



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)

2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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About the Report

This report is the 2022 Environmental, Social and Governance (“ESG”) Report issued by Sunny Optical Technology (Group) Company Limited (the “Company” or “Sunny Optical Technology”), which mainly summarizes the ESG work methods, commitments and strategies of the Company and its subsidiaries (the “Group”).

Reporting Period

Unless otherwise stated, the report covers the period from 1 January 2022 to 31 December 2022 (the “Reporting Period”).

Definitions

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

Reporting Boundary

The scope of this report covers the Company and its main subsidiaries located in Yuyao City, Zhejiang Province, the People’s Republic of China (the “PRC” or “China”), namely Zhejiang Sunny Optics Co., Ltd. (“Sunny Zhejiang Optics”), Ningbo Sunny Opotech Co., Ltd. (“Sunny Opotech”), Ningbo Sunny Automotive Optech Co., Ltd. (“Sunny Automotive Optech”) and Yuyao Sunny Optical Intelligence Technology Co., Ltd. (“Sunny Optical Intelligence (Yuyao)”) (Note 1, 2). During the Reporting Period, the main operating revenue of the four subsidiaries covered in this report accounted for more than 90.0% of the revenue of the Group.

Compared with the ESG report published by the Company in 2021 (“2021 ESG Report”), the coverage of the social key performance indicators (“KPIs”) in this report has been adjusted (Note 3), and there are no major adjustments in other categories.



Notes

1. The content and the KPIs in the chapters of Corporate Governance, ESG Governance, Talent Management and Community Welfare cover the Group;
2. The content and the KPIs in the chapters of Green Operation, Product Responsibility and Supply Chain Management cover the Company and Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao);
3. In order to reflect the implementation of social sustainable development management measures in more subsidiaries, we adjusted the coverage of the social KPIs in this report from 2021 and added relevant data of Sunny Optical Intelligence (Yuyao).

Reporting Principles

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

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

“Quantitative”: This report uses quantitative data to present KPIs in environmental and social areas, with explanations provided to illustrate their purposes and impacts;

“Balance”: Based on the principle of balance, this report objectively presents the current state of the ESG management of the Group;

“Consistency”: Unless otherwise stated, this report uses consistent data statistics methods compared with that in the 2021 ESG Report, and no major changes have occurred.

Data Explanation

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

Publication Method

This report is published in an electronic format on the websites of the Company (<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 (iroffice@sunnyoptical.com).

Chairman's Statement



Ye Liaoning
Chairman and Executive Director

2022 was an extraordinary year when the coronavirus disease 2019 (“COVID-19”) had resurged for the third year in a row. Downward pressure on the global economy continued to increase, with rising costs of energy, logistics and raw materials and weakening consumer demand. Meanwhile, the industry in which the Group operates has become increasingly competitive. Standing up against the complex and tough external landscape, the Group was able to maintain its strategic focus to strengthen and refine its advantageous business in handsets and vehicles and consolidate its industry leadership of main products, while staying committed to its social responsibility.

Product quality has always been the core of our long-term development. In 2022, our three main products, namely handset lens sets, handset camera modules and vehicle lens sets, gained the global No. 1 market shares. The trend of “electrification, networking and intelligence” is also driving the rapid development of our vehicle related business. In addition, we have accelerated our deployment in new businesses such as augmented reality (“AR”)/virtual reality (“VR”) and robotic vision and increased our investment in research and development in order to lay a solid foundation for the Company to cultivate new business driving forces.

Apart from business development, sustainability is also a key concern for us. During the Reporting Period, we further explored opportunities in clean technology and developed a wide range of green and energy-efficient products. We strictly complied with the requirements of environmental laws and regulations and took up environmental responsibility throughout the whole product lifecycle by means of green product design, technological innovation and manufacturing reform, environmental testing and supply chain environmental audits. During the Reporting Period, we procured a total of 90,202.4 MWh of green electricity and reduced carbon dioxide emissions by approximately 63,457.4 tonnes, supporting the Group achieving its goals of “28·58” carbon peak and carbon neutrality and greenhouse gas emission reduction. Furthermore, we required our suppliers to comply with international laws and regulations, industry standards and the Group’s policy and requirements on human rights management, business ethics, hazardous substances management and conflict minerals management, and to work with us to create a sustainable win-win ecosystem.

Meanwhile, the Group consciously undertakes its responsibilities as an enterprise citizen in corporate governance, talent training and public welfare, etc. The assignment of a new female independent non-executive director has enhanced the gender diversity and independence on our Board. In addition, we implemented a number of talent retention initiatives and launched various employee care activities to enhance employee satisfaction. During the Reporting Period, we continued to improve our training system through employee and supplier empowerment training and iterations of our learning system platform. We empowered our employees and partners at all stages, fully emphasised the capabilities of employees and cooperative partners and pursued high-quality and healthy development. We are also actively involved in charitable causes and have long been committed to education, poverty alleviation and environmental protection activities, contributing to the economic and social development of our local communities.

Thanks to these efforts, the ESG performance of the Group has been widely recognized by the society. During the Reporting Period, the Group was selected as constituents of the FTSE4Good Index Series, Hang Seng ESG 50 Index, Hang Seng Corporate Sustainability Index and HSI Low Carbon Index, reflecting the recognition of the capital market for our work in sustainable development.

Looking forward to 2023, despite the challenging external environment, the Group will remain strategically position to leverage its global footprint, actively plan for a sustainable future, and work with stakeholders to explore sustainable development in response to global challenges.

Ye Liaoning

Chairman and Executive Director

China

April 21, 2023



Corporate Governance

About the Group



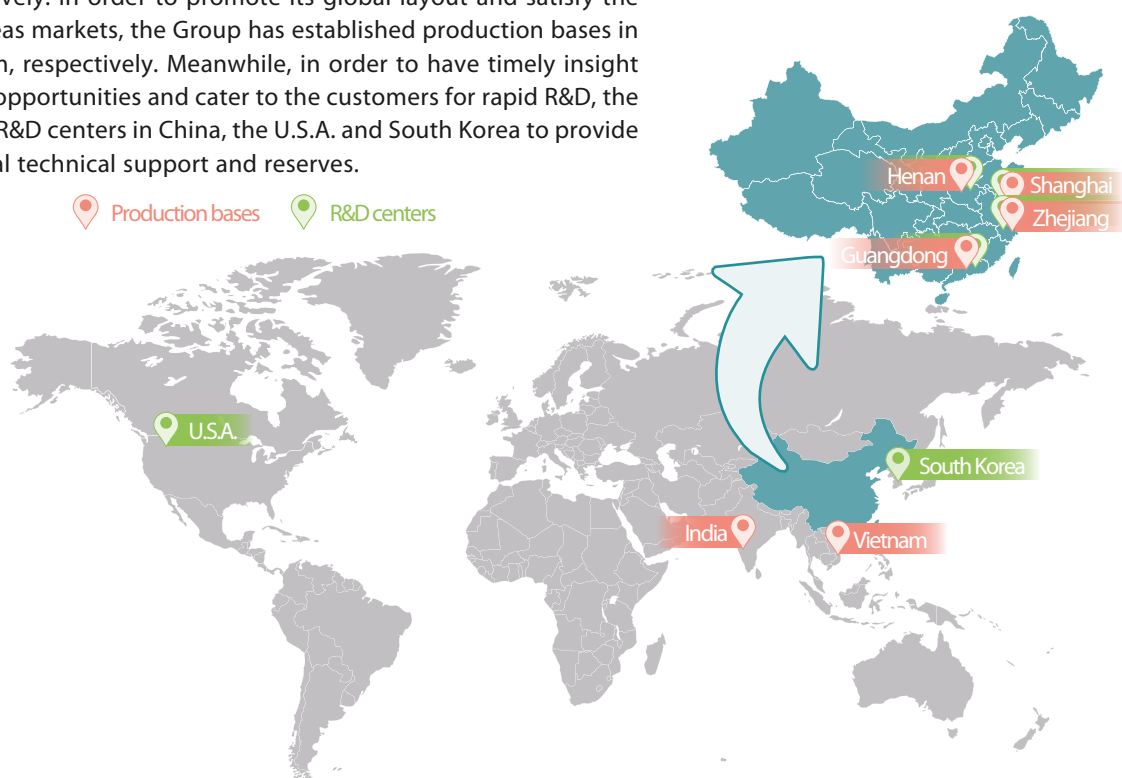
Founded in 1984, the Group is a global leading integrated optical components and products manufacturer. The Group was listed on the Main Board of Hong Kong Stock Exchange in June 2007.

As at the end of the Reporting Period, the Company has been included in indexes such as Hang Seng Index, Hang Seng China Enterprise Index, Hang Seng TECH Index, Hang Seng Corporate Sustainability Index, Hang Seng ESG50 Index, HSI Low Carbon Index and FTSE4Good Index Series.

The Group is principally engaged in the design, research and development (“R&D”), manufacture and sale of optical and optical-related products. Such products include optical components (such as vehicle lens sets, optical parts of vehicle light detection and ranging (“LiDAR”), VR positioning lens sets, handset lens sets, glass spherical lenses for digital cameras and other optical components) (the “**Optical Components**”), optoelectronic products (such as vehicle modules, VR folded path (“Pancake”) modules, VR visual modules, handset camera modules and other optoelectronic modules) (the “**Optoelectronic Products**”) and optical instruments (such as intelligent inspection equipment and microscopes) (the “**Optical Instruments**”). The Group focuses on the application fields of optoelectronic-related products, such as vehicles, VR/AR, robots and handsets, which are combined with optical, electronic, algorithm and mechanical technologies.

Global Deployment

The Group's production bases in China are located in Yuyao of Zhejiang Province, Zhongshan of Guangdong Province, Shanghai and Xinyang of Henan Province, respectively. In order to promote its global layout and satisfy the demand in overseas markets, the Group has established production bases in India and Vietnam, respectively. Meanwhile, in order to have timely insight into the industry opportunities and cater to the customers for rapid R&D, the Group has set up R&D centers in China, the U.S.A. and South Korea to provide more international technical support and reserves.



Brief introductions of four subsidiaries covered in this report are as follows:



Sunny Zhejiang Optics

Primarily engaged in the design, manufacture and sales of handset lens sets, interactive lens sets, fresnel lenses and other optical components.

Sunny Opotech

Primarily engaged in the design, manufacture and sales of optoelectronic products including handset camera modules, three-dimensional ("3D") optoelectronic products, etc.



Sunny Automotive Optech

Primarily engaged in the design, manufacture and sales of vehicle lens sets and other optical components and assemblies applied in the vehicle industry.

Sunny Optical Intelligence (Yuyao)

Primarily engaged in the design, manufacture and sales of 3D depth vision sensing products applied in the areas such as AR/VR, drone, smart home, mobile payment and sweeping robot.



Corporate Culture

The details of the system of spiritual culture with “Create Together” as the core value are as follows:

- Carry forward three spirits: the entrepreneurial spirit of hard working; the innovative spirit of keeping up with the times; and the team spirit of working together in harmony
- Practice four philosophies: employee-oriented development; integrity and professional ethics; the pursuit of character through knowledge and action; and responsive behavior
- Strengthen five relationships: create a solid foundation with all shareholders; create an excellent brand with all employees; create a market for products with partners; create room for industry development with industry peers; and create a civilized and progressive society with all sectors of society



Mission

To explore the prosperous road for the development of China's optoelectronic industry



Vision

Be stronger, bigger and go further to become a “Hundred-Year-Old Brand” in the optoelectronic industry



Development strategy

Unswervingly implement the “Mingpeijiao” (名配角) strategy to build a world-renowned optoelectronic enterprise

Brand Image



The Group attaches great importance to the construction of brand management and improves our brand recognition through unified visual images.

We carry out semi-annual and annual self-assessment on various visual identity (“VI”) projects, and make timely rectifications for non-compliant projects. We also further strengthen our employees’ awareness of brand management through training courses such as logo (“Logo”) design methods and usage specifications. During the Reporting Period, the design of the Group’s mascot image was completed and the relevant copyright was registered.

Industry Associations

In order to better fulfill our social responsibility and create room for the development of the industry together with industry peers, the Group actively maintains close relationships with industry associations and community.

As at the end of the Reporting Period, the Group has joined the following associations:



Chinese Optical Society

Chinese Society for Optical Engineering

China Instrument Manufacturer Association

China Electronics Enterprises Association

China Association of Automation

China Society of Image and Graphics

Zhejiang Software Industry Association

Zhejiang Federation of Industrial Economics/Zhejiang Enterprise Confederation/Zhejiang Entrepreneurs Association

Zhejiang Provincial High-tech Enterprises Association

Ningbo Meta Universe Society

Ningbo Medical Device Industry Association

Awards and Recognitions

Award and recognitions	Awarded by	Awarded to
Corporate Comprehensive Strength		
Quam IR Awards 2021 “The Most Remarkable Investor Relations Recognition – Hong Kong Index Constituents (Hang Seng Index) Category”	China Tonghai IR Co., Ltd.	Sunny Optical Technology
“Best Investor Relations Award for Hong Kong Listed Companies”	Securities Times	Sunny Optical Technology
“2021 Excellent Quality Award” and “2021 Best Innovation Award”	vivo Mobile Communication Co., Ltd.	Sunny Zhejiang Optics
“Joint Technology Innovation Award”	Honor Device Co., Ltd.	Sunny Zhejiang Optics
“2021 Best Partner Award” and “2021 Best Quality Award”	Kunshan QTech Microelectronics Technology Co., Ltd.	Sunny Zhejiang Optics
“2021 Best Supplier Award”	Xiaomi Communication Technology Co., Ltd.	Sunny Opotech
“2021 Best Innovation Award”	vivo Mobile Communication Co., Ltd.	Sunny Opotech
“Best Innovation Award”	OPPO Guangdong Mobile Communications Co., Ltd.	Sunny Opotech
“2022 Yuyao Municipal People’s Government Quality Award”	Yuyao Municipal People’s Government	Sunny Automotive Optech
“Best Supplier Award”	Ficosa International (Taicang) Co., Ltd.	Sunny Automotive Optech
“2023 Best Partner”	Ecovacs Robotics Co., Ltd.	Sunny Optical Intelligence (Yuyao)
Corporate Social Responsibility		
Ranking 46th on the “2021 Hurun China 100 Most Sustainable Private Companies”	Hurun Research Institute	Sunny Optical Technology
“2022 Forbes China Sustainable Development Industrial Enterprises TOP 50”	Forbes China	Sunny Optical Technology
“Inno ESG Prize 2022 – ESG Award”	Society Next Foundation	Sunny Optical Technology
“2022 Zhejiang Provincial Green Low-carbon Factory”	Economy and Information Technology Department of Zhejiang	Sunny Optical Intelligence (Yuyao)
Labor Management		
“2022 Most Influential Employer”	Haitou.cc	Sunny Zhejiang Optics

Corporate Governance

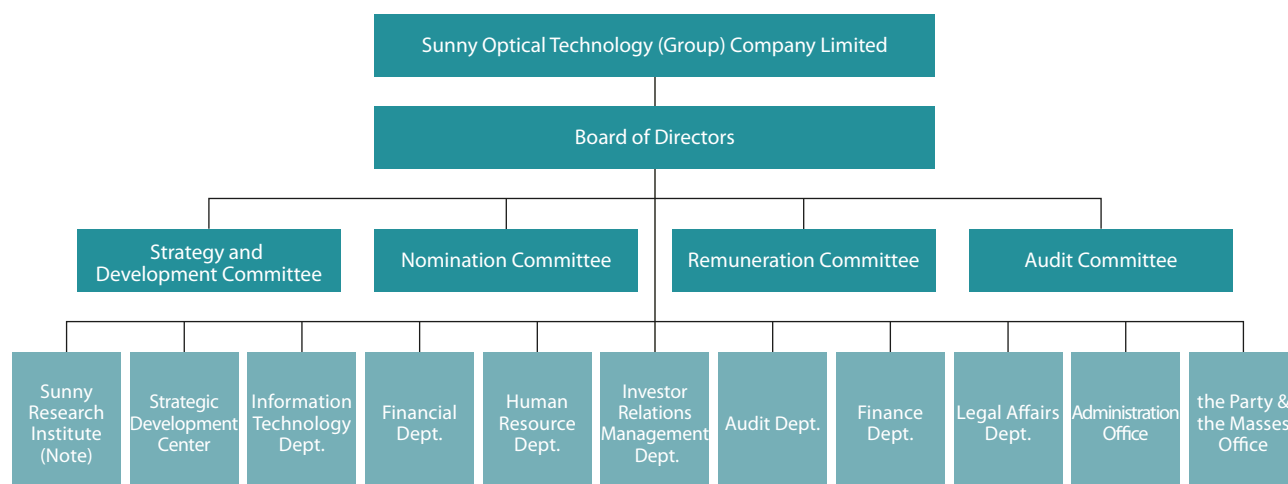
Governance Optimization

The Group has established a sound corporate governance structure. The board (the “**Board**”) of directors (the “**Directors**”, each a “**Director**”) is accountable to all stakeholders and drives and leads the business development and operation of the Group in a responsible and effective manner through the development of corporate strategies, corporate governance policies and practices that align with the corporate culture.

As at the release date of this report, the Board comprises eight Directors, including three executive Directors, one non-executive Director, and four independent non-executive Directors. In accordance with the articles of association of the Company, 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 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 four specific committees, namely audit committee, remuneration committee, nomination committee and strategy and development committee. Each committee has adequate resources to carry out its functions and may seek independent professional advice where appropriate. The terms of reference for each committee have been published on the website of the HKEXnews of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.sunnyoptical.com>) for stakeholders to review. The external auditor, Deloitte Touche Tohmatsu, acts as the provider of independent auditing services of the Company.

The remuneration of the Directors are determined by the Board as recommended by the remuneration committee, having regards to the Group’s operating results, individual performance and/or comparable market statistics. Please refer to the Sunny Optical Technology (Group) Company Limited Annual Report 2022 (“**2022 Annual Report**”) for more details.



