



**TCL**

# ESG

Annual Disclosure  
Report on  
Environmental  
Social and  
Governance

# 2016

**China Display Optoelectronics Technology Holdings Limited**

**華顯光電技術控股有限公司**

**(Incorporated in Bermuda with limited liability)**

**(Stock Code: 334)**

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# Comprehensive Report

The Group is actively responsible for stakeholders, providing more and better products and services for society. In the future, the Group will be more determined to cooperate with all parties closely and work together to become the backbone of "sustainable development", and to make contributions to social stability and economic development.



## 1.1 Chairman's address

2016 has been an extraordinary year for the Group.

In 2016, supply of raw materials posed a great challenge to liquid crystal display ( "LCD" ) module manufacturers. To survive, the Group needs to seek development in adversity.

2016 witnesses the first year after the Company went public. Investors around the world are fixing their eyes on the Company's operation. To achieve success in such a context, the Group needs to grasp golden opportunities for development.

To embrace challenges and seize opportunities, the Group adjusts product mix, implements technical innovation and improves manufacturing capability, providing customers with premium products and services. Meanwhile, the Group focuses on the interest of stakeholders (including shareholders, customers, employees, suppliers, environmental interest, communities and regulators etc.) and realizes sustainable development of enterprises to create profits for shareholders, value for customers, benefits for society, opportunities for employees, which enables the Group to achieve a sound, stable and sustainable development amid growing competition. In 2016, the Group's sales revenue grew by 64% year-on-year.

The Group's rapid growth is attributed to support of stakeholders. In addition to focusing on efficiency, the Group should also fulfill social responsibilities. The Group has established systems in occupational health and safety, management of social responsibilities, environmental management, management of toxic and hazardous substances in order to abide by laws and regulations, and protect the environment. In 2016, the Group further enhanced the corporate governance, improved working environments and for the talent cultivating mechanism, as well as enhanced employees' sense of belonging. Besides, we reduced the consumption of energy and resources and promoted sustainable development of the industry. By constantly pursuing product and service quality, we established sustainable supplier chain management system and actively participated in social welfare activities to make contributions to society with practical actions.

The road ahead will be long and challenging. The Group has achieved today's scale with 13-year-establishment, but we believe that the destination is further ahead. In 2017, more efforts will be put in enhancing economic efficiency and social responsibilities to continuously improve corporate sustainability.

Liao Qian

Chairman

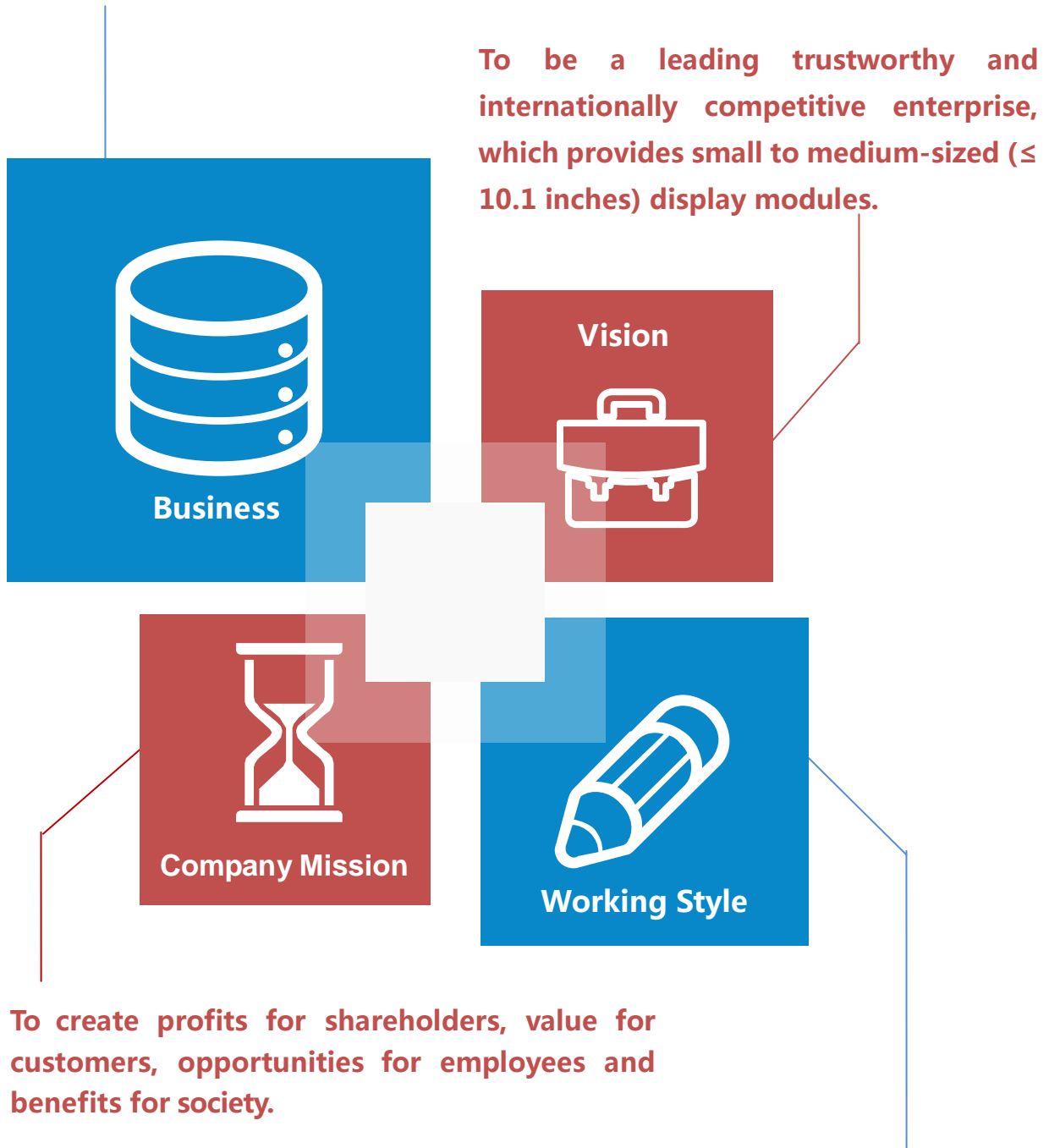
Hong Kong, 30 June 2017

TCL  
2016



## 1.2 Corporate Profile

Founded in August 2004, the Group engaged primarily in the research and development, manufacturing, sales and distribution of LCD modules mainly for handheld mobile devices on an original design manufacture ( "ODM" ) basis. Products of the Group are welcomed by domestic and overseas manufacturers with sales volume ranking among the top.





## 1.3 Corporate Governance

### Corporate governance structure

The Company has a board (the "Board") of directors (the "Directors" and each a "Director" of the Company) which is accountable to the shareholders. There are four specialized committees of the Board, namely, Audit Committee, Remuneration Committee, Nomination Committee and Executive Committee. The Board is responsible for formulating the Group's business policies, long-term strategies and business development goal. Specific issues falling under the respective scope of authority of the Board committees shall be dealt with by such committees and then submitted to the Board for approval in accordance with the relevant terms of reference.



