken to eliminate such practices when discovered	Employee Management	44-45

ESG Index

Aspect, general disclosure and KPIs	Description	Corresponding chapter	Page(s)
Aspect B5	Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain	Supply Chain Management	36-41
KPI B5.1	Number of suppliers by geographical regions	Supply Chain Management	40
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply Chain Management	36-41
Aspect B6	Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Product Responsibility	22-35
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Product Responsibility	32
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Product Responsibility	35
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	Product Responsibility	23-24
KPI B6.4	Description of quality assurance process and recall procedures	Product Responsibility	26-32
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Product Responsibility	33-34
Aspect B7	Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	About Us	16-17
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	About Us	17
KPI B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	About Us	16-17
Community			
Aspect B8	Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Community Welfare	76
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Community Welfare	76-79
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	Community Welfare	76

REVISED HKEX ESG REPORTING GUIDE-ADDITIONAL DISCLOSURE CONTENT INDEX

The Revised HKEX ESG Reporting Guide (the “Revised HKEX ESG Reporting Guide”) set out additional disclosure requirements and will come into effect from the financial year on or after 1 July 2020. The following descriptions shall be incorporated in the additional disclosure information of this report in accordance with the Revised HKEX ESG Reporting Guide.

Compulsory disclosure requirements	Corresponding chapter	Page(s)
Governance Structure	ESG Governance	18-21
Reporting Principles	About This Report	2
Scope of Reporting	About This Report	2

Aspect, general disclosure and KPIs	Description	Corresponding chapter	Page(s)
A Environmental			
Aspect A4	Climate Change		
General disclosure	Policies on identification and mitigation the significant climate-related issues which have impacted, and those which may impact, the issuer	Green Operation	68
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	Green Operation	68
B. Social			
Aspect B5	Supply Chain Management		
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	Supply Chain Management	29-32 & 36-41
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored	Supply Chain Management	29-32 & 36-41
Aspect B7	Anti-corruption		
KPI B7.3	Description of anti-corruption trainings provided to directors and staff	About Us	16-17

Feedback Form

Dear readers,

Thank you for reading the 2019 ESG Report of Sunny Optical Technology (Group) Company Limited. Your feedback is conducive to the improvement of the overall ESG management and future ESG reports of the Group.

Name			Institution		
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5	4	3	2	1	0
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6. Which aspect(s) of this report would you like to have more information on?					
7. What are your suggestions to this report?					
8. What are your suggestions to the ESG management of the Group?					
<p>You may make feedbacks on relevant ESG information to us through the following means. We will carefully treat your opinions and suggestions and we commit that your information above will not be obtained by third-parties.</p> <p>Sunny Optical Technology (Group) Company Limited Address: No. 66-68, Shunyu Road, Yuyao, Zhejiang Province, China E-mail: ir@sunnyoptical.com Contact: Ms. Christina Liu</p> <p>Unit 2304-5, 23/F., Henley Building, 5 Queen's Road Central, Central, Hong Kong jasmine@sunnyoptical.com Ms. Jasmine Wong</p>					