Note

Sunny Optical (Zhejiang) Research Institute Co., Ltd. (“**Sunny Research Institute**”)

Board Diversity

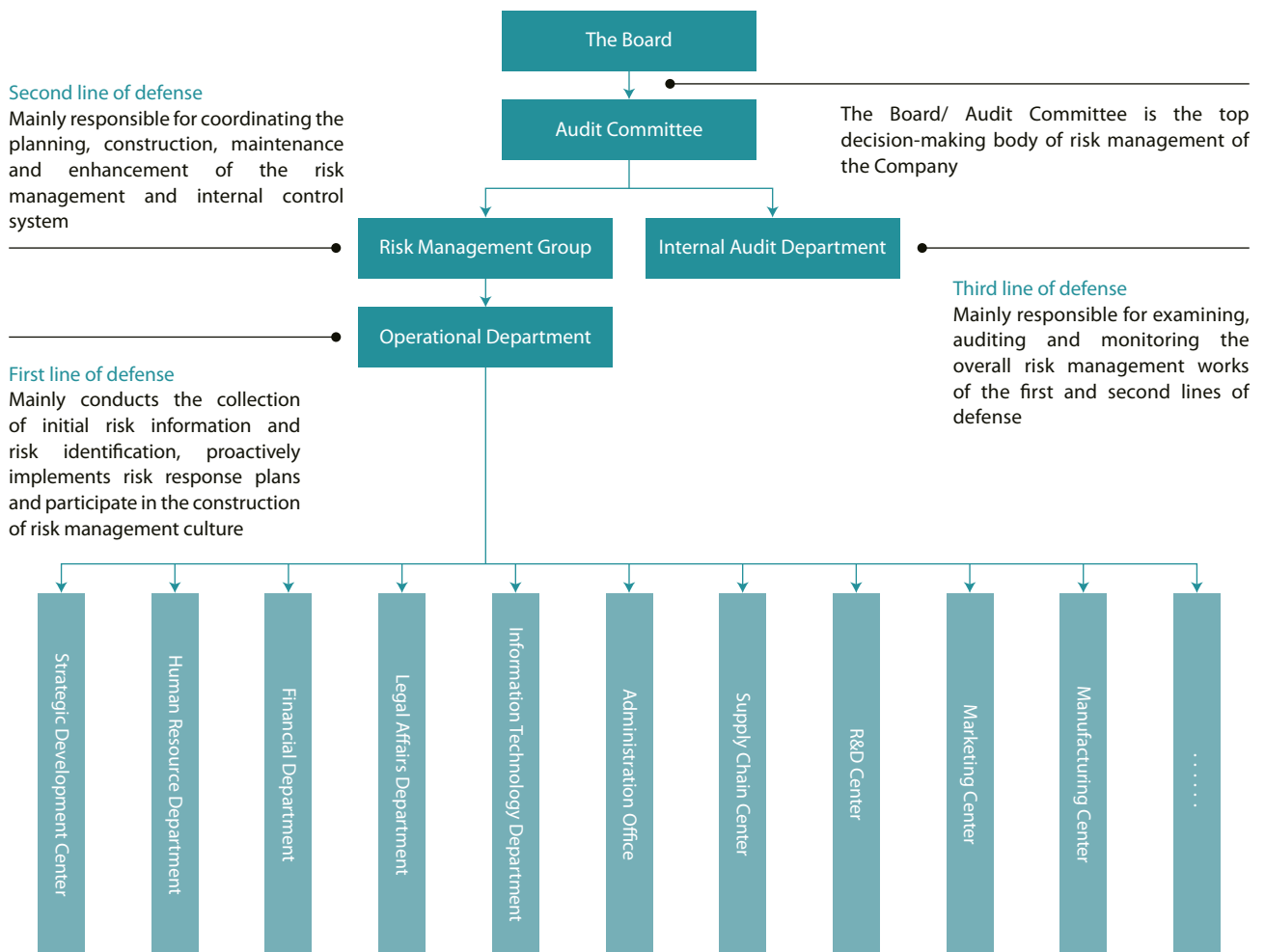
We believe that board diversity can enhance corporate governance standard and decision-making capabilities, and it is an essential element in supporting the achievement of our strategic objectives and sustainable development. Therefore, the Company has issued the Board Diversity Policy (《董事會成員多元化政策》) to fully consider the diversity policy when identifying suitable candidates for Board members. In designing the Board's composition, we consider the Board diversity from a wide range of aspects, including but not limited to skills, knowledge, gender, age, cultural and educational background or professional experience and other factors. With effect from 1 January 2023, the Group has appointed one female independent non-executive Director who is also a member of the Board's Audit Committee, Remuneration Committee and Nomination Committee. We hope that the diversified composition of the Board can provide different perspectives, insights and questions to enable the Board to perform its duties and responsibilities more effectively, support better decision making in view of the core businesses and strategies of the Group. We have also clearly defined the duties and authorities of the Chairman of the Board (the "Chairman") and the chief executive officer (the "CEO") of the Company in relevant documents to strengthen the standardization and effectiveness of the Group's corporate governance.

The composition of the Board is summarized as below:

Name	Ye Liaoning	Sun Yang	Wang Wenjie	Wang Wenjian	Zhang Yuqing	Feng Hua Jun	Shao Yang Dong	Jia Lina
Gender	Male	Male	Male	Male	Male	Male	Male	Female
Age	57	50	55	75	75	59	53	55
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	✓	✓	✓	✓	✓	✓	✓	

Enterprise Risk Management

The Group has attached great importance to enterprise risk management (“ERM”) and has established an ERM system. We have formulated the Risk Management Policy (《風險管理制度》) and established a risk management policy framework. Meanwhile, in order to ensure the smooth implementation of risk management, the detailed daily risk management work has been defined and executed through the Overall Risk Management Procedures (《全面風險管理程序》) and Key Risk Indicators Regulatory Requirements (《關鍵風險指標監管要求》). For work of the Group’s risk management, please refer to the section headed by Enterprise Risk Management of Corporate Governance Report in 2022 Annual Report.





The composition of the Group's overall risk management appraisal group is updated on an annual basis. The group is responsible for evaluating and supervising the comprehensive risk management work and promoting the implementation of the annual overall risk management activities of the subsidiaries. During the Reporting Period, the Group updated the Measures for Overall Risk Management Performance Appraisal (《全面風險管理績效考核辦法》) to emphasize the integration of risk management with business for enhancing the risk resistance of each subsidiary. We integrated the ERM into business management, and integrated the ERM system with the International Organization for Standardization ("ISO") quality management system, strategic system and other systems to establish a normalized and dynamic mode of risk management, and guided the business departments to formulate corresponding improvement measures through risk indicators' early warning, and continuously optimized implementation of risk management.

In order to better empower employees at all levels with risk management knowledge and skills, during the Reporting Period, we launched online and offline risk management trainings covering all subsidiaries, with more than 4,000 trainees, of which over 90.0% of the management cadres at the level of associate division manager and engineers and above were covered. In addition, the Group shared risk management-related knowledge through the "Sunny Family" WeChat official account and "Sunny Journal" internal journal for publicity to all employees.

In order to systematically improve the compliance awareness and core business capability of the Group's subsidiaries to cope with global trade compliance risks, respect and comply with the trade laws and regulations of major trading countries and regions and the cultural customs of partners, we set up a trade control compliance structure under the Risk Management Committee, and set up a trade control compliance management group for the company and its subsidiaries. We have formulated compliance policies such as the Trade Control Compliance System (《貿易管制合規制度》) and the Statement of Management Commitment on Trade Control Compliance (《關於貿易管制合規的管理層承諾聲明》) to clarify the trade control compliance policies and management responsibilities that internal business must follow. We cooperate with expert team to guide subsidiaries to establish and improve material supply screening, sensitive material and product classification review, transaction risk warning and other mechanisms to ensure compliance, healthy and efficient operation of the Group's overall business process and transaction activities.

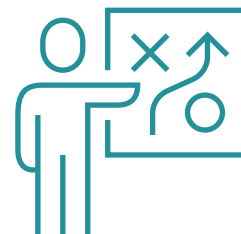
Business Ethics

The Group always adheres to the principle of integrity and has zero tolerance for any form of bribery, corruption, extortion, fraud, embezzlement and money laundering in all business activities. We have been ramping up our anti-corruption efforts to build a line of defense through corruption investigation, review of connected transactions, integrity promotion and training, system construction and corruption risk identification, and improving internal control measures. We work to move toward the goal of “do not dare to corrupt” in objective behaviors, “cannot corrupt” in system and process and “do not attempt to corrupt” in consciousness, so as to maintain a clean and self-disciplined business environment.

We abide by the laws and regulations related to business ethics in the countries and regions we operate, such as the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), the Regulations of the PRC on Administrative Penalties for Public Security (《中華人民共和國治安管理處罰條例》), the Law of the People’s Republic of China on Anti-money Laundering (《中華人民共和國反洗錢法》) and the Basic Norms on Internal Control of Enterprises (《企業內部控制基本規範》). We have established a business ethics management team directly led by the Chairman to continuously supervise and evaluate the business ethical work. The audit department of the Group (the “Audit Department”) is responsible for auditing the compliance of connected transactions and the declarations in relation to the related persons in all business of previous year and reporting the audit results to the Audit Committee annually. We also appoint an external auditor to review the Group’s continuing connected transactions. The Group’s enterprise cultural group is responsible for building a culture of honesty and integrity, and supervising and evaluating the cadres by formulating a negative list of the value of cadres. The Inspection Division within the Audit Department has been responsible for publicizing business ethics throughout the Group, establishing an integrity and compliance system, maintaining reporting channels, and receiving and investigating the matters reported. During the Reporting Period, the Group’s business ethics audits were conducted in accordance with annual guidelines throughout all subsidiaries. The audit projects include routine audit projects (related party declarations, related party compliance audits, suppliers’ related party declarations and procurement business projects) and temporary projects, with the completion rate of 100.0%. High-risk areas of business ethics were surveyed and improved.

The Group has adopted the Anti-Corruption Policy (《反貪污制度》) (<https://www.sunnyoptical.com/webfile/fck/file/6c515227-60b5-418f-9648-0ecd99703eb3.pdf>) to prevent and control various corruption and fraud incidents such as commercial bribery, commercial benefit transmission and financial embezzlement. During the Reporting Period, the Group updated the Administrative Measures for Rewards and Punishment of Employees (《員工獎懲管理辦法》) and formulated the Measures for the Investigation and Administration of Fraud Cases (《舞弊案件調查管理辦法》). By doing so, the Group aimed to give full play to the role of supervision in internal audits, regulate the investigation of corruption cases, and specify the responsibilities of different departments in investigating and handling cases and punishing disciplinary personnel. We, by revising the terms and conditions of rewards and penalties, urged employees to comply with corporate management rules and business ethics. In addition, we issued the Circular on Strengthening the Management over the Special Sunny Integrity Module (《關於加強“舜宇廉政專庫”管理的通知》) to establish a mechanism for reporting to the module and improve the process for handling gifts and gratuities that cannot be returned.

During the Reporting Period, there were no concluded legal cases regarding corrupt practices brought against the Company or its employees and major non-compliance matters in the audit work.



The Group has set up the following various of whistleblowing channels, all of which are managed by dedicated persons:



Telephone
+86-574-62550607



E-mail
Audit Department
audit@sunnyoptical.com
Audit Committee
auditcommittee@sunnyoptical.com



Address
Audit Department, No. 66-68, Fengle Road,
Yuyao, Ningbo, Zhejiang Province, China,
Postal code: 315400



Network platform
“Integrity Sunny” WeChat official account

The Group has formulated the Whistleblowing Instructions and Rewards and Protection Measures (《舉報須知和獎勵、保護辦法》) (<https://www.sunnyoptical.com/webfile/fck/file/50381b47-38ef-43fa-982c-5b9fbd51e705.pdf>) to clarify the whistleblowing scope of acceptance, channels, rewards and protection policies. The Audit Department will verify and investigate of the whistleblowing matters according to the management level or job qualifications of the person being reported after receiving the whistleblowing data, and temporarily deploy personnel to set up an investigation team according to the work requirements. During the investigation process, no one shall disclose the progress of the investigation, evidence data and other related information to a third party. We have established rigorous confidentiality measures and procedures. The information of the whistleblowers, especially the information related to personal data privacy and the information they provided will be kept confidential. The Group will make every effort to protect the personal safety and property safety of the whistleblowers, and take various protection measures based on the whistleblowers' opinions. For any criminal and illegal activities, the Group will assist the whistleblowers in investigating the legal responsibility of the corresponding persons.

The Group includes the introduction of the Anti-Corruption Policy (《反貪污制度》) in the orientation training of new employees, and publishes related courses and articles irregularly through the cyber academy, internal journals, Tik Tok and WeChat official account. Furthermore, we conduct integrity publicity through the bulletin boards, integrity speeches and integrity commitments in subsidiaries. During the Reporting Period, we conducted a total of 14 on-site anti-corruption training sessions, with nearly 1,000 person-time, covering all the Directors, all functional departments of the Group, management cadres at and above the line manager, and employees occupying sensitive positions.



In December 2022, the Audit Department of the Group organized the planning of Series of Publicity Activities on the International Anti-Corruption Day. The activities, attracting approximately 20,000 participants, included hanging anti-corruption banners in all factories, conducting online knowledge contests, developing little theaters themed anti-corruption on Tik Tok, and publishing relevant articles in the internal journal of "Sunny Journal". Through anti-corruption-related activities, the Group aimed to help employees understand the importance of anti-corruption work, enhance the anti-corruption awareness, and foster a clean and upright corporate cultural environment.





ESG Governance

ESG Strategy

Upholding the core value "Create Together", we are committed to creating a civilized and progressive society with all walks of life and fulfilling our responsibilities in sustainable development. The Group's sustainable development capability will be further enhanced by formulating a series of specific sustainable development targets, establishing a sustainable development management framework and building corresponding evaluation indicators.



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 all walks of life and make our own contribution to social development. We believe that enterprises are the cells of the society. We 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 operational activities, follow various international environmental protection laws and regulations, and pursue environmental protection and sustainable development through technological innovation and manufacturing reform, etc.



Economic Responsibility

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

Major Targets

Environmental Targets



Reducing the emission of greenhouse gas
Reducing the emission of hazardous wastes
Saving paper
Saving electricity
Saving water

Progress in 2022

Setting "dual carbon" goal: achieving carbon peaking by 2028 and carbon neutrality by 2058;

Setting goals of reducing greenhouse gas emissions: reducing the intensity of Scope 1 and Scope 2 greenhouse gas emissions (tCO₂e/RMB million revenue) by 20.0% by fiscal year ("FY") 2025 compared with the FY2021 baseline (note).

Social Targets



No significant safety liability accidents
Consistently providing training and development opportunities to employees
Providing an equal, healthy and safe working environment

Ensuring that the number of major safety accidents is 0;

Ensuring that the number of training hours per employee grew by 3.9 hours compared with the previous year;

Ensuring that the number of occupational diseases was 0.



Note

The intensity of Scope 1 and Scope 2 greenhouse gas emissions for FY2021 was 10.3 tCO₂e/RMB million revenue

ESG Management Structure

The Group has established an ESG management structure composed of the Board, the Audit Committee, the ESG management and promotion team and the ESG promotion team, to conduct the top-down supervision over ESG matters and ensure the smooth implementation of the Group's ESG work.



The Board is the ultimate supervisory body of ESG matters of the Group. The Board takes overall responsibility for the ESG management system and information disclosure. Specifically, the Board ensures that the Group establishes appropriate and effective ESG risk management and internal control systems, supervises and manages ESG targets and work progress, and approves the disclosure in the ESG report.

The Board has also authorized the Audit Committee to supervise the ESG management of the Group on behalf of the Board. The responsibilities of the Audit Committee include:

- Reviewing and recommending on the ESG strategies and policies of the Group;
- Monitoring and annually reviewing the implementation of ESG strategies and policies;
- Reviewing the external communications policy of the Group and monitoring its implementation;
- Reviewing the Group's annual ESG report and making recommendations to the Board in relation to the approval on the ESG Report;
- Reviewing and examining annually the effectiveness of the Audit Committee in the discharge of its duties of overseeing the ESG-related matters of the Group and the terms of reference, and advising the Board on any changes which it considers necessary;
- Reporting the above matters to the Board; and
- Considering other matters specified or appointed by the Board from time to time.



The Group's ESG management and promotion team consists of the CEO and the vice president as the team leader and deputy team leader respectively as well as the management members of functional departments and relevant subsidiaries involved in the Group's ESG. During the Reporting Period, the ESG management and promotion team was responsible for communicating with stakeholders, identifying the ESG risks facing the Group, optimizing the ESG management system, and formulating objectives and work plans. This further propelled the establishment of the ESG management system and the implementation of related work.

In order to assist the ESG management and promotion team in carrying out the ESG work, the Group has also set up an ESG promotion team under the ESG management and promotion team. The ESG promotion team consists of persons in charge of the Company's Legal Affairs Department, Audit Department, Administration Office, Financial Department, Human Resource Department, the Party & the Masses Office, Information Technology Department, Strategic Development Center, Investor Relations Management Department and relevant departments of subsidiaries. The ESG promotion team is responsible for implementing the ESG work of the Group, collecting ESG information, preparing annual ESG reports and disclosing ESG information through various channels.

During the Reporting Period, the Group participated in training organized by the Hong Kong Stock Exchange, customers, investment institutions and third-party rating organizations on the latest ESG developments, ESG rating standards, green energy and low-carbon development of enterprises, so as to help relevant personnel strengthen their ESG expertise and skills.

Board Statement

The Group has established an ESG management structure, and the Board takes the overall responsibility for ESG management. We carried out materiality assessment, identified material ESG issues and performed targeted management, to assess the importance of ESG issues. Please refer to the chapter of Materiality Assessment for details. Under the supervision of the Board, the Group has formulated ESG targets, and sticking to the concept of sustainable development, the Group will strive to achieve corresponding targets and fulfill its environmental and social responsibilities.



Communication with Stakeholders

We are fully aware that understanding the expectations and demands of our stakeholders can help elevate the Group's ESG management and further our relationship with them. We maintain close communication with shareholders and investors, customers, suppliers, employees and other stakeholders through various channels such as meeting, e-mail, telephone, and WeChat official account, to understand and respond to the expectations and requests of stakeholders in a timely manner. This will push forward 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 meetings and extraordinary general meetings 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 Customer site visit Supplier conferences held by customers 	<ul style="list-style-type: none"> Product R&D and technological innovation Product safety and quality management Information security and commercial secrets ("commercial secrets") protection Setting the target of carbon emission reduction Using green energy Avoiding the use of conflict minerals 	<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 Setting the targets of carbon peaking and carbon neutrality plus greenhouse gas emissions Purchasing green power Developing the policy on conflict minerals management
Suppliers	<ul style="list-style-type: none"> Annual supplier meetings Supplier trainings On-site audits 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 supplier introduction and removal mechanism Conducting suppliers' training and audits Signing undertakings for operating with integrity
Employees	<ul style="list-style-type: none"> Employee representative meetings Employee satisfaction surveys General manager's mailbox "Sunny Family" WeChat official account "Sunny Journal" internal journal "Sunny Family" Tik Tok account Internal poster Bulletin board All kinds of trainings 	<ul style="list-style-type: none"> Employee recruitment and team building Employee 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 systems
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 compliance operation Hiring locals Organizing voluntary activities Participating in community construction and public welfare activities

Materiality Assessment

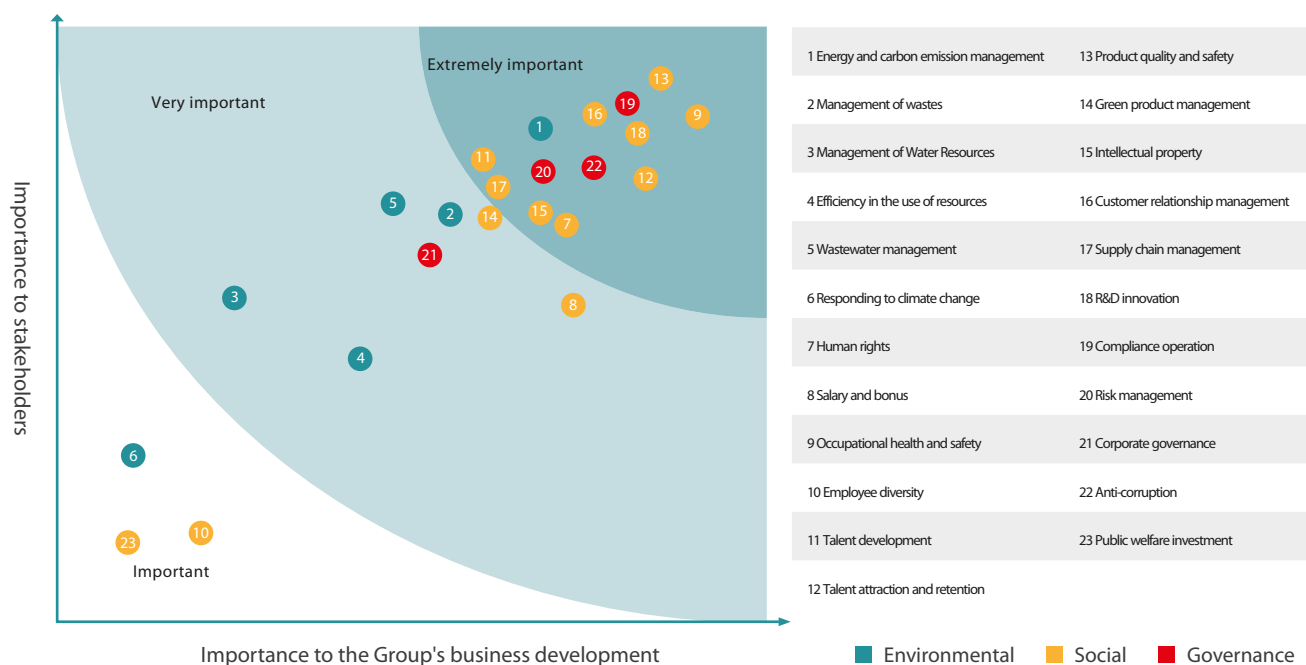
During the Reporting Period, the Group conducted materiality assessments again in accordance with ESG standards and industry trends and by inviting internal and external stakeholders to fill in questionnaires. The move was designed to specify the focus of ESG report disclosure and respond to the expectations and requests of stakeholders in a targeted manner. The specific steps for assessment are set out below:



23 ESG issues have been identified for the year based on the business development of the Group combined with the ESG management industry trends, the disclosure requirements in the ESG Reporting Guide (《ESG 報告指引》) and the existing list of important issues;

Internal and external stakeholders including employees, customers, suppliers, directors, investors and government officials were invited to participate in the online questionnaires. They would prioritize issues by materiality from two dimensions of “importance to the Group’s business development” and “importance to stakeholders”, so as to form a materiality assessment matrix;

The management and the ESG management and promotion team reviewed and confirmed the assessment results.