#### The Board

- ◆ Formulating the Group's business policies, long-term strategy and business development goals
- ◆ Reviewing management policy effectiveness and supervising performance of the management

#### Audit Committee

- ◆ Ensuring effective and adequate risk management and internal control systems and compliance with financial reporting requirements
- ◆ Reviewing and supervising the scope of work and effectiveness of the work performed by external auditors

#### Remuneration Committee

- ◆ Formulating and reviewing the remuneration policy and structure for the Board and senior management

#### Nomination Committee

- ◆ Reviewing and monitoring the structure, size and composition of the Board
- ◆ Identify qualified individuals to become members of the Board
- ◆ Evaluating the independence of independent non-executive directors
- ◆ Reviewing the board's diversity policy

#### Executive Committee

- ◆ Studying and exploring new business trend and model
- ◆ Handling business of the group as well as administration, operation and management
- ◆ Improving management process and enhancing efficiency of operation and management

## Governance Condition of 2016

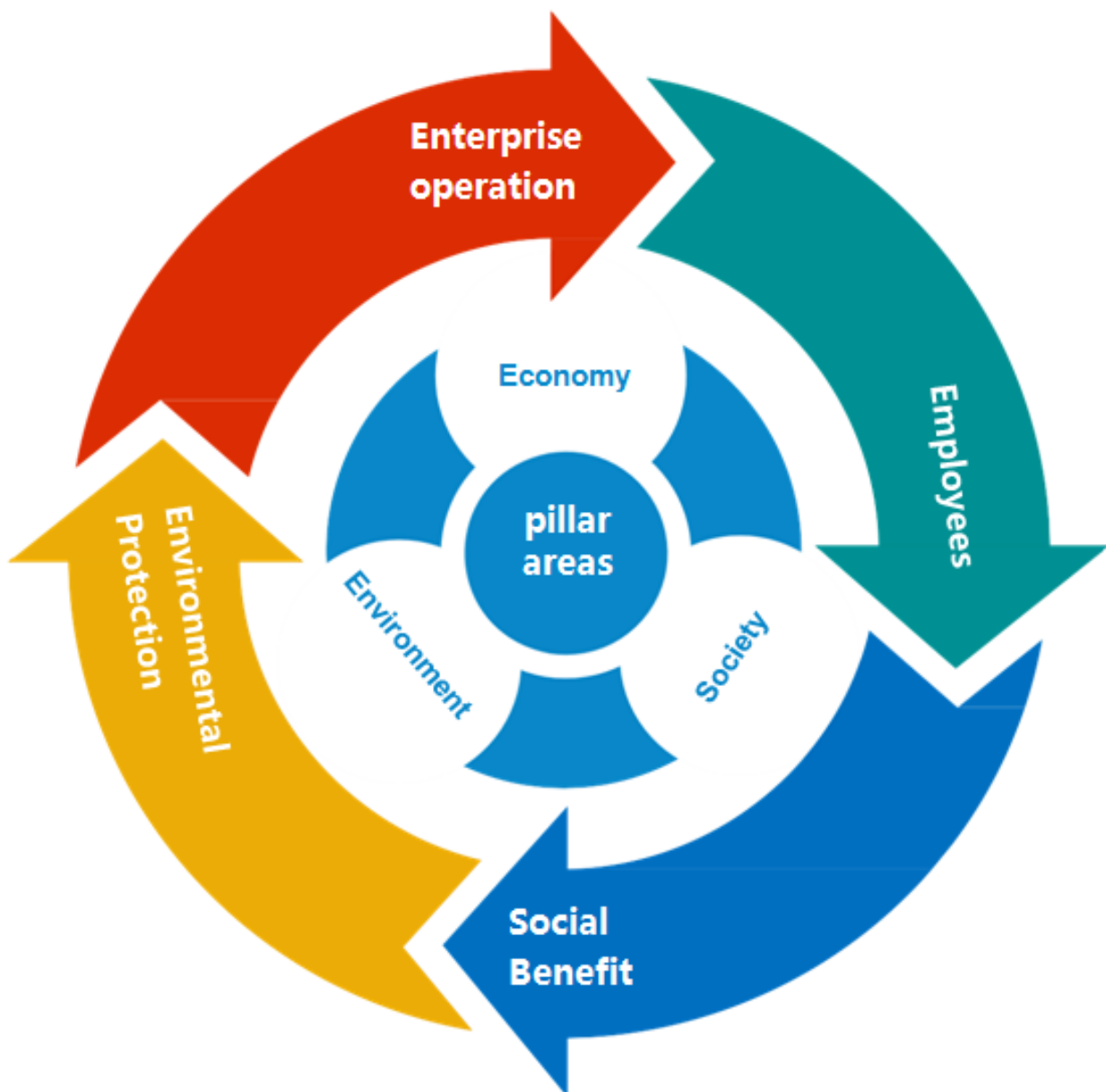
In 2016, the Board comprised of 8 Directors, of whom 3 were independent non-executive directors, 4 were executive directors, and 1 non-executive director. The male to female ratio in the Board is 6:2.

Directors hold regular meetings to review the Group's financial and operational performance, discuss and work out development plans, and monitor implementation of social responsibilities. In 2016, 4 regular meetings, 10 additional meetings and 4 general meetings were held. All Board members have performed their function in accordance with their respective terms of reference and relevant laws and regulations to, among others, review the remuneration policies and structure, discuss long-term incentive plan and compensation packages of Directors, review the completeness and accuracy of financial reports, monitor the Group's compliance with applicable laws in conducting its business and review the effectiveness of internal control and risk management systems. A set of risk management and internal control policies and procedures have been adopted by the Group to safeguard the assets of the Group, ensuring the safekeeping of accounting records and credibility of financial reports so as to ensure compliance with applicable laws and regulation.



## 1.4 Corporate Social Responsibility Management System

As an enterprise is an integral part of society, it is the Group's duty to fulfill social responsibilities. In 2016, the Group has mainly focused on the three pillar areas (i.e., economy, environment and society) and four themes (i.e., business operation, environmental protection, employees and social benefit) in fulfilling its corporate social responsibilities.





## Management System of Corporate Social Responsibilities

The Group, while pursuing economic benefits, has adopted systems to manage the environment, occupational health and social responsibilities to discharge its social responsibilities to stakeholders such as employees, supply chain, environment and communities.

### ■ Environment Management System

China Display Optoelectronics Technology (Huizhou) Company Limited ( "CDOT Huizhou" ) has established an environmental management system according to ISO14001 and obtained ISO14001 certification of SGS (international-renowned certification company ) . The Group manages, monitors and measures waste water, exhaust gas and noises according to the requisite standards and requirements as well as prevents and manages factors that may have significant impacts on the environment. The Group conducts internal review annually and has complied with relevant laws and regulations that have a significant impact on the Group. Further, the Group has been reviewed, monitored and examined by its customers, certification authorities and environmental protection authorities, no complaint has been received from the aforesaid parties and surrounding communities.

### ■ Occupational Health Management System

CDOT Huizhou sets up occupational health management system according to OHSAS18001 and passed the government's "three simultaneous" (design, construct and operate simultaneously) review on occupational health as well as obtained certification of SGS OHSAS18001. We have implemented prevention management of major hazardous sources, provided occupational health training to employees and arranged employees to sign occupational health notification. As a result of the Group's effort in ensuring occupational health and safety, the Group has complied with relevant laws and regulations that have a significant impact on the Group in this aspect and no occupational disease and serious casualty has occurred in 2016.

### ■ Social Responsibility Management System

CDOT Huizhou has set up a social responsibility management system according to SA8000 standard, and has complied with applicable laws and regulations in recruiting employees. For instance, by utilizing national identification system, the Group has effectively prevented employment of child labor. Meanwhile, the Group promotes equality, non-discrimination and care among its employees. Managers will meet regularly with employees to ensure effective communication so that immediate actions can be taken in case any discrimination occurs in the workplace. In 2016, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labor.