Green Operation

Environmental Management



Environmental principles

- Strengthen the management of pollution sources and take effective precaution measures to reduce or avoid the impact of wastewater, waste gas and solid waste on the environment;
- Continuously improve production technology, strictly control the production 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. The materials entering the Group must have green products warranty certificates and testing qualified reports issued by third-party testing agencies which are recognized by the Group; and
- Encourage the employees to raise environmental protection awareness and master knowledge and skills in environmental protection.

The Group strictly abides by the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC 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》), the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》) and other laws and regulations, actively practices the concept of green development. We set up an environmental management division at the Group level, mainly responsible for improving the environmental and occupational health rules and regulations, carrying out environmental protection knowledge publicity and determining various pollutant emission indexes according to national emission standards, ensuring the implementation of environmental protection work, minimizing the Group's significant impacts on the environment and natural resources. The Group has formulated the Environmental Operation Control Procedure (《環境運行控制程序》), 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》) and other systems to identify and reduce the impact of production and operation activities on the environment. During the Reporting Period, the production and operation of the Group had no significant impact on the environment and natural resources. All major construction projects have been granted the necessary approvals on environmental impact assessment based on requirements. And all offices, operation and factory areas are not located in natural reserves, tourist attractions or other environmentally sensitive areas.



During the Reporting Period, Sunny Optical Intelligence (Yuyao) established a sound green manufacturing system and practiced sustainable ecological design concepts. It made continuous efforts to reduce emissions and strengthen the operation and management of energy-consuming equipment, and was eventually awarded the title of "Provincial Green and Low Carbon Factory of Zhejiang". In addition, Sunny Zhejiang Optics and Sunny Opotech have been awarded the title of "Ningbo Green Factory" and Sunny Automotive Optech won the title of "Yuyao Green Factory".

During the Reporting Period, the Group formulated the Management Measures for Environmental Protection (《環境保護管理辦法》) and established an environmental management mechanism under which each subsidiary was independently responsible, the Company took charge of supervision, targets and responsibilities were specified and all levels are involved in management. Main responsibilities of staff at each level were clearly defined so that the Group would better fulfill its social responsibility for environmental protection and promote the development of energy conservation and emission reduction projects. During the Reporting Period, four subsidiaries namely Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao) had obtained the ISO 14001 Environmental Management System Certification.

Environmental System Training

In January 2022, Sunny Optical Intelligence (Yuyao) organized an environmental system training for all employees. Through the presentation of professional terms related to environmental management, the structure of the environmental management system and the standards of the environmental management system, the training helped employees understand the current status of environmental management in Sunny Optical Intelligence (Yuyao) and build up the awareness of environmental protection. Moreover, employees were encouraged to actively carry out environmental protection-related practices in their daily work.

Responding to Climate Change

We are fully aware that climate change risks are among the biggest risks facing the world. We have paid continuous attention to the trend of global climate change. Considering the risks and opportunities brought by global climate change, during the Reporting Period, the Group reversed the trend of rising greenhouse gas emissions by proposing measures such as optimizing energy structure and enhancing energy efficiency. In addition, the Group has formulated its own carbon peak and carbon neutrality targets together with greenhouse gas emission reduction target to actively respond to China's goal of "strive to achieve carbon peaking by 2030 and carbon neutrality by 2060".

During the Reporting Period, with reference to the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") established by the Financial Stability Board ("FSB"), we have implemented the following measures to combat climate change:

- Incorporating the environment, climate and energy management and control into the long-term development strategy of the Company, paying continuous attention to, collecting issues related to the environment and climate, and reporting to the Audit Committee regularly;
- Setting the target of "achieving carbon peaking by 2028 and carbon neutrality by 2058";
- Enhancing waste monitoring, disposal compliance and discharge of waste and encouraging suppliers to use recyclable packaging materials;
- Increasing the consumption ratio of green energy, developing and promoting suppliers to use green energy;
- Increasing the energy consumption efficiency and enhancing energy management and control capability of each business segment and functional department; and
- Encouraging the business segments to actively improve their production processes and enhance the consumption efficiency of resources.

Sunny Optech also formulated the Administrative Policies on Greenhouse Gases (《溫室氣體管理制度》) to determine the responsible statistic departments, specific requirements, steps and procedures on the quantification of greenhouse gas emissions, to define the approach to reduce greenhouse gas emission.

As the Group is easily affected by the concentrated rainfall and local flood season due to its geographical location, we regard flood as one of the major climate change risks possibly encountered during the production and operation. The Group has formulated the Procedures on Emergency Preparation, Response and Control (《應急準備和響應控制程序》) to ensure accurate, rapid, and timely responses to possible extreme weather or other emergencies. We have set up isolation belts in the production areas and optimized the drainage system. Meanwhile, we have formulated the Working Handbook on Preventing Flood and Typhoon (《防汛防颱工作手冊》) to specify the steps of the Group's work on prevention of flood and typhoon:

Routine management:

Monitoring weather information, maintaining drainage pipeline, managing emergency supply, etc.;

Alarming management:

Releasing alarming information, preparing disaster relief materials, inspecting hidden dangers, etc.;

Emergency management:

Establishing the emergency response task force to conduct relevant emergency work; and

Subsequent management:

Conducting post-disaster assessment and summary, inspecting and maintaining equipment, etc.

Four subsidiaries of the Company namely Sunny Zhejiang Optics, Sunny Optech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao) have formulated the Typhoon Emergency Plan (《颱風應急預案》) and established an emergency working group for typhoon and flood prevention to be fully responsible for the emergency commanding, organizing, and coordinating work of typhoon disasters. Meanwhile, an evacuation guidance group, emergency repair group and other working groups have been established to be fully responsible for the specific implementation of each work. The emergency measures of the plan cover the handling proposal before, during and after the typhoon, specify the operation requirements of emergency measures to ensure that the fight against typhoon is carried out in an orderly manner. Prior to the arrival of typhoon "Muifa", Sunny Automotive Optech organized a typhoon tabletop exercise in September 2022 to demonstrate the practicality of the Typhoon Emergency Plan (《颱風應急預案》) through a rehearsal. Apart from introducing relevant policies and documents, we have also invested more in hardware facilities, such as setting up isolation zones within the plant and optimizing the drainage system. During the Reporting Period, there was no significant climate-related issues which have impacted the Group.

In order to carry out emergency response work in a timely, efficient and orderly manner, including those caused by climate disasters, we issued the Emergency Management Measures for Public Safety Emergencies (《突發公共安全事件應急管理辦法》) during the year to establish emergency response organizations and their responsibilities, improve the prevention and early warning mechanism for various production and operation activities, and the response mechanism after the occurrence of safety incidents. All these efforts aim to prevent and minimize emergencies and the damage they cause and to protect the health and property of employees.

Improving Resource Utilization Efficiency

Energy Consumption

The Group sets up energy-saving leading groups, which are responsible for formulating energy-saving targets and plans and achieving energy-saving and carbon emission reduction targets by introducing new energy-saving equipment, optimizing power supply mode and eliminating high energy consumption or old equipment. While perfecting the environmental management system and rules, we also pay attention to the education, training, and supervision of green culture. We publicize the objectives and requirements of environmental management to all employees through the bulletin board, WeChat official account, and online and offline trainings to improve employees' environmental awareness. It makes employees understand the impact of their work on the environment as well as the risks and consequences of not complying with laws, regulations and the relevant policies.

Sunny Automotive Optech has formulated the Regulations on the Administration of Energy and Resources (《能源資源管理規定》), which singly makes refinements on the consumption of raw materials, ancillary materials, water, electricity, paper, etc. and specifies the duties and responsibilities of the production management department, the procurement department and other departments. To ensure the effective and efficient use of energy and resources, Sunny Zhejiang Optics has formulated the Control Procedures for Energy and Resources (《能源資源控制程序》), which specifies the specific management responsibilities of each department and provides detailed instructions on the use of raw materials, auxiliary materials, water, electricity and fuel as well as the procurement of production equipment. Meanwhile, we continuously improve the value traceability system during production and operation to achieve all-round management and control on the procurement, use and recycling of resources and energy.

During the Reporting Period, Sunny Zhejiang Optics, Sunny Opotech and Sunny Optical Intelligence (Yuyao) reduced a total of 63,457.4 tonnes of carbon through the purchase of green electricity. In addition to the improvement of energy structure, in order to provide a refined management of energy usage, we introduced an energy management platform during the Reporting Period, which now enables real-time monitoring of electricity consumption data of each building in the new base, helping the Group to better improve the energy efficiency of power-intensive equipment and thus ensure the safe operation of power distribution facilities. In addition, the platform can simultaneously provide carbon emission conversion data and provide early warning management of the total energy consumption, energy intensity, carbon emission and carbon intensity budget and target, helping the Group to achieve the greenhouse gas emission reduction target and the goals of carbon peak and carbon neutrality. We also plan to invest in the deployment of photovoltaic power generation facilities in our plants to facilitate the transformation of our energy mix.

The Group carried out the following energy conservation and consumption reduction projects during the Reporting Period:

Name of the companies	Energy conservation and consumption reduction projects	Measures and results
Sunny Opotech	High-power equipment control	Energy consumption control of high-power equipment in the workshop, saving approximately 318,000.0 kWh of electricity during the Reporting Period
Sunny Optical Intelligence (Yuyao)	Hot water pump retrofit	Automatic control of the heat recovery pump, saving approximately 36,288.0 kWh of electricity during the Reporting Period
	Linkage optimization of chillers and pumps	Linkage control of chillers and corresponding pumps, saving approximately 243,700.0 kWh of electricity during the Reporting Period
	Investment in chiller heat recovery system	The heat generated by the chiller is used for the heat compensation after the dehumidification of the fresh air conditioner and the winter heating, saving about 200,000.0 kWh of electricity during the Reporting Period

Energy Conservation and Consumption Reduction Training

In April 2022, Sunny Zhejiang Optics launched a series of training on energy conservation and consumption reduction covering all employees. Based on the purpose, necessity and current situation of energy conservation and consumption reduction, this training helped employees understand the importance of energy conservation and consumption reduction in maintaining a green environment, and further raised employees' awareness of energy conservation and consumption reduction as well as the importance of environmental protection.

Consumption and utilization of water resources

The Group attaches great importance to the management of water resources, and continuously commits itself to the protection of water resources. The Group mainly sources water from municipal water supply and has guarantees on obtaining sufficient water resources. During the Reporting period, there was no issue in sourcing water that is fit for purpose of the Group. In the process of operation, the Group continuously improves the water resource management measures, pursues the goal of maximization of water use efficiency, gives priority to the use of water-saving equipment, continuously optimizes the production process, improves the recycling rate of water resources and reduces ineffective water use.

The water-saving projects carried out by the Group during the Reporting Period are as follows:

Name of the subsidiaries	Water-saving projects	Measures and results
Sunny Automotive Optech	Optimization of cleaning process	Optimization of the cleaning process for conventional ultrasonic products, resulting in water savings of approximately 5.1 tonnes during the Reporting Period

Consumption of Materials

The Group uses packaging boxes, blister boxes, corrugated paper, vacuum bags, glue and other materials during the section of manufacturing, transportation, and sales of products. To implement the concept of “reducing resource consumption and pollutant emission from the source”, we optimized the production and packaging process, reduced the use of packaging materials and used environmental materials as much as possible. Sunny Optical Intelligence (Yuyao) formulated the Procedures on Design and Development Control (《設計和開發控制程序》) to define the principles of reduction, resource utilization, cost and harmlessness in the process of product design. During the Reporting Period, Sunny Automotive Optech revised the Regulations on the Development and Introduction of Three New Technologies (《三新技術開發導入管理規定》) to refine the classification of new materials, new processes and new technologies, and to optimize the risk identification process in the development of new technologies.

The material saving projects carried out by the Group during the Reporting Period are as follows:

Name of the subsidiaries	Materials saving project	Measures and results
Sunny Zhejiang Optics	Mold optimization	Reduced material consumption per unit of product through new mold development process, saving approximately 9.3 tonnes of material during the Reporting Period
Sunny Opotech	Recycling of packaging materials	The sponge, foam and other fillers in packaging were returned to suppliers for recycling, saving approximately 1.3 tonnes of materials during the Reporting Period
	Optimization of product protective film thickness	Adopted the thinner protective film while ensuring product performance, reducing approximately 50.0% of materials during the Reporting Period
Sunny Automotive Optech	Packing mode adjustment	Suppliers were encouraged to optimize material packaging design, change from disposable packaging to multi-recyclable packaging, reducing approximately 16.9 tonnes of packaging materials used during the Reporting Period

The KPIs of the Group's resource consumption during the Reporting Period are as follows:

Category	Unit	2022	2021	2020
Total direct energy (Note 1)	MWh	485.8	582.8	5,675.0
Natural gas (Note 2)	MWh	/	/	4,348.4
Liquefied petroleum gas (Note 2)	MWh	/	/	726.0
Diesel oil	MWh	90.3	148.5	/
Gasoline	MWh	395.5	434.3	600.6
Total indirect energy	MWh	605,485.5	540,417.7	462,944.8
Electricity (Note 2)	MWh	515,283.1	540,417.7	462,944.8
Green Electricity	MWh	90,202.4	/	/
Total energy consumption (Note 3)	MWh	605,971.3	541,000.5	468,619.8
Energy consumption intensity (Note 4)	MWh/ RMB million revenue	19.7	14.6	12.7
Consumption of packaging materials	tonnes	2,548.5	2,632.9	2,500.1
Packaging material intensity (Note 5)	kg / RMB million revenue	83.0	71.1	67.9
Water consumption (Note 6)	tonnes	2,318,717.1	2,143,303.0	2,127,012.6
Water intensity (Note 7)	tonnes / RMB million revenue	75.5	57.9	57.8



Notes

1. The average low level heating capacity coefficients for diesel and gasoline used by the Group are with reference to the "Guidelines for Accounting and Reporting of Greenhouse Gas Emissions from Electronic Equipment Manufacturing Enterprises" issued by the National Development and Reform Commission in 2015.
2. From 2021, the Group's energy consumption data no longer includes canteens, which involves natural gas, liquefied petroleum gas and electricity.
3. During the Reporting Period, total energy consumption increased by approximately 12.0% compared to 2021 due to the expansion of the Group's scale and the increase in the size of the production office.
4. During the Reporting Period, energy consumption intensity increased by approximately 34.9% compared to 2021 due to the year-on-year increase in total energy consumption and year-on-year decrease in revenue of the Group.
5. During the Reporting Period, packaging material intensity increased by approximately 16.7% compared to 2021 due to the year-on-year decrease in revenue of the Group.
6. During the Reporting Period, water consumption increased by approximately 8.2% compared to 2021 due to the expansion of the Group's scale and the increase in the size of the production office.
7. During the Reporting Period, water intensity increased by approximately 30.4% compared to 2021 due to the year-on-year increase in water consumption and year-on-year decrease in revenue of the Group.

Optimizing Emission Management

The air pollutants produced by the Group are mainly nitrogen oxides, sulphur dioxide and particulate matter. During the Reporting Period, the main source of gas pollutants in the Group is vehicles exhaust emissions; and the wastewater generated by the Group mainly comes from domestic water and cleaning and grinding wastewater in production. The solid wastes generated by the Group mainly include non-hazardous waste such as domestic garbage, as well as hazardous waste generated in production such as detergents and organic solvents.

We strictly comply with relevant laws and regulations and local emission standards. Sunny Automotive Optech formulated 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 classification, collection, storage, and disposal methods of various wastes, identify the responsible department of environmental protection management, in order to properly dispose emissions generated during operation. Sunny Zhejiang Optics has also established the Administrative Measures on Waste Gas, Effluent and Solid Waste (《廢氣、廢液、固體廢棄物等管理制度》), which aims to reduce the impact of waste emissions on the local environment and the health of personnel. In addition, we entrust a qualified third-party agency to test the emissions to ensure that the emissions meet the standards. During the Reporting Period, the Group had no major environmental violations or penalties.

Greenhouse Gas and Waste Gas Management

During the Reporting Period, the Group set a greenhouse gas emission reduction target of 20.0% for both Scope 1 and Scope 2 greenhouse gas emission intensity by FY2025 compared to the FY2021 baseline. Sunny Opotech and Sunny Optical Intelligence (Yuyao) also set their Scope 1 and Scope 2 carbon emission targets for the Reporting Period at the beginning of 2022.

Name of the subsidiaries	Carbon emission targets	Completion of targets
Sunny Opotech	Carbon emission intensity to decrease by 2.0% year on year	Achieved
Sunny Optical Intelligence (Yuyao)	50.0% of green electricity consumption	Achieved

In order to conduct a better scientific inventory of all emission sources involved in the Group, we conducted a Greenhouse Gas inventory of all facilities of the Company and four subsidiaries within the reporting scope located in Yuyao City, Zhejiang Province, China, based on the GHG Protocol published by the World Resources Institute (“WRI”) and the World Business Council for Sustainable Development (“WBCSD”) during the Reporting Period. This inventory identified the Group’s GHG emissions finally, which include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons and sulphur hexafluoride.

In order to better meet the expectations of our stakeholders, and to enhance the Group’s ESG management with the help of capital markets and financial tools, as well as to set a benchmark in the industry, in January 2023, the Group issued the first sustainability-linked bond for Chinese enterprises. For details, please refer to “Sustainability-Linked Financing Framework” (<https://www.sunnyoptical.com/webfile/temps/20230104841029284.pdf>) dated on January 4, 2023.

We recognize the importance of accounting for Scope 3 emissions and are currently looking for practical ways to account for Scope 3 emissions and working to promote a green and low carbon transformation of our upstream supply chain.

To achieve the goal of reducing waste emissions, in addition to strengthening the management of greenhouse gas emissions, Sunny Zhejiang Optics added activated carbon treatment units to a number of production sections during the Reporting Period, reducing organic emissions by approximately 70.0% through the use of activated carbon adsorption.

Wastewater Discharge Management

We control the discharge of wastewater in strict accordance with national standards. The Group's wastewater is generated mainly from domestic and production operations. We have built a wastewater treatment system in the factory area and obtained the permit to discharge urban wastewater into the municipal government's sewage pipe network to ensure the compliance in discharge of domestic and production wastewater. In addition, the Group has separated rainwater and sewage in the factory area, introduces rainwater into the pipeline and discharges it into the river nearby.

During the Reporting Period, Sunny Automotive Optech streamlined the surface oxidation process of metal parts through technology optimization of coating material development, spraying and coating, thereby reducing the wastewater during the production process.

Waste Management

For non-hazardous waste, the recyclable parts will be sold or sub-processes, while the non-recyclable parts will be sent to the environmental sanitation organization regularly for disposal. For hazardous waste, each subsidiary shall clarify the names, sources, characteristics, hazards and treatment measures of various types of hazardous waste, the organization and its responsibilities for accident emergency response, as well as the precautionary measures against the accidents, etc. In addition, we established hazardous waste storage areas to classify wastes and store them according to corresponding requirements, and finally send them to qualified third-party agencies for disposal compliance. During the Reporting Period, Sunny Zhejiang Optics confirmed the disposal method of all outgoing waste, giving priority to qualified treatment providers who can recycle the waste, and ultimately achieving the target of "zero waste to landfill".

The KPIs of the Group's greenhouse gas and emission level during the Reporting Period are as follows:

Category	Unit	2022	2021	2020
Greenhouse gas (Scope one) (Note 1)	tCO ₂ e	4,878.5	2,594.3	3,463.8
Natural gas	tCO ₂ e	/	/	869.4
Air conditioning coolant (Note 2)	tCO ₂ e	4,746.8	2,449.3	2,286.0
Liquefied petroleum gas	tCO ₂ e	/	/	161.5
Diesel oil (Note 3)	tCO ₂ e	24.8	38.8	/
Gasoline (Note 3)	tCO ₂ e	106.9	106.2	146.9
Greenhouse gas (Scope two) (Note 4)	tCO ₂ e	362,501.6	380,183.9	325,681.7
Electricity	tCO ₂ e	362,501.6	380,183.9	325,681.7
Total greenhouse gases (Scope one and Scope two) (Note 5)	tCO ₂ e	367,308.1	382,778.2	329,145.5
Greenhouse gas (Scope one and Scope two) emission intensity (Note 6)	tCO ₂ e / RMB million revenue	12.0	10.3	8.9
Sulfur dioxide (Note 7)	kg	0.8	1.0	1.3
Nitrogen oxides	kg	466.2	515.3	1,022.8
Particulate matter (Note 7)	kg	44.4	49.0	92.4
Hazardous waste (Note 8)	tonnes	86.8	46.6	17.5
Hazardous waste intensity (Note 9)	kg / RMB million revenue	2.8	1.3	0.5
Total non-hazardous waste	tonnes	8,706.0	8,492.8	10,301.3
General non-hazardous waste	tonnes	5,057.6	4,842.1	5,090.0
Recycled waste	tonnes	3,648.4	3,650.7	3,953.2
Kitchen waste	tonnes	/	/	1,258.1
Non-hazardous waste intensity (Note 10)	kg / RMB million revenue	283.6	229.3	279.8



Notes

1. During the GHG audit during the Reporting Period, the Group also identified other related emission sources of Scope one, including septic tank emissions, rust removers, high-voltage switches, carbon dioxide and heptafluoropropane fire extinguishers. As the carbon emissions generated by the above emission sources account for a small proportion of the total emissions of the Group, they are not included in the emission calculation range of Scope one.
2. The air conditioning refrigerant emission factors used by the Group are referred to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories, and the global warming potential values are referred to the IPCC 6th Assessment Report in 2022. In order to enhance the accuracy and completeness of GHG emission data related to air conditioning refrigerants, the Group changed the statistical method of air conditioning refrigerant emission data from the filling volume method to the fugitive method during the Reporting Period, which resulted in an increase of approximately 93.8% in GHG emission related to air conditioning refrigerants as compared to the whole year of 2021.
3. The carbon dioxide emission factors of diesel oil and gasoline used by the Group refer to the Calculation Method and Reporting Guidance on Greenhouse Gas Emission by Other Industrial Enterprises (Trial) issued by the National Development and Reform Commission.
4. The carbon dioxide emission factors of the purchased electricity used by the Group refer to the average carbon dioxide emission factors of the East China Regional Grid of the 2012 Regional Power Grid Average CO₂ Emission Factors in China.
5. During the Reporting Period, the energy structure of the Group improved, with a total of purchase of 90,202.4 MWh of green electricity, which corresponded to a reduction of greenhouse gas emissions of approximately 63,457.4 tonnes of carbon dioxide equivalent, resulting in a decrease in total greenhouse gas emissions of approximately 4.0% as compared to the whole year of 2021.
6. During the Reporting Period, the GHG emission intensity increased by approximately 16.5% as compared to the whole year of 2021 due to the year-on-year decrease in revenue of the Group.
7. The emission coefficients of sulphur dioxide and particulate matter for diesel and gasoline of the Group are referred to the Vehicle Emission Calculation Model of the Hong Kong Environmental Protection Agency.
8. During the Reporting Period, the total amount of hazardous waste increased by approximately 86.3% as compared to the whole year of 2021 due to the expansion of the Group's scale and the increase in production equipment and production process.
9. During the Reporting Period, hazardous waste intensity increased by approximately 115.4% as compared to the whole year of 2021 due to the year-on-year increase in the total amount of hazardous waste and the year-on-year decrease in revenue of the Group.
10. During the Reporting Period, non-hazardous waste density increased by approximately 23.7% as compared to the whole year of 2021 due to a year-on-year decrease in revenue of the Group.

Data Assurance

To ensure the accuracy of the data and information related to GHG emissions in this report, we invited an independent practitioner to perform a limited assurance on selected GHG emissions intensity data during the Reporting Period in accordance with International Standards on Assurance Engagements 3410 – Assurance Engagements On Greenhouse Gas Statements issued by the International Auditing and Assurance Council. Please refer to Appendix I of this report for the Independent Practitioner's Limited Assurance Report.



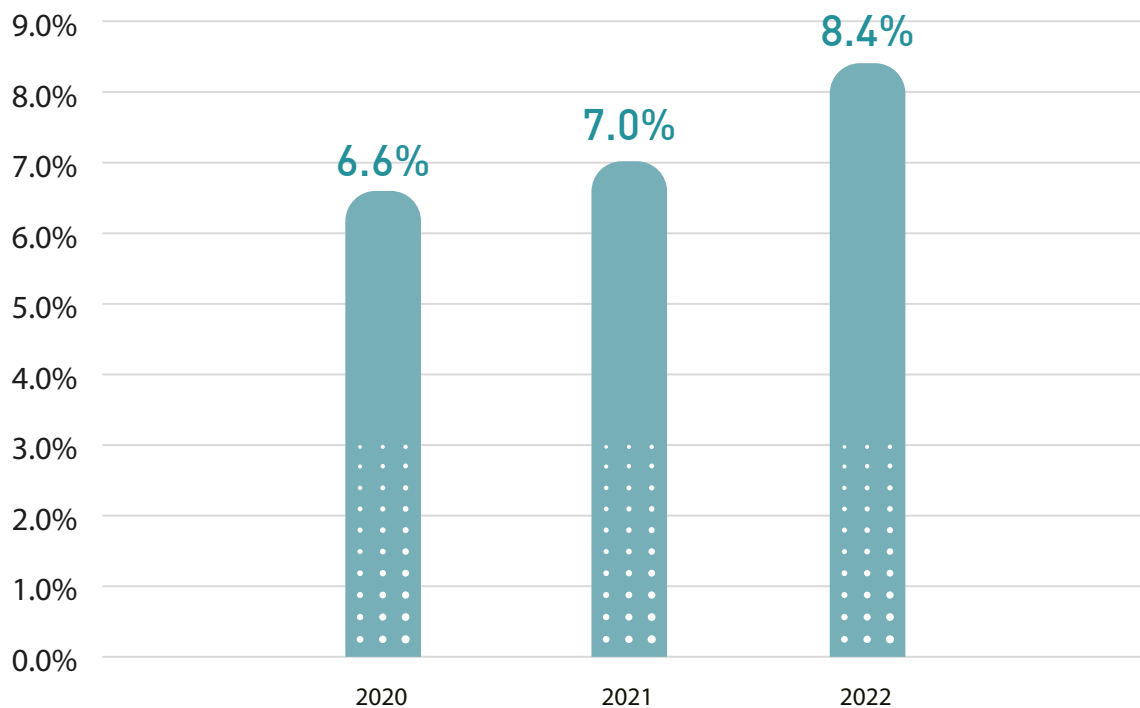
Product Liability

R&D Innovation System

Concepts and Achievements

Adhering to the enterprise vision of “Be stronger, bigger and go further to become a ‘Hundred-Year-Old Brand’ in the optoelectronic industry”, the Group attaches great importance to technological innovation and continues to optimize the technological innovation strategy and R&D system, and constantly moves toward a new model “driven by technology and innovation”. We continue to focus on cutting-edge technologies and market needs in the industry, and make early development in strategic areas. During the Reporting Period, the R&D expenditure of the Group accounted for approximately 8.4% of the Group’s revenue, representing an increase of approximately 1.4 percentage points as compared to the whole year of 2021.

Proportion of R&D Expenditure to Revenue



The Group has established a three-level R&D organizational system with clear positioning to ensure that the self-developed or introduced high-end and new technologies can be quickly applied to products:



The Level-I R&D organization:

is positioned at national enterprise technical centres, 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.

The Group is committed to producing green products that are safe for employees, customers and the environment. We have strictly adhered to international/domestic standards in the design of our products, selecting green materials or conducting a series of environmental tests on new materials to minimize the impact on the environment. We have established a library of environmentally friendly materials to ensure that green and environmentally friendly materials are used in the production of our products in compliance with laws and regulations. During the Reporting Period, Sunny Automotive Optech updated the Administration of Green Substance (《綠色物質管理規定》) to improve the technical specifications for chemical safety of raw materials and the requirements for the determination of material certification, and also added the management of halogens in raw materials.

The Group also integrates the concept of sustainable development into the R&D strategy and actively promotes the R&D and application of clean technologies.



Design Stage

In the design stage, we optimize the structural design to achieve the purpose of reducing raw materials consumption and energy consumption.



Material Selection

We choose low-power consumption components and green environmentally materials.



Manufacturing Stage

We improve manufacturing efficiency and reduce energy and material consumption by means of automation. In addition, we plan to purchase clean energy to support green development in the future.

The clean technology projects launched by the Group during the Reporting Period and the corresponding achievements are shown as follows:

Company name	Clean technology projects	Measures and achievements
Sunny Opotech	Glue optimization	The conversion of some production processes from ultraviolet ("UV") heat-curing glue to UV glue simplified the baking process, thereby saving energy and reducing emissions
Sunny Optical Intelligence (Yuyao)	Low-power chips	The choice of a lower power chip in the design of the product reduced the power consumption of the module by approximately 12.0%, thereby saving energy and reducing emissions
	Multi-section Vertical Cavity Surface Emitting Laser ("VCSEL")	In the design of the product, a multi-section VCSEL was selected as the laser light source, which reduced the power consumption of the module by approximately 30.0%, thereby saving energy and reducing emissions

With the increasingly obvious development trend of "Electrification, Networking and Intelligentization" in the automobile industry, the sales proportion of new-energy vehicle-related modules in the group's revenue keeps rising, and the potential for growth is huge.

Product Quality Control

Product Management System



Quality Principle

Think before We Leap, Strive for Excellence

Product quality and safety are the basis on which the Group stands. We strictly abide by the national laws and regulations, including the Product Quality Law of the PRC (《中華人民共和國產品質量法》) and the Tort Law of the PRC (《中華人民共和國侵權責任法》) etc., and establish a sound quality management system. Four subsidiaries of the Company, namely Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao) have passed the ISO 9001 quality management system certification, and established hazardous substance management requirements in accordance with the relevant standards of QC 080000 hazardous substance process management (“HSPM”). Among them, Sunny Zhejiang Optics and Sunny Opotech have obtained relevant certifications. In addition, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao) have passed the IATF 16949 certification on the quality management system of the automotive industry; Sunny Opotech has passed the certification on electro-static discharge (“ESD”) management system. The quality assurance (“Quality Assurance”) department of each subsidiary of the Group is the main responsible department of quality supervision with its functions including the establishment and maintenance of the system and the management of hazardous substance free (“HSF”), etc. We also define the requirements and contents of quality management, environmental management and hazardous substance management through a series of management policies, and are committed to continuously improve product quality and providing customers with more quality products.



Sunny Automotive Optech: Certificate of Quality Management System in Automotive Industry



Sunny Opotech: Certificate of ESD Management System



Sunny Zhejiang Optics: Certificate of HSPM



Sunny Optical Intelligence (Yuyao): Certificate of Quality Management System

Improving Product Quality

Adhering to the business philosophy of “Continuous Improvement”, the Group strives to gain a deep understanding of customers’ demands and formulates a clear quality management strategy to continuously enhance the competitiveness of our products. We carry out the life-cycle quality control over products from different aspects such as product design, component recognition, mass production recognition, incoming materials, manufacturing and shipment. The Group has formulated a series of quality management policies, including the Procedures on Product Quality Control (《產品質量控制程序》), 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 Regulations on the Administration of Development and Introduction of Three New Technologies (《三新技術開發導入管理規定》), the Standards on Abnormal Management (《異常管理標準》) and the Procedures on Control of Disqualified Products (《不合格品控制程序》) in accordance with the quality related laws and regulations. To fulfil the commitment towards compliance, we regularly identify the updates of laws and regulations and update internal standards in a timely manner. During the Reporting Period, Sunny Automotive Optech updated the Regulations on the Administration of Abnormal Production (《生產異常管理規定》) to include the abnormal production shutdown criteria. When incoming material abnormalities or serious quality hazards are found in the production process, a shutdown warning is activated to protect production and personnel safety and to reduce the probability of quality hazards.

Production Management Flow Chart



We conduct reliability verification of products at different stages to ensure product quality and meet customers’ demands. We have an environmental laboratory, a mechanics laboratory, a salt atmosphere laboratory, a chemical laboratory, an ESD laboratory, a cleanliness laboratory, etc., all of which have obtained the approval of China National Accreditation Service for Conformity Assessment (“CNAS”) and obtained the certificate of the ISO/IEC17025:2005-5-15 General Requirements on Detection and Calibration on Laboratory Capabilities (《檢測和校準實驗室能力的通用要求》). 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 Group’s laboratories under special requirements will be tested by cooperating with third-party laboratories.

The Group conducts full-process management on product labelling and traceability and stipulates the labelling and traceability of materials through management policies such as Product Labelling and Traceability Control Procedure (《產品標識和可追溯性控制程序》). We arrange designated employees to check information during the process of procurement, storage, production, packaging for storage and delivery to ensure that products are not confused or lost during the turnover and storage. At the same time, we reduce quality risks through the traceability management, thereby protecting the rights and interests of customers.

The Group formulates the detailed quality training plan every year, covering multiple themes including trainings on quality awareness and quality tools, and carries out quality trainings for relevant departments through explanation of basic knowledge, case analysis, practical exercise and other methods.

Quality Month Activities

In September 2022, Sunny Opotech launched Quality Month activities, involving over 800 employees. Through online quizzes, risk point identification and management, appearance inspection skills competition and quality skills competition, employees were encouraged to continuously improve themselves and learn from each other to jointly promote the construction and implementation of a quality culture.



Quality Culture Training

To create an atmosphere of quality culture in the Company and enhance the quality awareness of all employees, Sunny Optical Intelligence (Yuyao) organized a quality culture training for all staff in October 2022. Through the three stages of quality culture publicity, quality awareness training, typical case publicity, the quality culture goes truly "into the eyes, into the mind and into the heart" centering on the core idea of "quality is dignity, not doing it well is a disgrace".



Management of Hazardous Substances

We have been adhering to the concept of “Environmental Protection and Health” since the very beginning of product design. To guarantee that our products do not have significant environmental impact, we select green and environmental materials from the self-developed database of environmental materials that are in line with the requirements of laws and regulations, as well as conduct the whole life cycle environmental testing. The Group strictly abides by international norms including the Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (《關於限制在電子電氣設備中使用某些有害成分的指令》) (the “RoHS”) of the European Union, the Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals (《化學品的註冊、評估、授權和限制規則》) (the “REACH”) of the European Union and the Regulation on Persistent Organic Pollutants (《持久性有機污染物法規》) (the “POPs”), as well as the national standards such as the Limit of Volatile Organic Compounds Content in Adhesive (《膠粘劑揮發性有機化合物限量》). In addition, Sunny Automotive Optech complies with the requirements of the Global Automotive Declarable Substance List (《全球汽車申報物質清單》) (the “GADSL”), and complies with the agreement on the End-of-Life Vehicles (《報廢車輛指令》) (the “ELV”) in accordance with customers’ requirements. Sunny Opotech and Sunny Optical Intelligence (Yuyao) comply with the provisions on the Waste Electrical and Electronic Equipment (《報廢電子電氣設備指令》) (the “WEEE”). Our professional team is responsible for the monitoring on laws and regulations, standards and other requirements, regularly reviewing the compliance with regulations on chemicals, confirming and updating current materials based on the updates to regulations in a timely manner and conveying relevant laws and regulations and other requirements to employees at all levels through trainings, meetings, announcements, blackboard newspapers, internal network and other forms. In addition, the Group also actively responds to customers’ higher demands on chemical substance management compared with the requirements of laws and regulations to ensure that the products meet the requirements of customers.

We have set the HSF management targets, established the comprehensive hazardous substance control processes, and publicly disclosed the Chemical Management Statement (《化學品管理聲明》) on the sustainable development section of Company’s website. The Group has identified 100.0% of the chemicals used and classified chemicals into categories such as forbidden immediately, forbidden in stages and recommended as inappropriate substances. In addition, the Group takes the initiative to manage chemicals and reduce the use of certain chemicals in advance. During the Reporting Period, Sunny Zhejiang Optics completed the design proposal of using lead-free brass to replace brass and implemented it to reduce relevant environmental pollution. To cultivate the sustainable development ability of suppliers, we provide suppliers with green substance training at least once a year, highlighting green substance management policies, customer requirements and the implementation requirements of latest laws and regulations.

Company	HSF management targets	Completion of targets in 2022
Sunny Zhejiang Optics	<ul style="list-style-type: none"> 100.0% products of conforming to the HSF requirements proposed by customers Zero HSF non-conformity incident 	Achieved
Sunny Opotech	<ul style="list-style-type: none"> 100.0% completion rate for HSF order reviews 100.0% completion rate for raw material HSF sample inspection Zero pollution incident in manufacturing process 100.0% qualification rate of reverse verification 100.0% pass rate for finished product HSF sample inspection Zero complaint from customers related to HSF 	Achieved
Sunny Automotive Optech	<ul style="list-style-type: none"> Conduct new supplier introduction audits according to the Guideline on HSF Risk Appraisal for Suppliers (《供應商HSF風險評估指南》) and achieve a 100.0% new supplier induction compliance rate 	Achieved
Sunny Optical Intelligence (Yuyao)	<ul style="list-style-type: none"> 100.0% pass rate for green products 100.0% safe disposal rate for hazardous solid waste Zero environmental complaint from related parties 	Achieved

Suppliers sign the relevant warranties for not using hazardous substances

Suppliers provide credential materials such as Precision Analysis Report on Hazardous Substances, and Material Safety Data Sheet ("MSDS"), etc.

Conducting RoHS test by means of X-ray fluorescence analysis ("XRF") or entrusting to the external party according to the actual situation; the RoHS mark will be affixed to the product certification of qualified products

HSF Management Process

Sunny Zhejiang Optics

All materials meet the requirements of RoHS and REACH, and the HSF Management Manual (《HSF 管理手冊》) was formulated according to the requirements of IECQ QC 080000 hazardous substance process management system. The HSF organizational structure has been established according to HSF Management Manual (《HSF管理手冊》), led by the general manager, and has specified the control procedures for the identification, recording, isolation and disposal of HSF unqualified products, clarified the reporting channel and handling methods of HSF unqualified products through HSF Unqualified Product Management Standard (《HSF不合格品管理標準》) to ensure that HSF unqualified products do not flow into the next process or leave the factory. Sunny Zhejiang Optics has also designated a management representative as the chairman of the Standardization Committee to orally report to the customer within 3 hours after discovering the HSF unqualified products, and submit a formal written report to the customer within 24 hours.

Sunny Opotech

All materials meet the requirements of RoHS and REACH. Sunny Opotech has formulated the Substance Standards on Environmental Management of Products (《產品環境管理物質標準》) to conduct effective management on environmental management substances, and prepared the hazardous substance reduction plan to control the consumption of 173 chemical substances such as lead, cadmium and mercury. Meanwhile, Sunny Opotech has RoHS specialists to deal with HSF related customer complaints. If HSF unqualified products were found, they shall be recalled or destroyed within 48 hours to prevent the spread of toxic and hazardous substances.

Sunny Automotive Optech

All materials meet RoHS and REACH requirements, and the general manager is responsible for formulating green substance management targets and policies. Sunny Automotive Optech has formulated the Administration of Green Substance and Technology (《綠色物質技術管理規定》) and transmitted relevant requirements to suppliers, and has conducted risk analysis on suppliers' materials, scale, HSF performance and related information and system through the HSF Risk Appraisal (《HSF風險評估指南》). Individual suppliers will log in the chemSHERPA platform (Note) according to the specific requirements of customers and submit questionnaires concerning chemical substances, so as to assist customers in better managing the chemical substances. Sunny Automotive Optech also discloses chemical substance information to customers through the International Material Data System (the "IMDS"), the China Automotive Material Data System (the "CAMDS") and other platforms or customers' platforms.