## 1.5 Communication with Stakeholders

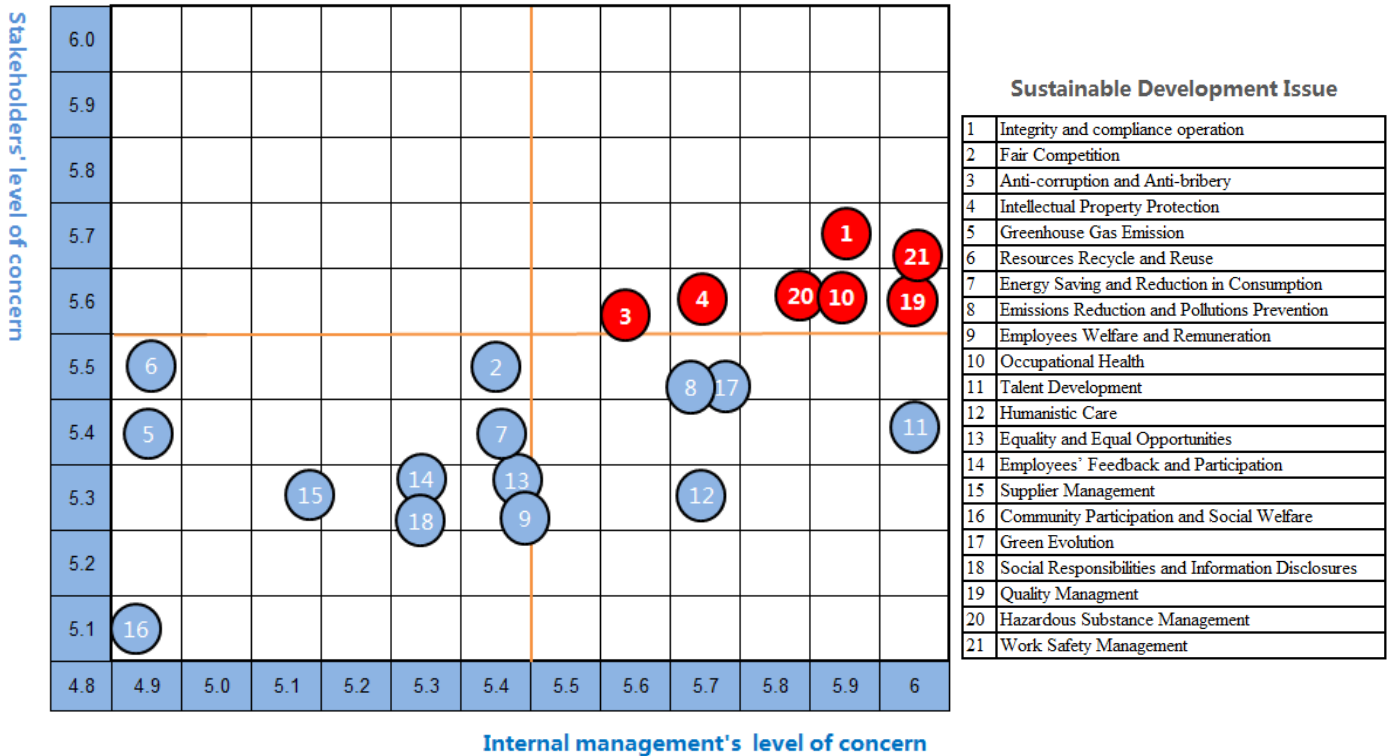
In 2016, the Group has actively communicated with the stakeholders to understand their respective areas of concern.



### Investigation on sustainable development issues

In 2016, the Group has, in compliance with the main categories set out in the *Environment, Society and Governance Report Guideline* issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange" ) as well as the *Electronic Industry Code of Conduct (EICC)*, identified 21 issues and has asked the stakeholders to rank the issues based on importance, which allowed the Group to understand the stakeholders' areas of concern and make appropriate improvement measures.

## Findings of Sustainable Development Issues



### Seven most concerned issues

No.	Most concerned issue	Category	Company management index
1	Integrity and compliance management	Governance	Various indicators of emissions, complaints of the government and surroundings, environmental accident and failed labor dispute cases
3	Anti-bribery and Anti-corruption	Anti- corruption	Number of corruptions and training on integrity
4	Intellectual Property Protection	Product Responsibility	Number of patents and infringements
10	Occupational Health	Health and Safety	Various indicators of health and safety
19	Quality Management	Product Responsibility	Customer complaints and ranking of satisfaction of major customers
20	Hazardous Substance Management	Product Responsibility	Number of customers' complaints on Hazardous substances free failing to meet standards
21	Work Safety Management	Health and Safety	Number of major casualties and general work injuries



## 1.6 Achievements of the Group

In 2016, the technological innovation, supply chain management and product quality of the Group have been recognized by its business partners and customers. The Group received a “Technological Innovation Growth Award” from TCL Corporation ( “TCL Corp” , together with its subsidiaries, collectively, the “TCL Group” ). And the Group was also awarded “Strategic Partner Award” and “Excellent Quality Award” respectively in Gionee 2016 Global Supply Chain Conference and Sprocomm 2016 Annual Supplies Conference.



TCL Corp

“Technological Innovation Growth Award”



Gionee 2016 Global Supply Chain

Conference “Strategic Partner Award”



Sprocomm 2016 Annual Supplies

Conference “Excellent Quality Award”

Striving to uphold industry standards and sustainable industrial development, the Group has obtained : ISO9001 ( Quality Control System ) , QC080000 (Toxic and Hazardous Substance Management System) , ESD S20.20 ( Electrostatic Discharge Management System ) , ISO14001 ( Environmental Management System ) and OHSAS18001 ( Occupational Health and Safety Management System ) .



ISO9001

Quality Control  
System



QC080000

Toxic and Hazardous  
Management System



ESD S20. 20

Electrostatic  
Discharge  
Management System



ISO14001

Environmental  
Management  
System



OHSAS18001

Occupational Health  
and Safety  
Management System

## 2

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# Environmental Report

The Group focuses on the change of ecological environment and our close relationship with the environment, hoping to produce low-carbon products through technical innovation, use of energy saving products to reduce energy consumption and reasonable disposal of wastes, and thus protect ecological environment of the earth.



## 2.1 Conservation of Energy and Resources

The rapid development of the Group's business and improvement of production equipment automation have posed a great challenge to its energy consumption control. In this connection, the Group has implemented strict controls on water and electricity consumption which has effectively reduced the consumption of energy and resources. CDOT Huizhou has passed the certification of ISO14000 ( Environment Management System ) .