Sunny Optical Intelligence (Yuyao)

All materials meet the requirements of RoHS and REACH. Sunny Optical Intelligence (Yuyao) has formulated the Substance Standards on Environmental Management of Products (《產品環境管理物質標準》) to conduct effective management on environmental management substances, and to control 233 chemical substances such as anthracene, sodium chromate and boric acid. In order to better manage its suppliers, Sunny Optical Intelligence (Yuyao) has investigated the environmental management system, product design, material usage, supplier control, defective product handling, production process management and delivery process of such suppliers through the HSF Audit Form (《HSF稽核表》).

Product Recall Mechanism

The Group has adopted a product recall mechanism. For the subsidiary of the Company, namely Sunny Opotech, under the circumstance when HSF non-conformity product has been shipped out, the related department shall trigger the recall mechanism according to the Procedures on HSF Product Recall Mechanism (《HSF產品召回控制程序》) to identify and confirm whether it is under the recall situation. After the confirmation of recall situation, the Quality Assurance Department shall submit the Product Recall Notification (《產品召回通知單》) and publish notification to conduct recall and isolation treatment, together with analyzing the causes, formulating improvement and preventive measures at the same time. Sunny Optical Intelligence (Yuyao) has established the Procedures on Product Quality Control (《產品質量控制程序》), which specifies that the Marketing Department needs to notify customers of the abnormalities and initiate a recall procedure when there are functional defects or hazards in shipped products, poor appearance that affects the installation, or when there is a potential problem of wrong materials or mixed materials.

During the Reporting Period, there were no products sold or shipped of the Group subject to recalls for safety and health reasons.



Note

The platform is able to accurately and efficiently transmit the information of chemical substances contained in products.

Protection of Intellectual Property Rights

Strengthening the refined management of intellectual property rights (“IPR”) and controlling potential IPR risks are the basis for cultivating core competitiveness. Strictly abiding by the Patent Law of the PRC (《中華人民共和國專利法》), the Rules for the Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》), the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and other laws and regulations, the Group has formulated the Patent and Technical Secret Management Policy (《專利及技術秘密管理制度》), the Intellectual Property Risk Management Policy (《知識產權風險管理制度》), the Trademark Management Measures (《商標管理辦法》) and the Management Policy on Software Copyright (《軟件著作權管理制度》) to reduce the potential risks of IPR infringement during the operation of the Group.

The Group has established a professional IPR management team to timely evaluate and protect various innovation achievements, so as to raise professional technological barriers and expand technological advantages. The IPR work is directly managed by the CEO of the Company. The Legal Affairs Department of the Company, as the main responsible department, organizes the IPR personnel of each subsidiary to carry out daily management work. To enhance the communications among the IPR team, the Legal Affairs Department of the Company holds regular meetings IPR on quarterly basis and carries on learning and sharing sessions irregularly.

We have also introduced the IPR management platform and database to improve the efficiency of approval process, maturity monitoring, data summarizing and maintenance. In order to effectively enhance the convenience of using this platform and to better meet the needs of the R&D staff and patent management staff of the subsidiaries, the Company’s Legal Affairs Department comprehensively optimized the IP management platform from the four aspects of function realization, interface optimization, process modification and data maintenance during the Reporting Period, which effectively enhanced the working efficiency of relevant personnel. In addition, since the IPR laws and regulations and the enforcement environment in Vietnam are somewhat different from those in the PRC, the Legal Affairs Department of the Company conducted a number of IPR research and exchange meetings with the management and legal staff of our subsidiaries in Vietnam, the IPR management staff in the PRC and local lawyers in Vietnam during the Reporting Period in order to further standardize the IPR management in Vietnam and effectively prevent IPR risks. After identifying the current status, problems and corresponding needs of the IPR system of each subsidiary in Vietnam, we optimized the IPR management system in Vietnam and produced a comprehensive course covering the interpretation of key laws and regulations on IPR in Vietnam, the main rights protection and remedy channels and the patent technology application guidelines. These helped enhance the awareness of IPR protection among the staff and thus effectively reduce the potential risks associated.

During the Reporting Period, Sunny Zhejiang Optics initiated proceedings against several companies for infringement of certain intellectual property rights of the Group in China. For details, please refer to “Voluntary Announcement – Litigation Proceedings Commenced by a Subsidiary” (<https://www.sunnyoptical.com/webfile/temps/2022111017872560.pdf>) dated on 15 November, 2022 and “Voluntary Announcement – Litigation Proceedings Commenced by a Subsidiary” (<https://www.sunnyoptical.com/webfile/temps/2022120119213482378.pdf>) dated on 1 December, 2022.



During the Reporting Period, four subsidiaries of the Company, namely Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao) have passed the certification of the Standards for the Management of Corporate Intellectual Property Rights (《企業知識產權管理規範》) (GB/T29490), indicating that the Group has established a more scientific and systematic intellectual property management system, which will further boost the technological innovation and enhance the core competitiveness of the enterprise for its sustainable development.

The Group has formulated patent/ technical secret incentive measures to encourage R&D and innovation.

During the Reporting Period, a total of **2,952** person-time of the Group were awarded incentives on patents/technical secrets.

As at 31 December 2022, the Group had **4,093** authorized patents in total.



In addition to IPR-related training based on the operational needs of Vietnam, the Group also worked on a range of other IPR related work. During the Review Period, we completed the design of IPR learning pathways for different ranks and positions of employees, which clarified the IPR learning objectives of different types of employees, so as to raise their awareness of IPR protection, strengthen IPR risk prevention and improve the IPR talent system within the Group. The Company's Legal Affairs Department completed the recording, launching and delivery of a total of 26 courses of the elementary and intermediate IPR training system. Meanwhile, we enhanced the atmosphere of IPR protection and encouraged knowledge innovation through characteristic activities such as IPR Day.

IPR Day Activity

In April 2022, the Company's Legal Affairs Department, together with the Human Resources Department, the Party & the Masses Office and the IPR team of Sunny Automotive Optech, organized a seminar themed "Knowing, Doing and Inspiring". The event was held simultaneously online and offline and in three sessions. In particular, external experts were invited to conduct in-depth interactive exchanges with the participants from three aspects: IPR layout, high-value patent layout, patent technology landscape survey and key technology direction analysis. IPR serves as the core competitiveness and valuable asset of an enterprise. Through this activity, the employees gained a deeper understanding of IPR layout and patent protection, which is conducive to creating a cultural atmosphere of respect and protection of IPR.



Information Security Management

Information security control is an important part of our business operation. Therefore, we attach great importance to the protection of employees' privacy and commercial secrets. The Group strictly abides by laws and regulations such as the Cybersecurity Law of the PRC (《中華人民共和國網絡安全法》), the Data Security Law of the PRC (《中華人民共和國數據安全法》) and the Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), and professional management personnel of the Information Technology Department are responsible for information security management. Sunny Optical Technology, Sunny Zhejiang Optics and Sunny Opotech have established a comprehensive information security management system and have passed the certification of ISO 27001 information security management system.



The Group has classified information assets into different levels and implemented corresponding protection measures. Meanwhile, we restrict and guide the behaviours with leakage through the Information Technology Management Policy (《信息技術管理制度》) and the Manual of Employees' Information Security (《員工信息安全手冊》) to effectively enhance the confidential awareness of employees. During the Reporting Period, the Group optimized and updated the Information Technology Management Policy and strengthened its organizational structure by establishing digitalization committees in each of its subsidiaries. The establishment of various committees facilitates better information management in the business units. The Group has also 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 incidents. On the other hand, the Group has smooth internal communication channels. Internal employees can directly provide feedback on information security issues through the information security liaison station in the internal system. Customers can complain about information security by telephone or e-mail, etc. During the Reporting Period, the Information Technology Department of the Company participated in the cyber security exercise "Cyberguard Action (護網行動)" organized by the government departments and scientific research institutions and intercepted thousands of cyber attacks from external sources as the defender, marking the success of completing the task.

We have established the Commercial Secrets Management Committee led by the CEO responsible for reviewing the commercial secrets management policies and strategies of the Group, the annual planning on commercial secrets, the management system and normative documents, etc. During the Reporting Period, the Company established an information security inspection mechanism whereby the Legal Affairs Department and the Information Technology Department jointly conducted information security audits, covering four subsidiaries, namely Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao), and provided feedback reports for on-site inspection, to assist each of its subsidiaries to better carry out information security management. At the same time, the Group has formulated the Commercial Secrets Management Policy (《商業秘密管理制度》) to manage secret-related information, secret-related carriers, office areas as well as systems network, etc., and set out punishment and incentive measures. In order to protect the legitimate rights and interests of the Company and employees, we have formulated the Non-Competition Agreement (《競業限制協議》) according to the four principles of "full coverage of all employees, strict application, intensive follow-up and evidence retention", clarified the relevant management departments and responsibilities of the Company and its subsidiaries, and improved the requirements of the full life cycle of non-competition from signing to termination. As at the end of the Reporting Period, the signing rate of the Non-Competition Agreement of the Group reached 100.0%. We have also formulated the Administrative Measures of Confidentiality-related Posts Classification (《崗位涉密分級管理辦法》), and divided positions into three levels to implement a classified management according to the classified level of the information. In this way, we can further strengthen the commercial secrets and information security management system and ensure the effective coordination of classified management of confidentiality-related positions and information security control means of each subsidiary.

The Group has completed the planning on the three-level (company, department and position levels) training system, and regularly provided information security trainings by various means. During the Reporting Period, we invited external experts to organize a seminar on the theme of "Exchange and Discussion about Information Security and Confidentiality System Construction". We also conducted online training on "Confidentiality Management for Cadres" and established 12 courses on knowledge and skills training system for information security management personnel. In addition, the subsidiaries also have been carried out various vivid publicity activities according to the actual situation. For example, Sunny Zhejiang Optics carried out regular information security campaigns covering all employees through information security-themed official account tweets and promotional e-mails, which was well received by the employees.

Customer Rights and Interests Protection

The Group continues improving the customer service system. We have formulated various customer complaints and feedback handling procedures in order to standardize the customer complaint handling processes and discover the problems in the management system in a timelier manner. Customers could express their opinions or raise their complaints through e-mail, telephone, letter and other means, and the relevant departments of the subsidiaries of the Group will follow up in time.

Sunny Zhejiang Optics has formulated the Customer Complaint Management Standards (《顧客投訴管理標準》) and divided the complaints into serious complaints and general complaints according to their seriousness. Sunny Automotive Optech has also set up a quality issue evaluation team to provide a platform for rapid handling of customer complaints / feedback problems, in order to timely and effectively deal with customer complaints, prevent similar problems from happening again.

Customer Complaint Management Standards

After receiving the customer's complaint, the customer service shall convene all relevant departments to review and determine the causes and countermeasures within **48** hours, reply the customer within the requested time frame after the completion of countermeasure report;

If the customer has no special requirements, the customer service shall reply according to the "**2485 Principle**" (Note);

In terms of serious complaints, the Quality Assurance Department shall take emergency measures within **24** hours;

Submit a handling report within **3** working days after investigation and handling.



Note

The "2485 Principle":

1. The first response shall be made within 2 hours;
2. Emergency measures and secondary response shall be made within 24 hours;
3. Cause analysis, countermeasures and third response shall be made within 48 hours; and
4. Implement and verify the effectiveness of countermeasures and fourth responses shall be made within 5 days.

To improve the matching of products with customer needs, the Group organizes the customer satisfaction survey every year to understand customers' satisfaction on the Group's product quality, service, price, technology, etc., and then carries out an internal systematic improvement according to the survey results to enhance customer satisfaction. Sunny Opotech has established the Operational Regulations on Customer Satisfaction Surveys (《顧客滿意度調查作業規範》) and regularly distributes questionnaires to key customers to collect their feedback. In response to the customer's opinions, Sunny Opotech convenes responsible departments to analyse the causes, take corresponding corrective and preventive measures, and timely follow up the progress of problem solving and form a complete cycle in according with the Control Procedures for Corrective and Preventive Measures (《糾正和預防措施控制程序》). Sunny Optical Intelligence (Yuyao) has formulated the Procedures for Customer Relationship Control (《顧客關係控制程序》), which clarifies the rights and responsibilities of each department. The Marketing Department issues customer satisfaction survey forms to key customers every year and achieves over 80.0% collection. Where the total score in the customer satisfaction survey form is not up to the standard or the individual item is lower than 70.0%, the responsible department shall analyze the causes and take corrective measures.

In addition to the satisfaction survey, an annual customer visit plan is formulated according to the location and importance of customers so as to obtain the customers' opinions and requirements more effectively, and enhance customer stickiness and promote long-term and stable cooperation with customers.

During the Reporting Period, information on customer complaints and satisfaction surveys (on a percentage basis) for the four subsidiaries of the Company is shown in the table below:

Company name	Number of customer complaints	Customer complaint resolution rate	Customer satisfaction
Sunny Zhejiang Optics	674	100.0%	88.7
Sunny Opotech	102	100.0%	97.9
Sunny Automotive Optech	20	100.0%	88.6
Sunny Optical Intelligence (Yuyao)	92	100.0%	94.4

Customer Information and Data Protection

The Group takes privacy issues very seriously and protects the data information and privacy of its customers, business partners and employees to the utmost. The Group has complied with relevant laws and regulations in relation to customer information protection. The Commercial Secrets Management Committee has been delegated to manage, implement and monitor the Group's customer data protection and privacy policies.



Supply Chain Management

The Group is fully aware that the sustainable development of enterprises calls for the cooperation of the supply chain. Therefore, we are committed to building a harmonious and long-term business cooperation relationship and promoting the sustainable development of the overall industrial chain.

Supply Chain Management System

We give priority to suppliers with excellent sustainable development performance in order to prevent or minimise potential environmental and social risks in the Group's supply chain. In addition to complying with the requirements of the relevant laws and regulations, the Group's suppliers are required to comply with the Group's Code of Conduct for corporate social responsibilities ("CSR") and convey our concept of sustainable development to upstream suppliers. To identify the environmental and social risks along the supply chain, the Company's subsidiaries have established a complete organizational framework of supply chain management, responsible for resource development, supplier performance appraisal, supplier sustainable development ability evaluation, supplier qualification approval and other related work. In combination with QC 080000 hazardous substance management system standard and relevant requirements of customers, we have formulated a number of supplier management policies such as the Procedures for Management 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., so as to establish comprehensive management regulations and operational processes such as supplier introduction, routine management, audit and evaluation, and removal.

The procedures for the management of suppliers of the Group are outlined below:



To identify environmental and social risks along the supply chain, each subsidiary of the Group conducts a hierarchical management on suppliers according to the importance or the risk level of materials. Sunny Automotive Optech has formulated the supplier supervision plan according to the Rules for Annual Audit of Suppliers (《供應商年度審核規劃》), and conducts annual audit on the suppliers providing direct components of the products. The audit covers the supplier's whole production process, including the quality management system, RoHS management standards and other relevant contents, requiring suppliers that failed to meet the provisions to complete the improvement work within three months according to the Supplier's Deficiency Improvement Schedule (《供應商缺失改進計劃表》). Sunny Optical Intelligence (Yuyao) prepares an annual supplier audit plan at the beginning of each year, with reference to which the Resource Management Department takes the lead and organizes the relevant staff of the Quality Assurance Department and the R&D Department to participate in the audit. For issues identified during the audit process, the subsidiaries are required to notify and request the supplier to complete the rectification work within two months. The Group has also developed a supplier removal mechanism. Suppliers will be removed from the list if they have serious quality problems or the materials used fail to meet the latest environmental protection requirements with no effective improvement measures.

The Group has adopted the Supply Chain Management System (《供應鏈管理體系》) to prevent suppliers' risk in terms of social responsibility and environmental protection and to build a sustainable supply chain. The Group has also publicized the declaration of the Supply Chain Management System on the sustainable development section of the Company's website. We require suppliers to commit to safeguarding the human rights of employees in accordance with the standards generally recognized in the international community, prohibiting the use of child labor, forced labor, discrimination against employees, and guaranteeing employees' basic salary, social insurance, etc.

During the supplier development and introduction stage, the Group inspects suppliers' environmental and social risks, green partner ("GP") systems, and promotes CSR awareness-raising for suppliers. Suppliers are encouraged to use environmental friendly products or services, such as purchase green energy, use crates instead of cardboard boxes to reduce wastes, carry out compliance treatment on chemical effluent during the production processes, etc. and required to sign various letters of undertaking to ensure the compliance with the relevant CSR requirements of the Group:

- **The Agreement on Social Responsibilities (《社會責任協議》)**
Raises requirements on suppliers on the aspects of labor interests, environmental protection, occupational health and safety, business ethics and other aspects.
- **The Undertaking for Operating with Integrity (《誠信經營承諾書》)**
Forbids commercial bribery, corruption, fraud and other improper behaviors to safeguard the legitimate interests of both parties.
- **The Environmental/Safety Requirement Notification (《環境/安全要求告知書》)**
Requires suppliers to meet the requirements of relevant laws and regulations on environment/occupational health and safety, and ensure the emissions, wastes and noises involved in the production, activities and transportation process meet relevant standards.
- **The Undertaking for Non-use of Prohibited/Restricted Substances Under Relevant Environmental Regulations (《不使用有關環境法規中禁用/限用物質承諾書》)**
Requires suppliers to provide materials that meet the requirements of the Restricted/Prohibited Substance List (《限用/禁用物質清單》) and to provide advance notice and a valid test report of any changes to the materials or properties of the product.

In addition, the Group annually conducts risk assessments on suppliers. The assessment items mainly include the places where the suppliers are located, the types of products and services provided, the brands and sources of production raw materials, the risks on green and environmental products, CSR and business ethics, etc., and pays continuous attention to the qualified suppliers. The Group has also formulated a supplier reward and punishment mechanism to better regulate the products and services of suppliers provided.

As at the end of the Reporting Period, the number of Class I suppliers (Notes) of four subsidiaries of the Company, namely Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao) was 916, of which approximate 90.3% came from Mainland China, with the rest mainly being located in Hong Kong. All of which have complied with the supplier engagement practices in the Supply Chain Management System. The KPIs of Class I suppliers are as follows:

Category	Sunny Zhejiang Optics (Number)	Sunny Opotech (Number)	Sunny Automotive Optech (Number)	Sunny Optical Intelligence (Yuyao) (Number)	Total (Number)
Number of new suppliers during the year	16	119	8	15	158
Accumulative number of suppliers that signed the CSR-related undertakings	101	409	62	123	695
Number of suppliers with CSR audits during the year	101	137	21	15	274
Accumulative number of suppliers that signed the certificates promising not to use hazardous substances	119	378	65	111	673
Number of suppliers recognized as having negative environmental and social impacts during the year	0	0	0	0	0
Accumulative number of suppliers using environmental products and services and achieving management on environmental procurement	132	399	65	120	716



Notes

1. The Group's supplier data disclosure scope during the Reporting Period has been added to Sunny Optical Intelligence (Yuyao).
2. The Class I suppliers of Sunny Zhejiang Optics refer to the suppliers that provide product components, processing raw materials, packaging materials, hazardous chemicals and chemicals in direct contact with products;
3. The Class I suppliers of Sunny Opotech refer to the suppliers that provide the direct product components, equipment and using tool;
4. The Class I suppliers of Sunny Automotive Optech refer to the suppliers that provide the direct product components; and
5. The Class I suppliers of Sunny Optical Intelligence (Yuyao) refer to the suppliers of raw materials that provide the direct product components and have contacts with the products or materials during processing.

Responsible Mineral Procurement

The Group actively responds to the policy aiming to prohibit the use of conflict minerals to fulfil its corresponding social responsibilities. We have published the relevant summary and regulations of the Conflict Minerals Management (《衝突礦產管理》) on the sustainable development section of the Company's website and promised not to endorse and to use conflict metals from conflict regions and without a third-party certification. We transmit the relevant requirements of Dodd-Frank Wall Street Reform and Consumer Protection Act (《多德—弗蘭克華爾街改革和消費者保護法》) to suppliers, and require them to comply with the regulations on conflict-free metals, strictly implement the relevant standards of international organizations and industries, and sign the Undertaking for Non-Use of Conflict Minerals (《不使用衝突礦產承諾書》), the Corporate Social Responsibility Commitment (《企業社會責任承諾書》), the Environmental Safety Requirement Notification (《環境安全要求告知書》) and other relevant agreements. We also investigate suppliers whose products contained tantalum, stannum, gold, tungsten and cobalt to ensure that these metals come from qualified smelters.