**In 2016, the following measures have been implemented by the Group to promote energy saving:**



**Energy saving and reduction in consumption through optimization of technologies.**



**Modifying equipments to realize energy saving and reduction in consumption.**

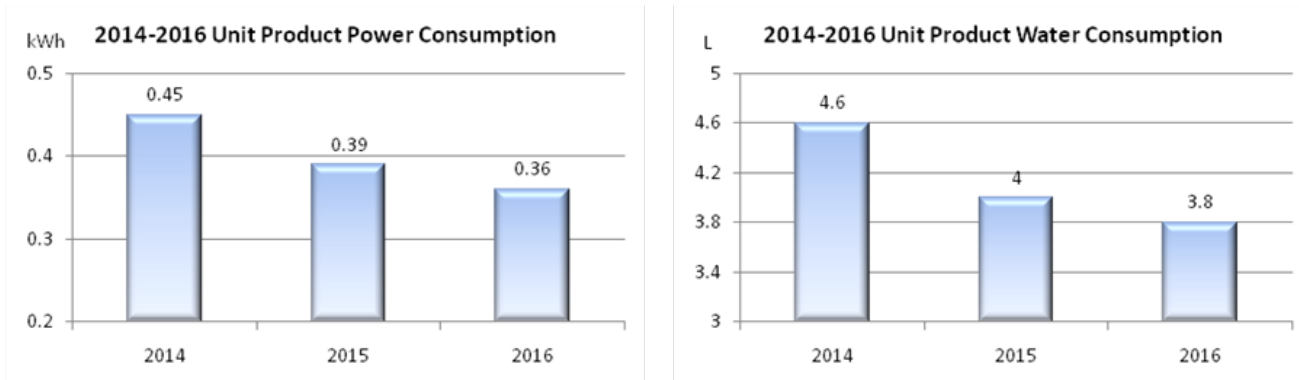


**Promote recycling and reuse of resources.**

### **Key energy-saving programs implemented in 2016:**

- Training in saving resources was conducted among new employees for raising awareness of energy-saving among staff. Signs of saving water and electricity have been put up in public areas of the plant. Designated staff were arranged to inspect and no wastage of water and electricity was observed.
- In 2016, the Group completed a number of renovation programs and measures in saving water and electricity. A total of over 2 million kWh electricity and 100,000 tons of water were saved in the whole year.
- LED lights are used in the production plant, saving approximately 500,000 kWh electricity in the whole year.
- Improvement of energy saving for production equipments: through upgrade of equipments and improvement of technologies, the electricity consumption of washing chip mouter has been reduced by 50% and that of other equipments like Chips On the Glass (COG) and Flexible Printed Circuit On the Glass ( FOG ) has been reduced by 30%. Overall electricity consumption has been reduced by approximately 800,000 kWh.
- Washing chip mouter cleaning water recycling project: water drained by cleaning machine is recycled and reused in other equipment, thereby reducing consumption of water. An aggregate of about 95,000 tons of water has been recycled for the year.
- Adjusting the loading rate of central air-conditioning system based on production demand and season change, reducing waste and saving about 450,000 kWh of electricity per year.

In recent three years, the Group has actively improved energy-saving measures. Through the efforts in implementing continued energy conservation and consumption reduction, from 2014 to 2016, the Group has achieved a year-on-year decrease in unit product power consumption and water consumption.



**In 2017, the Group is expected to adhere to the philosophy of energy conservation and consumption reduction, make continued energy conservation and emission reduction and plan to carry out the following measures:**

■ **Energy-saving management:**

External experts will be invited to examine the economical operation of air compressors in the aspects of equipment, transport, management system, etc. and propose suggestions for improvement.

■ **Thermal energy recycling:**

The Group will investigate the feasibility of recycling the thermal energy generated in operation of air compressors and reusing the recycled thermal energy in heating water for the staff dormitory, heating for the cleaning machine, etc., it is expected to save approximately 3 million kWh of power per year.

■ **Control of consumption reduction:**

By integrating the use of air compressors, eliminating old air compressors with high-energy consumption and low output and introducing centrifugal air compressors with grade one energy consumption, the Group aims to reduce about 1.5 million kWh of power per year.

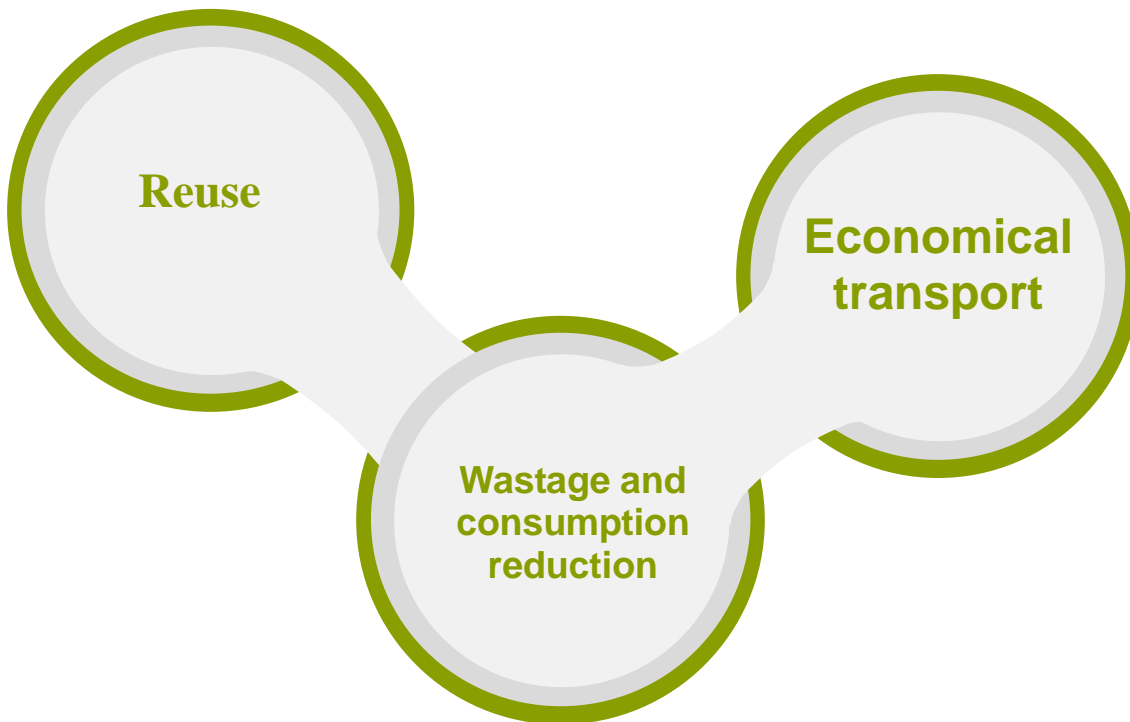




## 2.2 Saving Packaging Materials

Packaging is a consumption of resources. It is always the Group's pursuit to save packaging materials and protect the environment. In order to reduce the impact of package and transport on the environment, the principle of maximization is applied in the use of packaging materials for reasonable quantity of products without compromising the quality.

**In 2016, we saved packaging materials in the following aspects:**



- **Reuse**  
Requiring suppliers to design packaging materials which are compatible to LCD modules packaging and improve the design of certain packaging materials (such as trays and external package) which can easily be reused by the Group to reduce wastage.
- **Wastage and consumption reduction**  
Turnover trays used by the Group have been replaced with those made with stronger materials so as to reduce tray scraps and environmental impacts.
- **Economical transport**  
Enhancing cooperation with logistics firms to ensure products are transported in large batches, prioritizing centralized transport in logistics, enhancing quantity of product stowage, and reducing unnecessary transport; not only can these reduce logistics costs and but also relieve environmental stress.





## 2.3 Reasonable Disposal of Waste

Following education from various channels, approximately 70% of water can be reused after cleaning; employees are familiar with waste classification that cleaners are able to collect and process waste according to different types of waste.