Subsidiaries of the Company have formulated the Regulations on the Administration of Green Substance (《綠色物質管理規定》), the Technical Standards on Environmental Management of Products (《環境管理物質技術標準》), Regulations for the Recognition of Parts (《部品承認規範》) and other policies. In addition, Sunny Opotech has also formulated the Management Measures for Mineral Control Related to Social Responsibility (《社會責任相關礦產控制管理辦法》) and the annual audit plan to manage and conduct on-site audit on suppliers.

Sunny Zhejiang Optics, Sunny Opotech and Sunny Optical Intelligence (Yuyao) have conducted due diligence of metals involved in the supply chain using conflict minerals questionnaires such as the Conflict Minerals Reporting Template (《衝突礦產報告模板》) ("CMRT") and the Extended Minerals Reporting Template (《擴展礦產報告模板》) ("EMRT") developed by the Responsible Minerals Initiative ("RMI"). If a supplier is involved in conflict minerals and without a third-party certification, it will be prohibited from supplying goods to the Group. During the Reporting Period, Sunny Zhejiang Optics and Sunny Optical Intelligence (Yuyao) completed the investigation and audit on all incoming product material suppliers and found no nonconformities. Sunny Opotech also completed the relevant audits and confirmed that the smelters involved have been included in the third-party certification lists such as RMI.

As at the end of the Reporting Period, the audit results of conflict minerals of the Group's Class I suppliers were as follows:

Category	Sunny Zhejiang Optics (Number)	Sunny Opotech (Number)	Sunny Automotive Optech (Number)	Sunny Optical Intelligence (Yuyao) (Number)	Total (Number)
Proportion of products with traceable raw material sources	100.0%	100.0%	100.0%	100.0%	100.0%
Accumulative number of suppliers having filled in the conflict minerals reporting template	91	165	1	23	280
Accumulative number of suppliers undergoing the audit of conflict minerals	119	165	63	40	387
Accumulative number of suppliers involved in conflict minerals with third-party certification	0	12	0	0	12

Supplier Communication

The Group cherishes a cooperative vision of “Mutual Benefit and Common Growth”. We provide suppliers with full support on technology, management and other aspects, to advance two-way communication and knowledge sharing with suppliers through questionnaires, telephone, e-mail, online and on-site exchanges, and other means to promote win-win cooperation.

We hold annual supplier exchange conference with core suppliers. In addition to reviewing the cooperation situation of previous year. We also reward outstanding suppliers and propose targets and expectations on the cooperation for the following year. During the Reporting Period, Sunny Opotech promoted online HSF for key suppliers, covering regulatory consultation, explanation of HSF requirements by Sunny Opotech, explanation of special requirements for customers and explanation of the operation of the supplier relationship management system. Sunny Automotive Optech conducted a quarterly technical exchange meeting with key suppliers, focusing on their overall operation, achievement of each project in the five dimensions of QCDST and development planning. In addition, a satisfaction survey was carried out on the suppliers participating during the year, which concluded the three most important factors in the cooperation between both sides: the concept of win-win development, high efficiency in solving problems and smooth communication channels.

Reverse training for suppliers

In March 2022, Sunny Automotive Optech invited the supplier to conduct training on glass spherical product knowledge for the Lens Technology Department, Component Manufacturing Department, Sales Department and Marketing Department for the purpose of helping them understand and master the overall process of spherical lens processing. The training received 117 participants, 83.8% of which passed the comprehensive test after training.



Talent Management

The Group identified the key words of the Employer Value Proposition (“EVP”) as “Professionalism, Innovation, and Development” based on the employer brand value house model, and further refined the Group’s EVP as “Pursue in Optics, Create in Optics and Achieve in Optics”. In the future, we will continue improving the working experience of employees, as well as our reputation in the society to form an internal and external synergy and attract more talents to join the Group.

Safeguarding Employees’ Rights and Interests

Labor Standards

We strictly abide by the requirements of laws and regulations such as the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》), and the Labor Dispute Mediation and Arbitration Law of the PRC (《中華人民共和國勞動爭議調解仲裁法》), and manage talents legally, reasonably and effectively. We strive to broaden the recruitment channels and optimize the talent structure, and have formulated the systems such as the Administrative Measures for Employee Probation Period (《員工試用期管理辦法》), the Regulations on the Management of Employee Work Resumption (《員工復職管理規定》), the Recruitment and Employment Implementation Measures (《招聘錄用實施辦法》) and the Reward Measures for Internal Recommendation (《內部推薦獎勵辦法》) to regulate and strengthen the management of recruitment and dismissal. The Group has formulated the Employee Handbook (《員工手冊》), covering employees’ compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

The Group encourages and advocates equal opportunities for employees and adheres to the diversified and humanized management philosophy. We advocate equal communication, respect the personalities of employees, listen to their opinions and accept reasonable suggestions from them. In addition, we have published the Labor Policy (《勞工政策》) on the sustainable development section of the website of the Company and promise that the employment, treatment or promotion of employees shall not be affected by their social identities such as ethnicity, race, nationality, gender, religion, age, sexual orientation, political affiliation, or marital status.

Pursuant to the Group’s internal measures, we prohibit the use of child labor or forced labor, and conduct regular trainings for the management. In the promotional materials of recruitment, we clearly require the applicants to be over 16 years old, and check the identity information of applicants strictly to prevent mistakenly employing child labor. In case of hiring child labor by mistake, we will immediately terminate the relevant employment contracts, arrange the children to return to their original residence and send them to their parents or other legal guardians. The Group prohibits all forms of forced labor, such as forcing employees to perform certain duties or force them to work. The Group regularly reviews the phenomenon of child labor and forced labor to ensure that such incidents do not occur. During the Reporting Period, there was no hiring of child labor by mistake or forced labor in the Group.

The Group has formulated policies in determining the working hours and rest periods for employees based on local laws. The Group implements a working system with a two-day off every week and the working hours of no more than 8.0 hours per day. Meanwhile, the employees can enjoy local statutory holidays and leaves. Employees work overtime on a willing basis. When employees work overtime, they shall fill in the application forms in advance for confirmation and approval by the senior leaders. Employees with overtime pays will be distributed based on the actual situation. Employees with fixed salaries shall apply for overtime leaves. If the employees fail to arrange overtime leaves or fail to make applications for overtime leaves, the overtime pays will be included in the year-end bonus.

Employee Structure

As at the end of the Reporting Period, the Group had a total of 26,610 employees. Among the employees, approximately 2.9% were senior management, of whom approximately 18.0% were female; approximately 17.6% were middle management, of whom approximately 25.2% were female. The breakdown of the employees in different categories is set out as below:

Category		Number of Employees	Proportion
Gender	Male	15,933	59.9%
	Female	10,677	40.1%
Age group	< 30	14,807	55.6%
	30-39	9,699	36.5%
	40-49	1,775	6.7%
	≥ 50	329	1.2%
Employee type	Full-time employees	25,550	96.0%
	Interns	1,060	4.0%
Position	Senior management (Note 1)	783	2.9%
	Middle management (Note 2)	4,670	17.6%
	Junior employees (Note 3)	21,157	79.5%
Geographical region	Mainland China	25,255	94.9%
	Other regions	1,355	5.1%



Notes

1. Senior management includes personnel with management title of associate department manager and above or with professional technical title of senior engineer and above.
2. Middle management includes personnel with management title of division manager and assistant of department manager or with professional technical title of engineer.
3. Junior employees include all personnel other than senior management and middle management.

The Group regulates the resignation procedures in accordance with relevant laws, regulations and labor contracts, including a certificate of rescission or termination of the labor contract issued by the Human Resources Department for departing employees. The turnover rate of the Group's full-time employees as at the end of the Reporting Period is indicated in the table below:

Category		Turnover rate of employees (Note)
Gender	Male	2.7%
	Female	2.7%
Age group	< 30	3.5%
	30-39	2.0%
	40-49	0.9%
	≥ 50	0.8%
Geographical region	Mainland China	2.6%
	Other regions	5.0%



Note

The turnover rate of each category of employees is the annual average of the monthly turnover rate of each category of employees. The monthly turnover rate of each category of employees = Number of employees of each category resigned voluntarily or being dismissed, retired or died for each month/Total number of employees of each category for each month*100.0%.

Remuneration and Incentive

We adhere to the development concept of “Win-Win and Common Prosperity”, emphasizing that employee benefits should be combined with enterprise development to form a harmonious labor relationship. The Group has formulated the Remuneration Management Policy (《薪酬管理制度》), Welfare Management Policy (《福利管理制度》) and Performance Management Policy (《績效管理制度》) and continuously improved the remuneration system based on performance assessment in order to create a fair and just working environment. Diversified performance assessment methods such as annual debriefing evaluation, performance assessment, objective management assessment and personnel evaluation are implemented for different positions according to position characteristics and implement corresponding remuneration and incentive policies based on the assessment results. During the Reporting Period, we adopted a salary adjustment model differentiated by groups and tiers to better enhance the competitiveness of the Group’s remuneration. Thanks to the model, the market salary quantile of middle and lower tier employees increased significantly.

The Group has also formulated policies such as the Administrative Measures on Economic Value Added (EVA) Sharing Prize (《EVA分享獎管理辦法》), 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》) to enrich the ways in attracting, encouraging, and retaining talents, so as to promote a more stable, healthy, and sustainable development of the talent team.



Basic Salary

The basic salary of the Group fulfills the minimum salary requirements of local governments and is competitive in the same industry and region. We formulate salary adjustment plans each year based on the Group's operating conditions and the salary level of our peers, including regular salary adjustment and rank change-related salary adjustment, to implement the Group's salary management principle of “Adapting to the Market Environment, Realizing the Value of Talents and Giving Full Play to Motivation”.



Year-end Bonus

The Group distributes the year-end bonuses to employees who meet the requirements according to the Remuneration Management Policy. The specific distribution amount is determined depending on the employees' year-end performance results, annual attendance status, wage level and other factors.



EVA Sharing Prize

The EVA sharing prize is a sharing mechanism after the Group has excessive profits. Employees can be rewarded after meeting the requirements such as the certain levels of positions, performance results and other requirements.



Prize for Outstanding Talents

In the evaluation year, employees with management positions below the level of director who are employed throughout the year are eligible to participate in the excellent talent evaluation. Employees who have been employed for less than one year but have made significant breakthroughs or innovations in their work, or benefited or contributed the Company greatly can be exceptionally recommended. The prize is divided into the gold prize, the silver prize, the bronze prize and the progress prize. The selection of outstanding talents is based on the comprehensive consideration on the professional ethics, quality, capability and performance of the candidates in the year. The prizes are distributed in the form of granting the corresponding shares with a fixed amount.



Excellent Junior management cadre

Assistant engineers, who have worked continuously in the Group for more than three years and have served in the junior management position for two years or more, and who have a year-round management position of division manager or below or have direct subordinates in the daily practical work in the evaluation year, are eligible to participate in the excellent junior management cadre assessment. The selection of outstanding junior management cadres is based on the comprehensive consideration on the candidates' professional ethics, quality, capability, assessment and performance in the evaluation year, and a democratic assessment by employee representatives and interviews with candidates randomly selected by the Group's Trade Union. The final winners of the award will be announced and recognized within the Group, and the honorary certificates and cash award will be presented.



Production pacesetter

Assistant engineers and below employees, who have worked continuously in the Group for more than two years and have no subordinates, are eligible to participate in the production pacesetter evaluation. The evaluation of production pacesetter is based on the comprehensive consideration on the candidates' performance, job skills and innovation ability in the evaluation year. The final winners of the award will be announced and recognized within the Group, and the honorary certificates and cash award will be presented.



Share Award

The eligible participants of the Group's share awards scheme include: 1. employees holding management title of division manager and above, or professional technical title of engineer and above; and 2. employees awarded the annual "Prize for Outstanding Talents".

From the adoption of the restricted share award scheme to 31 December 2022, a total of 6,399 employees were awarded shares (Note).



Note

This number includes all personnel who have received share awards.

Safeguard Employees' Benefits and Welfare

The Group has established a welfare system consisting of statutory welfare and complementary welfare to safeguard employees' benefits and welfare.



Statutory Welfare



Social Insurance

The Group contributes to social insurance for employees in accordance with the national laws, regulations and relevant rules of local governments. Currently, the basic social insurance for domestic employees includes pension, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, and overseas employees can enjoy relevant security coverage according to local laws.



Housing Provident Fund

The Group contributes to the housing provident fund for a certain proportion for employees including assistant engineers and above, employees with full-time bachelor's degrees and above and line managers with management title and above in accordance with the national and local regulations and policies.



Holidays

All employees of the Group can enjoy local statutory holidays, marriage leave, funeral leave, family planning leave, work-related injury leave, medical leave, paid annual leave and sick leave, etc.

Complementary Welfare

Emergency Relief Fund



The Trade Union of the Group has established the Employee Emergency Relief Foundation ("Foundation") to provide relief fund to employees suffering from serious diseases or emergency personal injuries with a maximum amount of RMB45,000.0.

During the Reporting Period, the Foundation provided relief fund to 150 employees, with the total relief amount of RMB984,829.0.

Supplementary Insurance



The Group provides commercial insurance such as personal accident insurance for foreign employees, employees working overseas or retained employees after retirement according to the years of employment and relevant insurance regulations, and applies "Medical Insurance of Special and Serious Diseases for Employees in Ningbo City" (寧波市職工特種重病醫療保險) for in-service employees on a voluntary basis according to the requirements of the Ningbo Federation of Trade Unions. As at 31 December 2022, the Group has arranged the insurance under the "Medical Insurance of Special and Serious Diseases for Employees in Ningbo City" for 3,200 employees, with a total amount of RMB64,000.0.

Interest-free Housing Loan



The Group has formulated the Management Measures for Employee Housing Loan (《員工購房借款管理辦法》) to offer "interest-free housing loan" for outstanding employees who have met the qualifications for loans so as to reduce the pressure of employees buying their first apartments, help them solve practical problems and enhance their happiness. In 2022, the Group updated the Management Measures for Employee Housing Loan to extend the coverage of the loan from engineers and division managers and above to assistant engineers and line managers and above, and adjusted the loan amount for a single person from RMB100,000-RMB200,000 to RMB200,000-RMB400,000.

During the Reporting Period, a total number of 175 employees were successfully approved for loan qualification with a total amount of RMB54,010,000.0 as housing loans, which increased by 14.1% as compared to that of 2021.

Catering and Accommodation



The Group provides free working meals or working meal allowance for employees, including free snacks for night shift employees. Meanwhile, considering the distance between the employee's residence and the companies' locations and traffic conditions, the Group provides dormitories or housing allowance to employees accordingly.

● Health Check-ups



The Group provides free health check-ups for its employees on a regular basis in accordance with the relevant national and/or local regulations, including organizing pre-employment, on-the-job, off-the-job and emergency occupational health check-ups for personnel who are exposed to occupational-disease-inductive hazards.

● Employee Care



The Trade Union of the Group distributes holiday gifts to employees on Chinese traditional holidays such as the Spring Festival, the Dragon Boat Festival and the Mid-Autumn Festival, provides life welfare products for employees in summer and offers birthday gifts to employees on their birthdays. Since 2022, the Group would pay wedding bonuses to employees with three years of service or more and retirement bonuses to employees with ten years of continuous service or more who have retired normally from the Group.

● Employee Activity Funds



The Group sets up special activity funds for team building activities such as cultural entertainment and sports activities for all employees to enrich their spare-time cultural life and enhance communication between employees at different positions and levels.

● Other Allowances and Subsidies



The Group provides eligible employees with high-temperature allowance, communication allowance, special position nutrition allowance as well as benefits and subsidies for employees designated to other places and overseas.

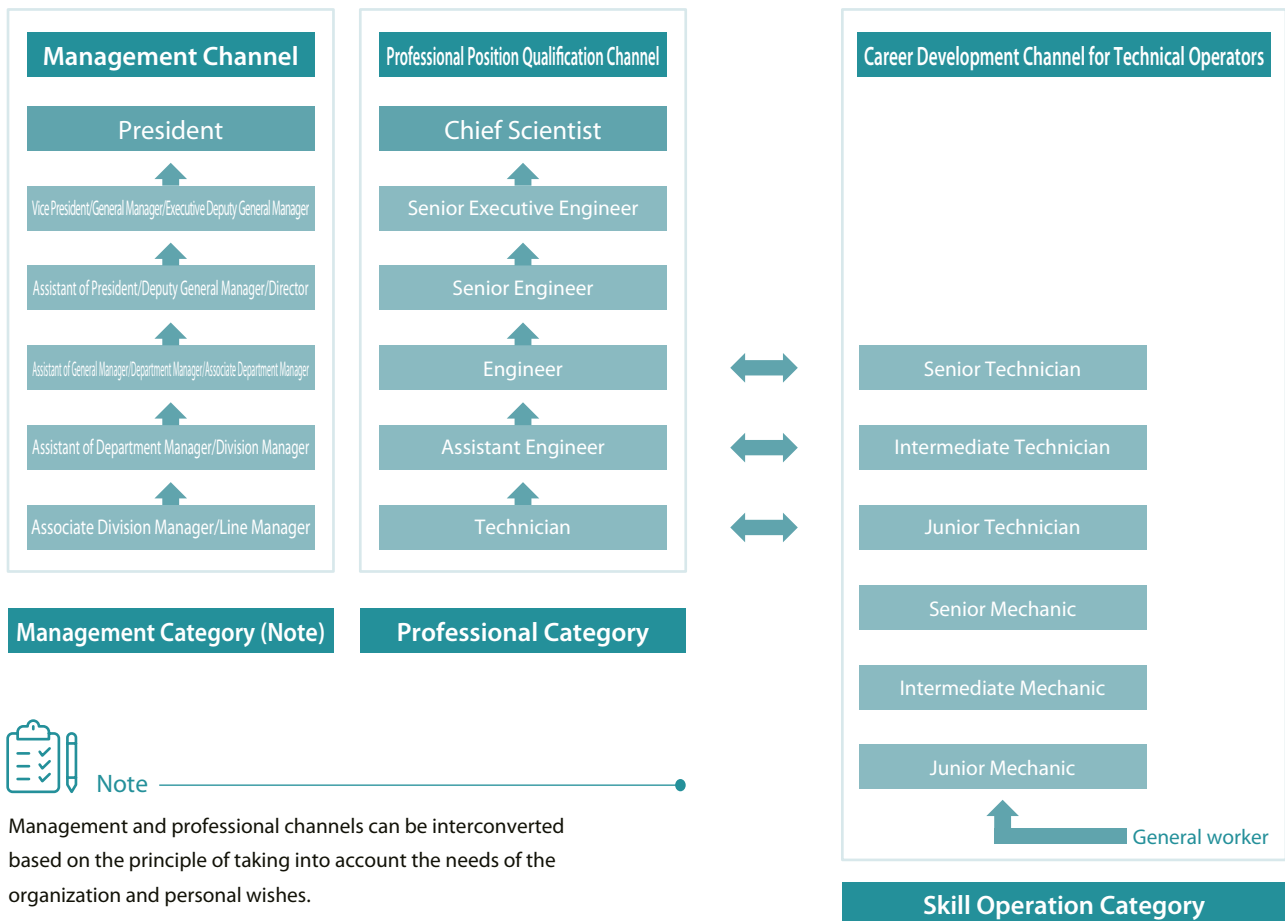
We have also formulated the Administrative Measures for Preferential Business Partners (《特惠合作商家管理辦法》). In 2022, through the cooperation with 77 high-quality business partners, we obtained more than RMB5,500,000.0 of preferential benefits for employees, benefiting about 65,000 person-time.

Development and Training

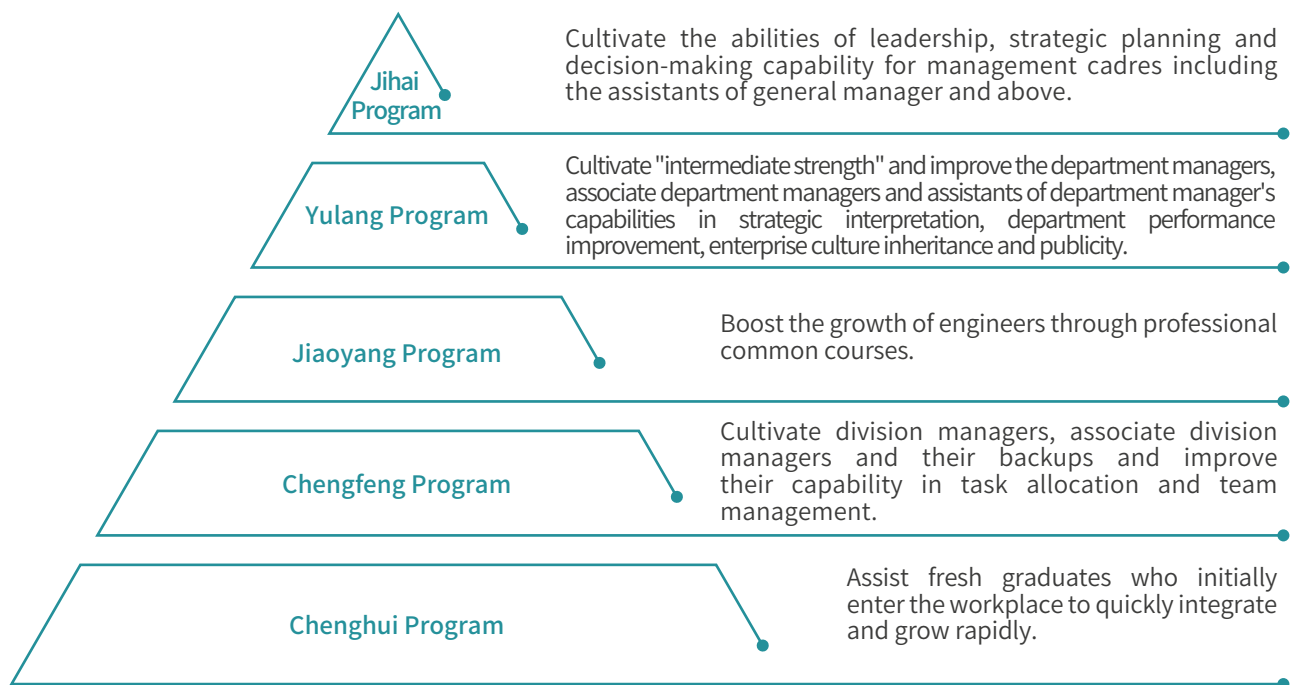
Based on the Group's human resource development strategy, we have set up three career development channels according to the characteristics of different positions to establish the talent echelons. We have formulated and released the Administrative Measures on the Organizations of Professional Position Qualification (《專業崗位任職資格組織機構管理辦法》), the Rules of Cadre Management (《幹部管理辦法》), the Management Measures for the Accreditation of Professional Positions Qualification and Appointment (《專業崗位任職資格認證與聘任管理辦法》) and other policies to specify the procedures for the selection, appraisal, appointment and promotion through different career development channels. Employees can switch between different career channels according to their own development needs and the Group's development plan, so as to achieve their personal career development goals and seek for more suitable career development opportunities.



Career Development Channel



The unique talent development system of the Group ensures the provision of talent team matching the sound business development of the Group, to enhance their knowledge and skills for discharging duties at work. Based on the development needs of different levels, we have established a development and training system which covers all employees with new employee development module, professional and technical personnel development module, and leadership development module as its core to consistently encourage them to keep learning. We have formulated a series of documents such as the Management Policy on Training (《培訓管理制度》), the Whitepaper on Employee Learning and Development (《員工學習發展白皮書》) and the Skilled Worker Education and Training Management Standards (《技能工教育培訓管理標準》) to provide employees with various methods for improving. Among them, eligible employees can apply for the academic education classes offered by the Group in a centralized manner or participate in external academic education training. After graduation with a certificate and a valid invoice and signing the corresponding training agreement with the Company or its subsidiaries, the trainees can reimburse 70% of the tuition fees to the Company or the subsidiaries, and bear the other 30%.



Development and Training System

The Group further promotes the establishment of a development and training system, to realize the formalized and scientific management of internal lecturers and promote the accumulation, sharing and dissemination of internal knowledge. We have formulated the Internal Lecturer Management Measures (《内部讲师管理办法》) and the Tutor Management Measures (《导师管理办法》). We provide the lecturers with extra pays beyond their own salaries to motivate the experienced managers and experts to become internal lecturers. As at the end of the Reporting Period, the Group had a total of 1,572 internal lecturers.



Chenghui Program



Chengfeng Program



Yulang Program

Topic: Iteration of the Learning System Platform

Since the e-learning platform launched in 2016, the Group have fully recognized the importance of fragmented learning. With the expanding of the Group's scale and our strategic planning for internationalization and digitization, the Group also have more rigorous requirements for our employees, and during the Reporting Period, we chose a new learning system.

The new learning system provides us with fresh learning resources on the one hand, and helps us complete the accumulation and transmission of our existing knowledge on the other. In addition, we have developed a talent profile for each position and level. Combining the talent profile and the results of the talent assessment, we make the planning of the learning program more targeted and geared to practical situations.

Topic: Optimizing the Training System of Vietnam Factories

During the Reporting Period, Sunny Opotech appointed an in-house senior training specialist to Vietnam to help improve the training system of the Vietnamese factories. During the Reporting Period, Chinese employees conducted 17 cadre teaching and training sessions in Vietnam factories with 330 person times; conducted two Chinese language training courses with a passing rate of 87.5%; and eight-step ("8D") (Note) training with the main purpose of helping employees improve their ability to solve quality problems. The total training time exceeded 6,900.0 hours and the training satisfaction rate reached to 94.3%.

Topic: Program for Product Management Capability Enhancement

During the Reporting Period, the Group launched a program for product management capability enhancement around the theme of "product planning". The program was implemented in the form of "theory + coaching" and extended to the product lines of each subsidiary. The program was designed to promote product planning practice through the guidance of product management methodology, to promote the practice of product planning, build a team with knowledge of product management, and precipitate the models implemented in the practice process..



Note

8D, also known as team-oriented problem solving, is a method of dealing with and solving problems, including D1 establishing the team; D2 defining and describing the problem; D3 identifying, implementing and confirming interim countermeasures; D4 identifying, recognizing and confirming root causes and D5 selecting and confirming permanent countermeasures for problems or non-conformities; D6 implementing permanent countermeasures; D7 taking preventive measures; and D8 thanking team members.

Topic: Launching a Special Course on Employees' Physical and Mental Health

In addition to courses to help employees improve their work abilities, we also offer a series of courses focusing on employees' physical and mental health to help them relieve work stress and enhance their well-being at work.

In July 2022, we launched the relief and counseling program, which helps employees to reduce stress on site through meditation and sharing of psychological skills, and to learn ways to self-regulate their emotions and stress.

In August 2022, we started a course on healthy lifestyle and daily health care. The course raised the employees' awareness of self-care by popularizing the method for preventing infectious diseases and chronic illnesses, introducing the "four cornerstones of health": reasonable diet, moderate exercise, guaranteed sleep, and psychological balance, and sharing the lifestyle that content is happiness.

During the Reporting Period, the Group's Tabor Union took the lead in providing a series of yoga classes led by professional teachers to help employees calm their minds and release stress.



Yoga

As at the end of the Reporting Period, the training participation rate of the Group's employees reached 100.0%, with an annual average of 53.4 hours per person.

Category		Annual average hours of study per person (hours/person)	Percentage of employees trained (Note)
Gender	Male	59.6	59.9%
	Female	44.3	40.1%
Position	Senior management	56.7	2.9%
	Middle management	67.0	17.6%
	Junior employees	50.3	79.5%



Note

Percentage of trained employees = Number of trained employees in each category during the reporting period/Total number of trained employees * 100.0%

Employee Care

Listening to the opinions and voices of employees, understanding their needs and helping them resolve their difficulties are important parts of the Group's daily work. We provide employees with diversified communication channels and create an open and transparent communication environment.



Daily Communication

General managers' mailbox, daily work reports, special reports, regular meetings, employee hotlines, discussion rooms, etc.

Face-to-face Meetings with Senior Management Members

Employees may make an application to the Human Resource Department for face-to-face meetings with the senior management members of the Company

Work Talk

The superiors shall have a face-to-face talk with employees for their regularization, salary adjustment, change of position, occupational development planning, communications on performance or applications for resignation, etc.

Other Channels

The website of the Company, "Sunny Journal" internal journal, "Sunny Family" WeChat official account, the annual employee representative congress, etc.

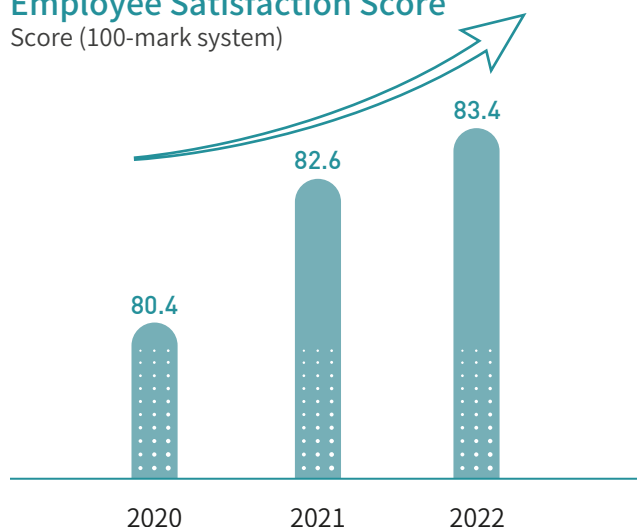
The Group strictly abides by the Trade Union Law of the PRC (《中華人民共和國工會法》) and has established the Trade Union, signs collective agreements with employees, and promotes a sense of belonging, responsibility, identity, well-being and proud by creating "a home for growth, a home for vitality, a home for civilization and a home for happiness". As at the end of the Reporting Period, the Group's employee participation rate of the Trade Union was nearly 100.0%. We encourage employees to actively participate in the relevant decision-making of the Group, motivate all employees to pay attention to the hotspot, thorny and focal issues during the development process of the Group, and pool their wisdoms and efforts to jointly push forward the Group's development.

In addition, 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 handle emergencies including strike or production efficiency decrease resulting from employees' dissatisfaction with working conditions. We handle labor disputes in accordance with the principles of legality, fairness, timeliness and focusing on mediation to protect the legitimate rights and interests of both employees and the Group and facilitate the harmony and stability of labor relations.

To practically understand and fulfill various demands of employees, the Group invites professional third-party agencies to conduct employee satisfaction surveys every year to consistently improve the human resource management of the Group. In 2022, the Human Resources Department of the Company vigorously promoted the implementation of various talent retention initiatives to realize the goal of "retaining knowledgeable employees". The initiatives included optimizing the ranking, increasing the amount of interest-free housing loans and broadening the loan coverage, and optimizing the hardware facilities including dormitories and canteens. In addition, we launched lifecycle employee care activities, including new employee month-end care, employee birthday parties, retired employee farewell parties, and single youth social gatherings. The activities helped enrich the lives of our employees, better perceive the corporate culture and enhance their cohesiveness and happiness. With such measures, the satisfaction level of employees improved in 2022.

Employee Satisfaction Score

Score (100-mark system)



The Group has established the interest group alliance ("Alliance") and has formulated the Management Measures for the Interest Group Alliance (《興趣小組聯盟管理辦法》) to further standardize the management of employees' leisure activity groups, enrich their leisure cultural life and promote the construction of corporate culture. The Alliance has carried out a series of activities with unique Company characteristics such as "Eagle Cup" basketball game, "Eagle Cup" football game, hiking meeting, etc.



"Eagle Cup" basketball game



"Eagle Cup" football game



Hiking meeting

In addition, the Group also organized a series of employee care activities, including:

Anti-pandemic Gift Pack

In March 2022, due to the COVID-19 resurgence in Shanghai, some housing estates started to implement closed management. The Group's Trade Union was always concerned about the safety and health of its employees in Shanghai. Given the fact that it was extremely difficult to buy groceries both online and offline, the Trade Union, together with the Human Resources Department and the subsidiaries, conducted a survey on the living conditions of the employees in Shanghai and compiled statistics on the needs of daily necessities. We, overcoming the difficulties, finally contacted a third-party supply and delivery platform, from which we purchased a batch of daily necessities. From mid-April, the anti-pandemic gift packs containing the warm vegetables, fruits, meat and poultry were delivered to the employees in Shanghai in succession, showing the care and concern of the Group for all its employees in Shanghai.

Assisting Children of Foreign Employees in Enrolling in Schools

In early March of 2022, the Trade Union started to conduct a survey on the enrollment needs of children of foreign employees, to ensure the smooth enrollment of the children, showing the Group's concern for the children. The Trade Union released the notice of pre-enrollment for employees' children through online platforms such as the "Sunny Family" WeChat official account and Tik Tok at first, and organized online and offline simultaneous publicizing and guidance through the branches of the Trade Union, to help the employees keep abreast of enrollment information. In addition, the Trade Union set up on-site service points to facilitate the employment of the children of foreign employees at Yuyao Chengxi industrial base, Yuyao Yangming industrial base and Yuyao Lanjiang industrial base respectively, to let employees complete the registration smoothly. In the end, the schooling problem of 157 employees' children were satisfactorily solved, recording the largest number over years.



Service Point for Enterprises of the Yuyao Human Resources and Social Security Bureau ("HSSB")

In October 2022, the Labor Dispute Resolution Office of the Yuyao HSSB was officially established in the Yuyao Chengxi industrial base, making the Group the first pilot service point of the HSSB in Yuyao City. With the tenet of "keeping enterprises free of disputes and handling requests efficiently", the Office aims to establish standardized and orderly, fair and reasonable, harmonious and stable labor relations through adequate communication and mediation within enterprises under the supervision and guidance by government departments. At present, the "Sunny Family" WeChat official account has set up a module of "Dispute Resolution of the Yuyao HSSB in Enterprises", enabling employees to make their requests at any time. The relevant cadres of the Yuyao HSSB are also stationed in the area on a regular basis to resolve labor disputes. In this way, employees can provide feedback and consultation to government departments without leaving the enterprise.

Mommy Warm Room

In order to provide a private, warm and exclusive space for lactating female employees and solve the problems of temporary storage and safety of breast milk, the Group has set up a number of mommy warm rooms in the factory. The cabin is equipped with refrigerator, plug-in, electric kettle, table and chair, medicine box, maternal and infant knowledge materials rack and other facilities.



Occupational Health and Safety

The Group attaches great importance to the health and safety of employees and always prioritizes life safety and occupational health of employees. The Group protects its employees against occupational hazards by providing them with a safe working environment and taking various measures. We strictly abide by the Fire Protection Law of the PRC (《中華人民共和國消防法》), the Work Safety Law of the PRC (《中華人民共和國安全生產法》), the Law of the PRC on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and other relevant laws and regulations. In addition, four subsidiaries of the Group namely Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao) have passed the certification of ISO 45001 on Occupational Health and Safety Management System.



Occupational Health and Safety Policy



Focusing on prevention, integrity and law-abiding

Eliminate major casualties, control the incidence rate of work-related injuries, eliminate fire, explosion and electric shock accidents.



People-oriented and continuous improvement

Optimize the working environment, ensure the health and life safety of employees, and eliminate the occurrence of occupational diseases.



Environmental-friendly and green operation

Emit wastewater, waste gas and noise in compliance with laws and regulations, effectively manage hazardous solid waste, and ensure the content of hazardous substances in the products meets the standards.

Safety Management Structure



The safe production management division of the Group conducts two wide-range safety inspections on all subsidiaries in the middle and at the end of each year and conduct monthly inspections, inspections before the holidays and various special inspections. The safety inspections cover fire safety, hazardous chemicals safety, safety protection, equipment safety and electric safety, etc. Inspectors provide feedback 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. As at the end of the Reporting Period, we identified a total of 1,133 hidden hazards and proposed targeted rectification plans and urged them to rectify. All of the hidden hazards had been rectified.



Note

Safety supervisor: The person authorized by the general manager of each subsidiary to manage safety work.

Safe Production Management

Safe production targets and achievement during the Reporting Period



Zero fatality	Achieved
Zero occupational disease	Achieved
Zero major safe production accident	Achieved

To strengthen safe production management, implement various safe production work and prevent safe production accidents, the Group has formulated specific safe production targets, the Appraisal Measures on Safe Production Accountability (《安全生產責任制考核辦法》) and the Targets and Responsibilities on Safe Production (《安全生產目標責任書》) to evaluate each subsidiary of the Group and its first person responsible for safe production annually. The evaluation content includes organizational and system construction, safety of equipment and facilities, safety operation, accident control, etc. The evaluation is based on the results of safety inspection. The evaluation results are directly linked to the annual performance assessment of each subsidiary and employee with additional rewards for the annual safety award. In case of a safety accident, the Group will give corresponding administrative and financial penalties such as criticism, warning, demerit recording and termination of labor contracts according to the severity of the accident and the responsibilities of relevant personnel. The most serious penalty is criminal responsibility after transferring to judicial authorities.



Sunny Optical Intelligence (Yuyao) formulates the Control Procedures for Occupational Health and Safety Operation (《職業健康安全運行控制程序》) to identify the sources of hazards in operation activities and take corresponding control measures.

Sunny Zhejiang Optics draws up the Policy on the Identification and Management of Hidden Danger of Safety Production Accidents (《安全生產事故隱患排查治理制度》) and regularly organizes various departments to identify hazard sources, classify risk levels and carry out rectification.

Sunny Opotech works out the Policy on Safety Production Training (《安全生產培訓制度》) to regulate the management of internal safety production education and training.

During the Reporting Period, Sunny Automotive Optech updated the Occupational Health Management Regulations (《職業健康管理規定》) to enhance the configuration and daily management of first-aid kits and eyewash devices as well as the ratio of first-aid personnel, to further see that employees can receive timely treatment in emergency situations.

During the Reporting Period, Sunny Opotech completed the construction of an online platform for risk pre-control. The platform covers three levels of risk identification and management, hazardous operation approval, and environmental and occupational health and safety ("EHS") incident handling. We clarify the responsibility for the management of potential hazards, implemented on-site safety supervision and strengthened the root cause analysis of EHS incidents. By making these efforts, we further consolidate the safety responsibilities of personnel at all levels, strengthen the safety supervision of each production link and help relevant personnel develop an awareness of safety production management.

The Group also launches safety training to standardize the safety production process and prevent and reduce the occurrence of safety incidents.

Production Safety Month

June 2022 was the 21st national production safety month themed “observing the production safety law, being the first responsible person”. Our office launched a range of activities around this theme, including public lectures on safety production, special training on first aid, educational activities on typical accidents, safety training covering all employees, and investigation and management of potential safety hazards.

We also launched an online prize quiz on safety knowledge and received a total of 26,324 answer sheets with an average score of 72.3. During the safety month activities, we received a total of 34 production safety video submissions from our employees, of which 14 outstanding entries were uploaded to the “Sunny Family” WeChat video account and were broadcasted 27,969 times. This mirrors the high participation of employees.



First-aid Special Training

Empowering Safe Production in Indian Factory and Vietnamese Factory

During the Reporting Period, Sunny Opotech found a large number of discrepancies and low data completeness in reviewing the results of the internal audit of safety production in Indian factories. The environmental management division of Sunny Opotech conducted online training and combined with Occupational Health and Safety Management System ISO 45001 standard provisions to improve the relevant personnel guidance.

During the Reporting Period, Sunny Opotech found that there was a lack of safety management connection with the Vietnamese factory, and the Vietnamese factory safety supervision was lax. In view of these situations, Sunny Opotech invited the full-time safety staff of the Vietnamese factory to the Yuyao factory for training and learning, and actively conducted online communication meetings with the Vietnamese factory. Through the potential trouble screening and management, the Company cooperated with the Vietnamese employees to organize the potential trouble screening and assessment, and helped the Vietnamese factory to identify and reduce the potential safety production risks. At the same time to assist Vietnam factory to complete Occupational Health and Safety Management System ISO 45001 and Environmental Management System ISO 14001 certification.

Fire Safety Management

The Group recognizes that fire is the biggest potential safety hazard in the operation process. In terms of fire safety, the Group requires that:



Employees should receive a three-level safety training. Fire evacuation drills and fire extinguisher operation exercises should be conducted annually;

Monthly safety inspections on the production areas and spot inspections on employees' safety knowledge should be carried out;

Fire extinguishers are checked monthly to ensure that the equipment should be used normally;

A mini fire station should be set up and designated personnel should be on 24-hour duty.