**The Group implemented the following measures in 2016 to control hazardous waste:**



Establishing a battery trade-in battery programme and over 98% of used batteries has been recycled

Setting up recycling bins to recycle used rubber gloves



Expanding and reconstructing sewage treatment system to process industrial sewage, and discharging sewage only after it has been completely treated

Used oil in canteen is recycled by recycling companies designated by the government and processed by relevant government department uniformly



Engaged experienced environmental service companies to process all the hazardous waste generated in 2016.

**In 2017, the Group will further act on reasonable disposal of waste and plan to carry out the following projects:**

- Replacing one-off nickel-chromium batteries with rechargeable batteries.
- Irrigating flowers and trees with recycled water.
- With regard to control of leftovers in the staff canteen, the following actions will be taken:
  - a. Launching a "clear-your-plate" reward campaign;
  - b. enhancing taste and quality of food;
  - c. reducing leftovers and rubbish by setting different prices for dine-in and takeaway.



## 2.4 Annual Data of Environmental Protection

Category	No.	Indicator Index	Indicator Name	Value in 2016
B1 Emission	B1.1	B1.1.1	Waste water indicator	fulfilled permitted standard in 2016
		B1.1.10	Factory noise	
		B1.1.11	Waste gas testing	
	B1.2	B1.2.1	CO <sub>2</sub> unit emission (kg)	3.79
	B1.3	B1.3.1	Gross hazardous waste generated (kg)	6,676
		B1.3.2	Unit hazardous waste generated (g)	0.03
		B1.3.3	Industrial waste water generated (ton)	12,664
	B1.4	B1.4.1	Gross harmless waste (kg)	287,774
	B1.5	B1.5.1	Industrial waste water processed (ton)	12,664
		B1.5.2	Rate of waste water processing	100%
	B1.6	B1.6.1	Legal transfer rate of hazardous waste	100%
		B1.6.2	Cost for waste disposal and processing (RMB)	296,251
B2 Resources Utilization	B2.1	B2.1.1	Unit product power consumption (kWh)	0.36
	B2.2	B2.2.1	Unit product water consumption (L)	3.8
	B2.5	B2.5.1	Gross packing materials (ton)	1,615
B3 Environment and Natural Resources	B3.1	B3.1.3	Complaints of government and surrounding environment (No.)	0
		B3.1.4	Environmental incidents (No.)	0

Note: indicator index is set as per the KPI items set out in the ESG Reporting Guide issued by the Stock Exchange.

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# Enterprise Operation Report

The Group takes responsibility towards its customers, consumers and suppliers, guarantees product quality, promotes products and services, enhances supply chain management and prevents corruption. The Group strives to improve and enhance the level of operation sustainably taking into account of the impacts on the environment and society, ensuring its products meet the demands of environment, society and sustainable development.



## 3.1 Customers First

"Customers First" is the core value of the Group. The Group is committed to offer customised services to customers.

### Key initiatives in 2016

#### ■ Taking the initiative to meet customer demand

Each customer of the Group is allocated with a specific project team and after-sales service team to handle matters arising in different stage of the supply of products. Sufficient communications with customers are made in the initial stage of cooperation to understand customers' requirements and ensure the Group is able to meet their demands.

#### ■ Offering customised services

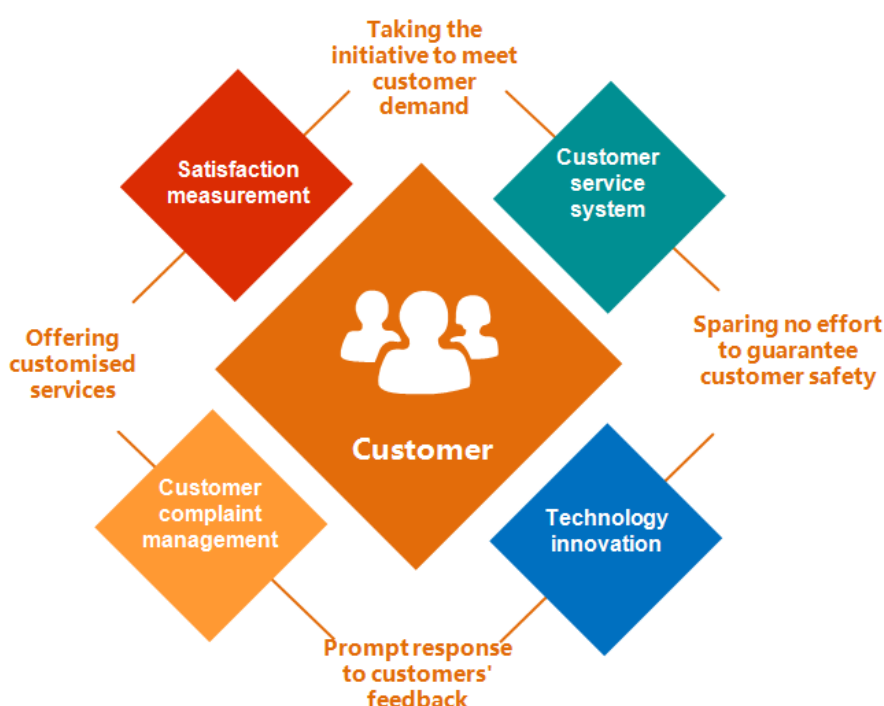
The Group maintains a customer file and information system to facilitate analysis of market information, understanding of customer dynamics in order to offer individualized value-added services to customers and tackling difficulties of customers in time.

#### ■ Prompt response to customers' feedback

The Group strives to enhance the level of after-sales services and promptly allocate responsible personnel to respond to customers' complaints depending on the nature of complaint. The Group assigns employees to station in customers' plants so as to quickly respond to problems and meet customers' demands.

#### ■ Sparing no effort to guarantee customer safety

The Group implements an after-sales recall system and formulates *Procedure of Product Recall Management*, and will, based on the market feedbacks or internal investigation, recall defective products which fall short of safety and quality requirement. No products have been recalled by the Group in 2016.





## 3.2 Quality Management

Quality is the source of customer satisfaction, and is the soul of products as well as the foundation of a sustainable enterprise. As such, the Group has established systems to ensure continual improvement of product quality and quality assurance.

### Quality management works carried out in 2016:

#### ■ Optimizing quality monitoring system to prevent issues occurred

Quality-related management systems adopted by the Group include ISO9001 (Quality Management System), QC080000 (Toxic and Hazardous Substance Management System) and, ESD S20.20 (Electrostatic Discharge Management System). After continual improvement, a corresponding quality control procedure has been established for each process involved in the design, development to after-sales stage of a product to monitor the planning of quality control, process performance measurement indicators; and detailed guidelines have also been adopted in respect of each corresponding field positions to ensure standardization.

In order to ensure product quality, CDOT Huizhou has introduced five instruments in TS16949 (Automotive Quality Management System), and applied the failure mode and effects analysis (FMEA) to analyze design and process quality risks in advance, set preventive measures and reduce quality failure cost rate. CDOT Huizhou employs measurement system analysis (MSA) to ensure accuracy of measurement system and employs statistical process control (SPC) to issue warning and control of key characteristics and prevent and control fluctuations.

#### ■ Taking initiatives to improve product quality and capability

In 2016, the Group invested approximately RMB 300,000 in external training on quality management, such training involved Six Sigma Yellow Belt, MSA, Geometric Dimensioning and Tolerancing (GD&T), etc. At the same time, it has also developed Quality Control Circle and Six Sigma Yellow Belt improvement projects, these projects helped the Group to decrease the maintaining expenditure of defective products, generating approximately RMB 4 million of economic benefit.

## ■ Optimizing project quality management

After a customer specified his/her requirement, the Group will assign a project team to review the new project and confirm the quality, technology, etc. meet the customer's requirements. Quality Project Manager makes quality planning according to the Group's Procedures of Project Management and reviews product quality at all stages of project, and will only permit the project to proceed to the following stage after the current goals have been achieved. Before mass production, first pass yield and other quality indicators must satisfy the requisite standards.

The Group verifies and controls the quality of any incoming materials. Before accepting a new component, the Group will conduct verification, sample acknowledgment and sample approval as per the procedures. Incoming Quality Control inspector inspects incoming materials and makes full inspection on key components to reduce rejection ratio of components in production and loss resulting from materials in poor quality.

Reliability test in the lab further guarantees quality. In all stages of research and development, prototype, trial production and mass production, the Group's lab conducts test according to *Plan on Quality Control* to ensure reliability of components and products, guaranteeing product quality.

In 2016, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters involved in products, services and compensation.

## 2017 Quality Enhancement

Quality is one of the greatest concerns of the Group and its stakeholders. Thus, we are committed to plan the 2017 quality assurance system according to the level of customer satisfaction and on the basis of quality.

### ■ Quality system planning and enhancement

The Group will establish a system according to ISO9001: 2015 Standard and carry out certification of new version to enhance the Group's risk identification management, and focus on demands of stakeholders; construct a quality system placing customer satisfaction and quality failure cost as core quality indicators; and improve capabilities of quality prevention and risk identification and control.

### ■ Quality control on new product

In 2017, the Group will further strengthen its quality control on new products, increase investment in lab resources, promote component and product certification and ensure that new products are fully and effectively verified. Meanwhile, it is expected to make three new (new materials, new technologies and new devices) introduction and identification management and promote capabilities of risk identification and control. In the stage of project introduction, it is expected to identify component and supplier's process risks in advance to formulate solutions and control plans, advance supplier's quality assurance capabilities in a sustainable way, and ensure quality and smooth delivery of mass production.

### ■ Improving outflow control capacity

The Group will optimize testing technology and increase the number of conventional automatic appearance testing equipments; advance error and mistake proofing in the test system and optimize Touch Panel function, OTP(One Time Programmable) test and other tests; comprehensively launch networking management on test software; regularly analyze the function of quality measurement system which is used for improving key procedures as well as promote monitoring capabilities of process quality and quality assurance capabilities of product delivery.

### ■ Improving production line standardization

The Group will impose standardized management on man, machine, material, method and environment (4M1E) in the production line, error and mistake proofing management and launch inspections specifications by categories of machine and customer; improve fixation management of jigs and tools at all positions; establish a production line quality incentive system and promote quality of product manufacture by boosting the culture of "doing things right at the first time".



### 3.3 Supply Chain Management

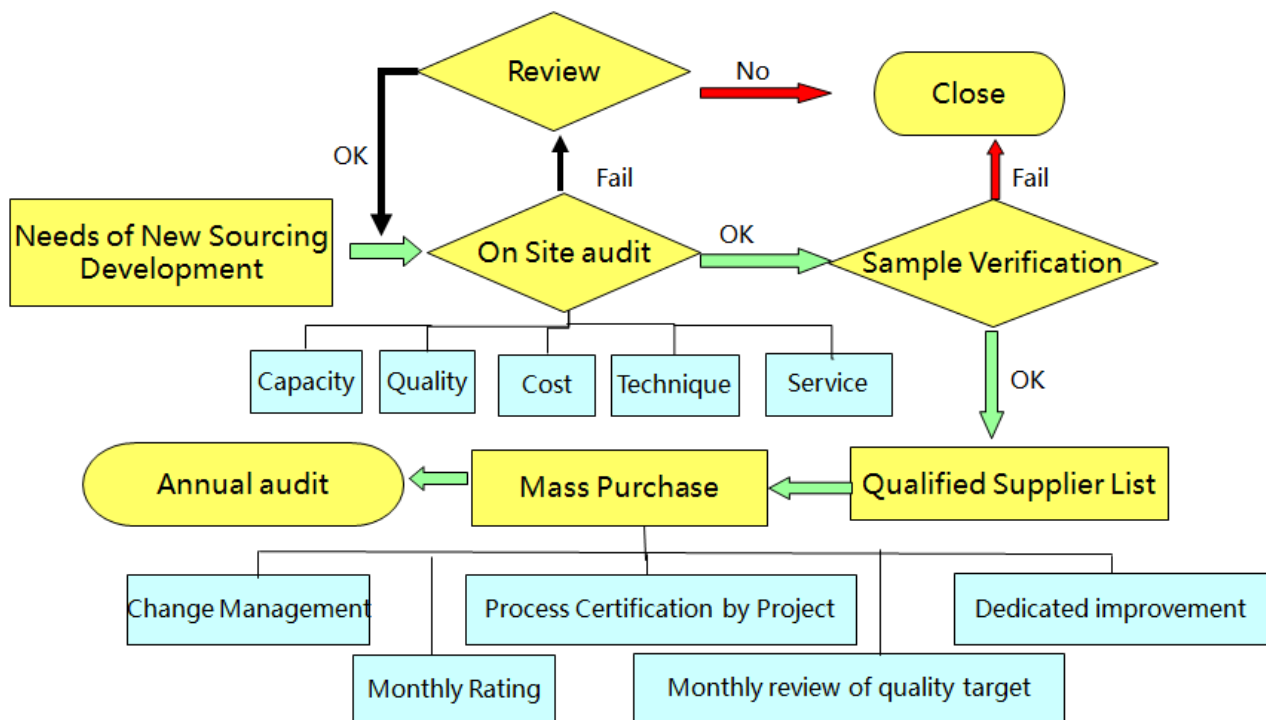
The Group has cooperated with suppliers according to the principle of "fairness, equality and common development". Assigned professionals in the area of components regularly guide suppliers and hold technologies sharing forum from time to time to maintain good communication in boosting mutual growth. The Group applies a management system taking into account of the Group's responsibility to the environment and society in the whole component introduction, makes continual improvement in the level of supply chain to ensure incoming materials meeting the demands of environment, society and sustainable development.

#### ■ Selecting suppliers

In order to ensure product and service quality, the Group selects leading key component suppliers in the industry, the majority of which are situated in South China near the Huizhou production plant of the Group. The Group has established a stable supply chain system in product technology, quality and delivery, enhancing the competitiveness of components supply. All the suppliers of the Group are certified by ISO9001 and ISO14001 systems.

#### ■ Supplier Audit

The Group has a supplier audit team comprising of members from the quality control, research and development procurement teams to audit and evaluate the suppliers based on capacity, quality, cost, technique and service, etc. Only those eligible suppliers will be on the shortlist of qualified suppliers of the Group.



**Procedure of New Supplier Audit and Supplier Quality management**



## ■ Building a sustainable supply chain management system

In order to ensure product quality and be responsible to our consumers, the Group has built and improved its sustainable supply chain management system, conducts monthly evaluation, draws up quarterly summary and annual audit on suppliers and requires suppliers to continuously improve the quality of products and services.



**Monthly Evaluation on Suppliers**



**Annual audit on Suppliers**

## ■ Supply chain risk management

In order to ensure that suppliers provide stable supply, whenever the Group engages in any important projects, it will identify at least two suppliers for the relevant project. The Group will set up a special project team whose members shall make full evaluation on each component in all stages of production to prevent problems from arising in mass production and resulting in risks in delay of delivery.