In addition, the Group conducts fire prevention month activities regularly to popularize fire prevention knowledge and improve fire prevention skills of all employees to reduce the risk of fire.

Fire Prevention Month

Every November is the month for publicizing fire prevention nationwide. The theme of the month in 2022 is "ensuring fire safety, ensuring high-quality development". In order to further promote fire safety, the Group sets up an activity leadership group consisting of the Trade Union and office of the Company, the trade union of each subsidiary and the persons in charge of the competent safety department. The group is responsible for the organization, planning and promotion of the relevant activities as well as the investigation of potential fire hazards.

By making full use of publicity channels such as bulletin boards, banners, WeChat official account and WeChat video account, we publicize basic firefighting knowledge and organize all employees to learn basic knowledge and skills of fire prevention, firefighting and escape to foster an atmosphere of common concern for fire safety. In addition, we carry out a comprehensive investigation of fire hazards, timely analyze and rectify the discovered fire hazards, and further improve the Group's emergency plan and emergency mechanism, to enhance the fire prevention safety management level of the Group.



Fire Prevention Month

Chemical Safety Management

The Group manages and controls substances with hazardous characteristics or listed in the Catalogue of Hazardous Chemicals (《危險化學品目錄》) of China. Four subsidiaries have formulated relevant regulations on hazardous chemicals management, which will be updated according to the actual business operation and the requirements of relevant laws and regulations. We have clarified the specific responsibilities of each department in each process in order to standardize the procurement, transportation, storage, use, and disposal of chemicals and prevented adverse effects of chemicals on personnel and environment. During the Reporting Period, Sunny Opotech updated the Policy on Intermediate Warehouse Management of Chemicals (《化學品中間倉庫管理制度》), adding spot inspection and maintenance requirements for electrostatic discharge devices, eye washers, and emergency supplies to further ensure safe chemical management, to mitigate further damage to employees' health by hazardous substances in emergency situations. In addition, we formulated the Emergency Plan on Chemical Leakage (《化學品洩漏應急預案》) to enable employees to take the most effective methods to rescue trapped persons and goods, minimize leakage as well as economic losses, and ensure personnel safety in case of oil and hazardous chemicals leakage.

Hazardous Chemicals Management and Control Process:



The department applying for procurement shall fill in the Chemical Purchase Application Form according to the needs;



The procurement personnel shall make unified procurement, and confirm the chemicals' information and management requirements, including quality certificate, MSDS, hazard and warning signs, production date and other safety information;



When loading, unloading or transporting them, handle them gently to prevent hitting, dragging or dumping;



Check whether the packaging and labeling of chemicals meet the requirements during the acceptance inspection, and register them in the inventory after confirming that they are qualified;



The storage areas or containers of hazardous chemicals shall be posted with labels, and shall meet the requirements on the prevention of fire, explosion, static electricity, lightning and leakage and shall be managed by professional technicians; no one shall enter the warehouses at will without the consent of the storekeeper;



The chemical requisitioner shall issue a material requisition, and the chemicals to be requisitioned shall be used in one day and night at most, and the warehouse keeper shall issue the chemicals based on the material requisition;



Personnel using hazardous chemicals shall receive relevant training and wear protective equipment as required. The containers of chemicals after use must be placed in the designated place, and then classified according to the regulations and handed over to the relevant qualified parties for disposal;



Dangerous chemicals beyond the expiration date or sluggish materials caused by other reasons shall be replaced, sold, scrapped and processed otherwise in not more than 45 days.

We have been committed to reducing the incidence of safety accidents through material replacement. During the Reporting Period, Sunny Optical Intelligence (Yuyao) has reduced the use of flammable chemicals by replacing ethanol with a non-combustible solution.

Emergency Drill for Hazardous Chemical Leakage

In October 2022, Sunny Opotech organized an emergency drill for hazardous chemical leakage, with the participation by chemical warehouse managers, transporters and members of the emergency leadership group. The drill simulated a situation where employees found ethanol leakage but failed to deal with them in time. The emergency leadership group started emergency rescue after receiving an alarm call from the site personnel. Specifically, the emergency leadership group contained/adsorbed the leaked chemicals with fire sand. After the drill, each team leader summarized the work and provided feedback on the problems, to better the subsequent emergency rescue.

Occupational Disease Prevention



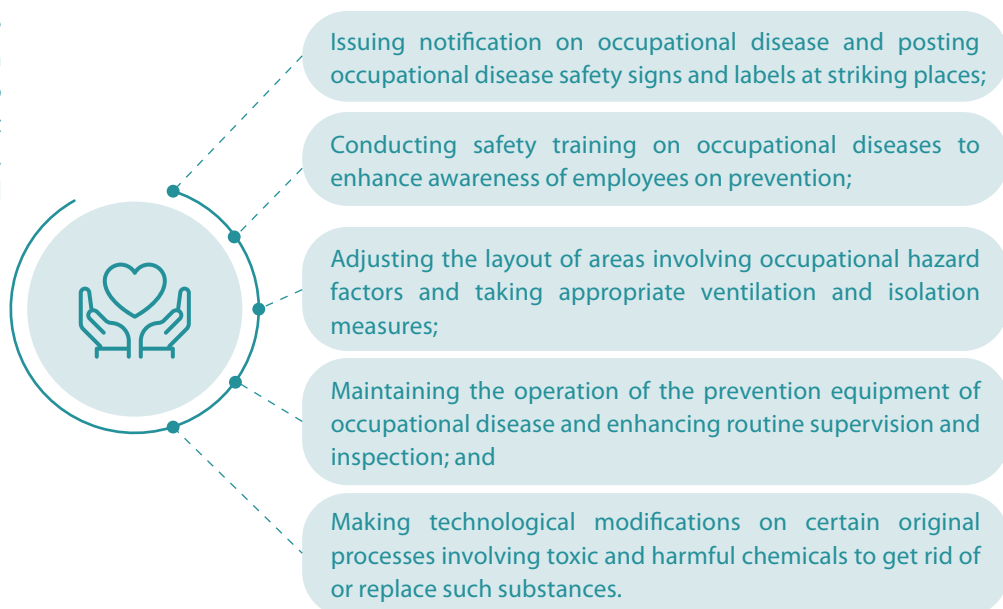
The Group commits to

Providing a healthy and safe working environment for employees and distributing protection equipment and supplies, such as dust masks and protective gloves, as per requirements;

Conducting annual occupational health examination for employees who work at positions that are exposed to occupational disease hazards according to the requirements of relevant national regulations on the prevention and control of occupational diseases.

Through on-site investigation and identification, the occupational hazard factors involved in the workplace of the Group are mainly noise and chemicals. Therefore, we have mapped out the Management of Occupational Health Monitoring Policy (《職業健康監護管理制度》) that specifies the work of the occupational health management of the Group from diagnosis and management of occupational diseases, reporting of occupational diseases and alarming and notification of hazards of occupational diseases, in order to prevent occupational diseases to the largest extent. Among them, the Group conducts health examination for new employees, on-the-job and off-the-job employees involved in the operation of occupational hazard factors and special operators with special health requirements. The Group has established the list of annual health checkup results and employees' occupational disease health records for workers exposed to toxic and hazardous chemicals and entrusted professional agencies to regularly detect and evaluate occupational disease hazard factors in the workplaces of four subsidiaries. We also supervise employees of relevant positions in implementing protective measures. In addition, the Group reduces employees' exposure to occupational hazard factors through production process optimization. During the Reporting Period, Sunny Zhejiang Optics will optimize the process of lens dust removal and make automatic dust removal machine to avoid the noise damage caused by lens dust removal. During the Reporting Period, both the noise intensity and chemicals concentration exposed to the positions involving occupational hazard factors of the Group met the requirements.

In the routine work, we have implemented a series of measures to protect employees against by occupational diseases, including but not limited to:



As at the end of the Reporting Period, the Group had a total of approximately 1,535.6 working days lost due to work-related injuries. The numbers of work-related fatality in recent three years are as follows:

	2022	2021	2020
Number of work-related fatality	0	0	2
Rate of work-related fatality (Note)	0	0	0.0008%



Note

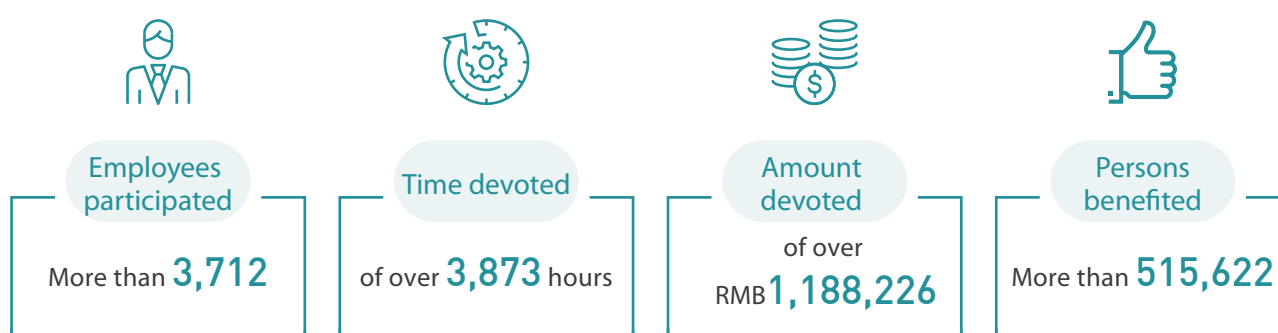
Rate of work-related fatalities = Number of work-related fatalities/Total number of employees * 100.0%.



Community Welfare

Adhering to the corporate citizenship spirit of “from society and for society”, the Group has been actively devoted in the community investment in the areas of education, poverty alleviation, environmental protection, social charity and other fields to carry out various public welfare undertakings, and encourages employees to give back to society with practical actions. In June 2022, the Group formally established the Federation of Voluntary Services (志願服務聯合會) to promote the quality development of the Group’s voluntary service organizations, further institutionalize and regularize voluntary services and to standardize the management of volunteer teams. We have established a star recognition system and a point reward system for volunteers. We recognize volunteers in terms of service hours and convert their points. We commend excellent volunteer teams every year, and the points can be redeemed for corresponding gifts once a year.

During the Reporting Period, the Group’s involvement in public welfare activities is as follows:



During the Reporting Period, details of the Group’s donations are as follows:

Type of donation	Project	Amount (RMB)
Support for education	Shaanxi University of Science & Technology Grant	50,000.0
	Xi'an Technological University Optoelectronic Design Competition	10,000.0
	Changchun University of Science and Technology Pandemic Prevention Donation	100,000.0
	Harbin University of Science and Technology Scholarship	50,000.0
	Wuhan University of Technology Event Sponsorship	50,000.0
	Zhejiang University Photoelectric Design Competition for National College Students	100,000.0
	Career Planning Competition of Zhejiang University of Technology	50,000.0
	China Jiliang University Photoelectric Design Competition	50,000.0
	China Jiliang University Career Planning Competition	50,000.0
	Ningbo University Career Competition	100,000.0
	Ningbo University of Technology Mock Job-hunting Competition	50,000.0
	Yuyao Charity Federation Donation	120,000.0
Poverty alleviation	Sponsorship Fee of Yuyao Human Resources Association	5,000.0

Support for Education

Adhering to the development philosophy of “support for education is synonymous with support for the enterprise itself”, we pay continuous attention to education development and talent cultivation, and actively undertake responsibilities of the enterprise in the education. We have established long-term talent cooperation with Zhejiang University, Xi ‘an Jiaotong University, Changchun University of Science and Technology, University of Rochester, University of Arizona and other universities, actively carried out research cooperation and technical exchange activities, jointly constructed employment base and further deepened bilateral cooperation.



Activities of Introducing Science and Technology to Campus



Activities of Introducing Science and Technology to Campus

Public Welfare and Voluntary Service



While creating value, we devote ourselves to voluntary service activities with full enthusiasm and take this as the main entry point to promote the spirit of volunteerism and corporate culture, build a harmonious enterprise and fulfil our mission.

In 2022, the Group continued to promote voluntary services and organized volunteer activities such as "fighting against epidemics", helping the needy, visiting elderly homes, helping students and planting trees for the environment. In 2022, the Group continued to carry out volunteer activities and organized voluntary caring activities such as services to "fight against the pandemic", support for needy people, visiting elderly homes, helping students and planting trees for environmental protection.

In addition, the Group organized the 12th voluntary blood donation activity, and a total of **420** employees donated around **130,000.0** millilitres of blood.



Nucleic Acid Testing Service

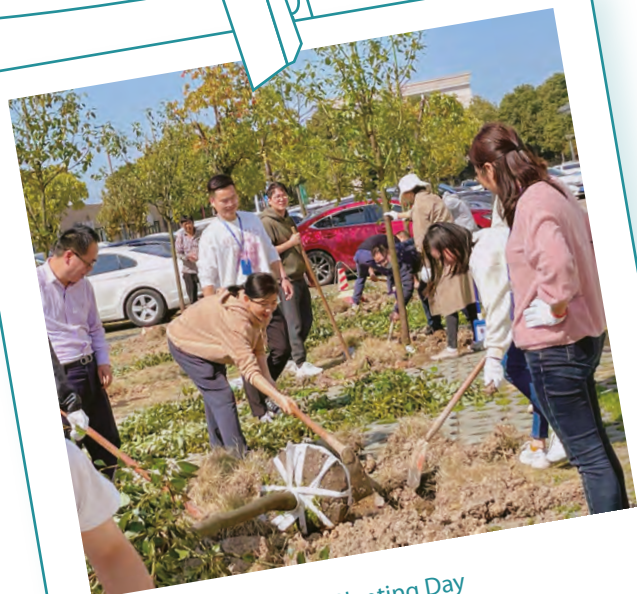
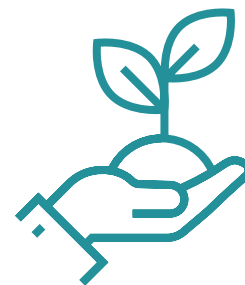


Charity Sale of Apples



Visiting Elderly People Living Alone

The Group is fully aware of the importance of protecting the community environment. During the Reporting Period, we conducted a series of public welfare activities for environmental protection, publicized the concept of environmental protection with practical actions, protected the environment with sincerity and joined all sectors in society to build a green homeland together.



Tree Planting Day



River Patrol and River Protection
Volunteer Service Activity

Appendix I: Independent Practitioner's Limited Assurance Report

To the Board of Directors of Sunny Optical Technology (Group) Company Limited:

We have been engaged by Sunny Optical Technology (Group) Company Limited (the **"Sunny Optical Technology"**) to perform a limited assurance engagement in relation to certain greenhouse gas (the **"GHG"**) emissions intensity data included in its 2022 Environmental, Social and Governance (the **"ESG"**) Report and selected by Sunny Optical Technology.

Subject Matter for Limited Assurance

We performed a limited level of assurance engagement in below specific information included in 2022 ESG Report:

- Scopes 1 and 2 GHG emissions intensity data, covering the four main subsidiaries of Sunny Optical Technology (i.e. Zhejiang Sunny Optics Co., Ltd., Ningbo Sunny Opotech Co., Ltd., Ningbo Sunny Automotive Optech Co., Ltd., and Yuyao Sunny Optical Intelligence Technology Co., Ltd.)

The limited assurance targeted the Scopes 1 and 2 GHG emissions intensity data in the 2022 ESG Report as stated above and did not cover any other indicators or information disclosed in ESG Report in 2022 and previous years.

The Subject Reporting Standards

The Scopes 1 and 2 GHG emissions intensity data in the 2022 ESG Report were prepared in accordance with Environmental, Social and Governance Reporting Guidelines (Appendix 27 of Listing Rules) issued by The Stock Exchange of Hong Kong Limited (the **"Reporting Standards"**).

Responsibilities of those Charged with Governance and Management of Sunny Optical Technology

It is the Sunny Optical Technology management's responsibility to determine appropriate reporting standard and prepare the Scopes 1 and 2 GHG emissions intensity data in the 2022 ESG report in accordance with the Reporting Standards. Its responsibility shall include design, implementation and maintenance of internal control system relevant to the preparation of the Scopes 1 and 2 GHG emissions intensity data, so as to prevent material misstatement due to fraud or error.

Those charge with governance of Sunny Optical Technology is responsible for overseeing Sunny Optical Technology's ESG reporting process.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board of Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

Our firm applies International Standard on Quality Control 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements", and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards as well as applicable legal and regulatory requirements.

Our Responsibilities

Our responsibility is to perform assurance in accordance with the provisions of the International Standards on Assurance Engagements 3410 – "Assurance Engagements on Greenhouse Gas Statements". We prepared and published assurance conclusions with limited assurance on whether the Scopes 1 and 2 GHG emissions intensity data in the 2022 ESG Report have been disclosed in all material respects in accordance with the Reporting Standards.

Assurance Approach

As the nature and timing of the procedures implemented by limited assurance are different from and less extensive than the reasonable assurance, limited assurance obtains a lower degree of assurance than the reasonable assurance. We do not provide reasonable assurance that the Scopes 1 and 2 GHG emissions intensity data in the 2022 ESG Report were disclosed in all material respects in accordance with the Reporting Standards. The assurance included identifying areas where the Scopes 1 and 2 GHG emissions intensity data may be materially misstated in the ESG Report, designing and implementing assurance procedures to address these identified areas, and obtaining evidence accordingly. The assurance procedures we carried out depend on our professional judgment and assessment of the risks of assurance.

Procedures of assurance:

- Interview Sunny Optical Technology's manager and staff responsible for information collection, consolidation and disclosure of the Scopes 1 and 2 GHG emissions intensity data to understand the process of reporting;
- Sample testing relevant supporting documents;
- Performing analytical procedures; and
- Recalculations.

Limitations of Assurance

We draw the attention of users to the fact that there is no universally accepted system of evaluation and measurement standards for non-financial information, which may affect the comparability of relevant data between companies.

Conclusions

Based on the above work performed, nothing has come to our attention that would lead us to believe that there is any material misstatement related to the Scopes 1 and 2 GHG emissions intensity data in Sunny Optical Technology's 2022 ESG Report prepared in accordance with reference to the standards.

Use of Independent Limited Assurance Report

This independent limited assurance report is solely for the purpose of preparing the Sunny Optical Technology's 2022 ESG Report, and is not suitable and cannot be used for any other purposes. We do not assume responsibility or accept liability to any other person or third party other than Sunny Optical Technology's board of directors for this report.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong


20 April 2023

Appendix II: Environmental, Social and Governance Reporting Guide Comparison Table

Aspects and KPIs Description		Title of chapter
A. Environmental		
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.	Green Operation
KPI A1.1	The types of emissions and respective emissions data.	
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	
KPI A1.5	Description of emissions target(s) set, and steps taken to achieve them.	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	
A2. Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water, and other raw materials.	Green Operation
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).	
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	
KPI A2.3	Description of energy use efficiency target(s) set, and steps taken to achieve them.	
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set, and steps taken to achieve them.	
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	
A3. The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	Green Operation
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	
A4. Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Green Operation
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.	

Aspects and KPIs Description		Title of chapter
B. Social		
Employment and Labor Practices		
B1. Employment		
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 compensation and dismissal, recruitment, and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Talent Management
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	
B2. Health and Safety		
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 providing a safe working environment and protecting employees from occupational hazards.	Talent Management
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	
KPI B2.2	Lost days due to work injury.	
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	
B3. Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Talent Management
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	
KPI B3.2	The average training hours completed per employee by gender and employee category.	
B4. Labor Standards		
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 preventing child and forced labor.	Talent Management
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	

Aspects and KPIs Description		Title of chapter
Operating Practices		
B5. Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical regions.	
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	
B6. Product Responsibility		
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 health and safety, advertising, labelling, and privacy matters relating to products and services provided and methods of redress.	Product Liability
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	
KPI B6.4	Description of quality assurance process and recall procedures.	
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	
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.	Corporate Governance
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.	
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	
KPI B7.3	Description of anti-corruption training provided to directors and staff.	
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
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	



Sunny Optical Technology (Group) Company Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2382.HK)