The Group will adjust its purchase plan according to results of monthly evaluation on suppliers to highlight the importance of product quality, rev up suppliers' corrective actions, ensure the product quality and be responsible to consumers.

In stages of project construction and equipment purchase, the Group strictly adheres to the principle of "justice, fairness and openness" in the bidding process and invites at least three suppliers to participate in the bidding. It provides better choice to supplier and buyer and ensure a fair project quotation.

## ■ Reducing environmental effects generated from suppliers

In order to reduce adverse environmental effects generated from supply chain, all the incoming materials of the Group are required to meet EU RoHS Directive, Halogen, REACH and eco-friendly decrees of all states. In addition, use of conflict resources extracted in conflict zones, such as cassiterite, wolframite, coltan, iron mine, gold and other rare metals the exploitation of which have triggered serious problems of human rights and environment in Democratic Republic of the Congo and its surrounding states and regions is prohibited.

Whenever a new supplier is engaged, the new supplier is required to sign *Agreement of Environmental Protection* and meet *Standard for Toxic and Hazardous Substance Control*; the Group will only use components which have passed RoHS, Halogen-free, REACH and other third party test reports and eco-friendly test. The Group also provides green and eco-friendly training to suppliers every year. In 2016, a total of 146 people from 62 suppliers attended the training.

As of 2016, no customer complaint against out-of-standard toxic or hazardous substance was received by the Group, which shows that the control system remains effective.

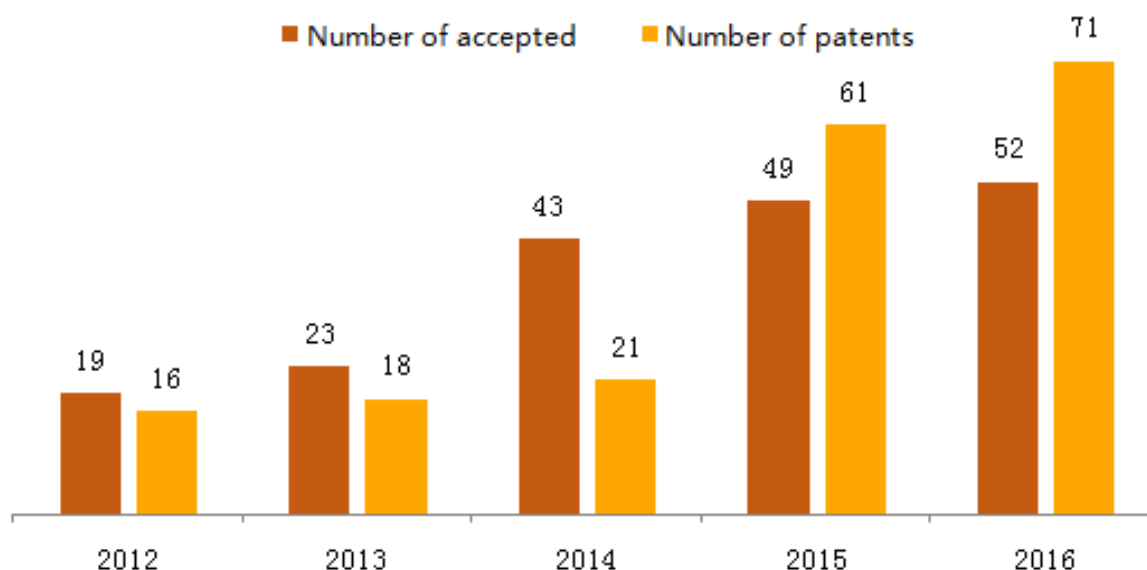


### 3.4 Technical Innovation

In view of the current development trend of LCD display module market and the Group's existing TFT-LCD technology, the Group strengthens its competitive advantage to venture into domestic and foreign markets. Further, the Group has increased investments in research and development in LCD display module technology, broke through foreign patent blockade by building its own intellectual property rights, thereby established its competitive advantage in the LCD display module market and developed towards "**science and technology, management, diversification and capital**". In reliance of its technology center, the Group takes technical innovation as its core, developing and applying high technology and information technology to make a breakthrough, and strengthening its capability of independent innovation and core competitiveness.

The Group has a powerful innovation capacity exhibited by its research and development team with extensive technical knowledge, and the increased investment in technology research and development in recent years. The Group has currently obtained license for a total of 187 patents. Meanwhile, its engineering and production departments are committed to introducing creative production technologies, accelerating promotion and application of new technologies and techniques, promoting levels of intelligence and automation in production, reducing consumption and pollution, promoting and applying quality production management control system and promoting product quality. In 2016, nearly 40% of the Group's developed projects were laminated products with touch screen, out of which On-cell/In-cell module project, which signifies the future development trends, accounted for over 20% collectively. Moreover, the Group has made breakthroughs in studies on ultra-thin, ultra-narrow, ultra-thin fit technology, full-auto color correction technology and on-cell film coating technology, laying a solid foundation on product upgrade in the following year.

Patents Accepted





### 3.5 Integrity Construction

In terms of integrity construction, the Group has adopted the *Administrative Rules of Fair and Honest Operation*, follows the *Management Measures for Duty Investigation of the Management of TCL Group*. The Group is committed to fight against corruption and bribery and bribe taking in any form. According to the *Administrative Rules of Fair and Honest Operation*, all employees must observe national laws and regulations as well as codes of professional ethics, employees are also encouraged to supervise each other. On the basis of integrity construction, the culture of integrity is internalized as a basic quality of employees using the "persuasion and education + agreement" method.

#### Integrity construction

<b>System</b>	<i>Administrative Rules of Fair and Honest Operation; Management Measures for Duty Investigation of the Management of TCL Group.</i>
<b>Requirement</b>	Compliance with national laws and regulations; Persistence in code of professional ethics; and encouragement for mutual supervision of employees.
<b>Method</b>	Persuasion, Education + Agreement.

In 2016, the Group actively carried out the integrity education and organized employees (including the management and other employees) to learn the Administrative Rules of Fair and Honest Operation and TCL Corp's Management Measures for Duty Investigation of the Management to TCL Group. The Group has complied with relevant laws and regulations that have a significant of TCL Group impact on the Group relating to bribery, extortion, fraud and money laundering and no corruption cases was found in the reporting period. "Anti-corruption and anti-bribery" are one of the seven most concerned material aspects of stakeholders among the Group's sustainable development issue investigation, and the Group will continue to monitor and improve the relevant measures in the next year.

#### 2017 Improvement and Plan

<b>Integrity system</b> Include the integrity requirements in the <i>Employee Handbook</i> .	<b>Integrity propaganda</b> Display the integrity promotion journals on the Group's "cultural corridor".
<b>Integrity education</b> Organize the moral lecture and improve the understanding of employees on integrity mentally.	<b>Integrity system</b> Sign the <i>Notification to Stakeholders with the suppliers</i> (including the integrity contents); Sign the <i>Integrity Commitment</i> with the employees at "sensitive posts" inside the Group.



## 3.6 Annual Data of Enterprise Operation

Categories	No.	Indicator Index	Index Name	Value in 2016
C1 Supply Chain Management	C1.1	C1.1.1	Proportion of suppliers in South China	87%
		C1.1.2	Proportion suppliers in other regions	13%
	C1.2	C1.2.1	Number of occurrences for counseling and review by suppliers	292
C2 Product Responsibility	C2.1	C2.1.1	Percentage of recalled products	0%
		C2.1.2	Occurrence rate of product safety incidents	0%
	C2.2	C2.2.1	Number of customers' complaints on Hazardous substances free failing to meet standards	0
	C2.3	C2.3.1	Number of occurrences for violating intellectual property rights	0
C3 Anti-corruption	C3.1	C3.1.1	Quantity of corruption cases	0

Note: indicator index is set as per the KPI items set out in the ESG Reporting Guide issued by the Stock Exchange.

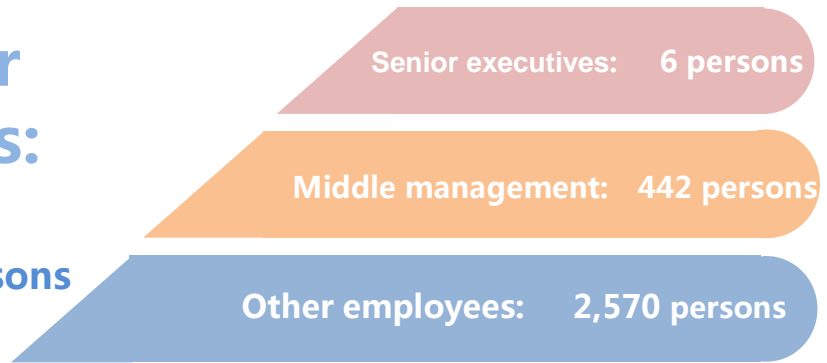
## 4

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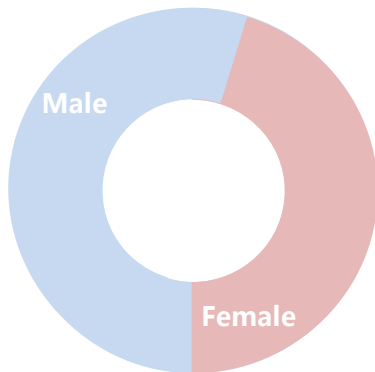
# Employee Report

The Group complies with applicable laws and regulations in respect of employment. The Group cares and motivates employees to realize their self-worth and development with the Group.

**Total number  
of employees:**  
**3,018** persons

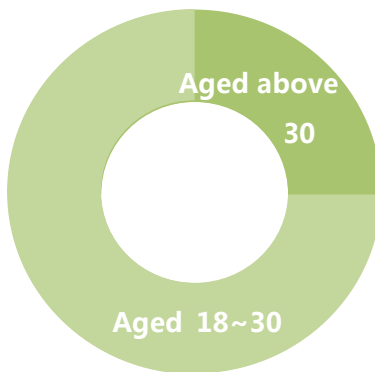


**By Gender**



**Male to female ratio:** 1.3 : 1

**By Age**

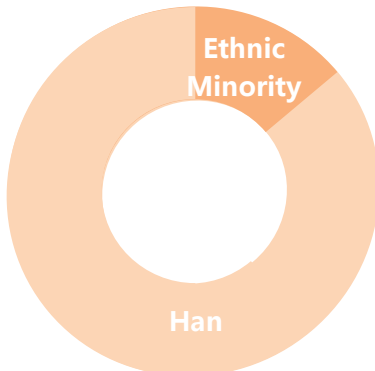


**Employees aged under 18:** Nil

**Employees aged 18- 30:** 2,275 persons

**Employees aged above 30:** 743 persons

**By Nation**



**Proportion of ethnic minority employees**

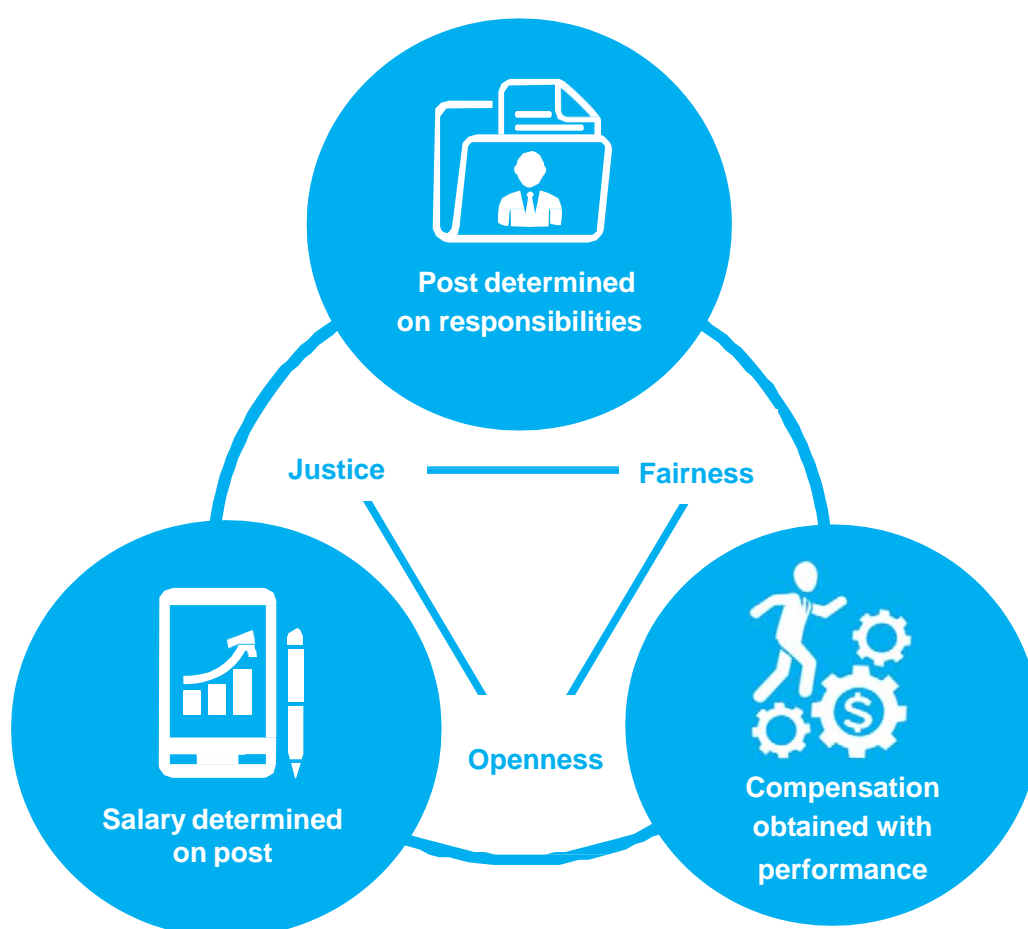
12.13%



## 4.1 Employee Motivation

The Group upholds the principles of justice, fairness and openness in recruiting employees by making appointment with reference to merits and avoiding kinship influences. The Group's compensation strategy is "Fairness inside and competitiveness outside". The Group follows the philosophy of "post determined on responsibilities, salary determined on post and compensation obtained with performance". Establishment of the *Compensation Management System*, the Group connects salary administration, work analysis, position evaluation and performance management to form a closed loop and reviews continuously on regular basis. The compensation structure includes the post wage, performance payment and subsidies.

As regards employee welfare, the employees' social security and accumulation funds are paid by the Group as per the requirements under the Labor Law of the People's Republic of China. Employees are entitled to statutory holidays, marriage leave, maternity leave, paternity leave, sick leave, etc. In addition, the Group grants bonus at the end of the year according to the Group's and the employee's performance and provides share incentive for outstanding backbone employees as a motivation. In 2016, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to compensation, dismissal, recruitment, promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.





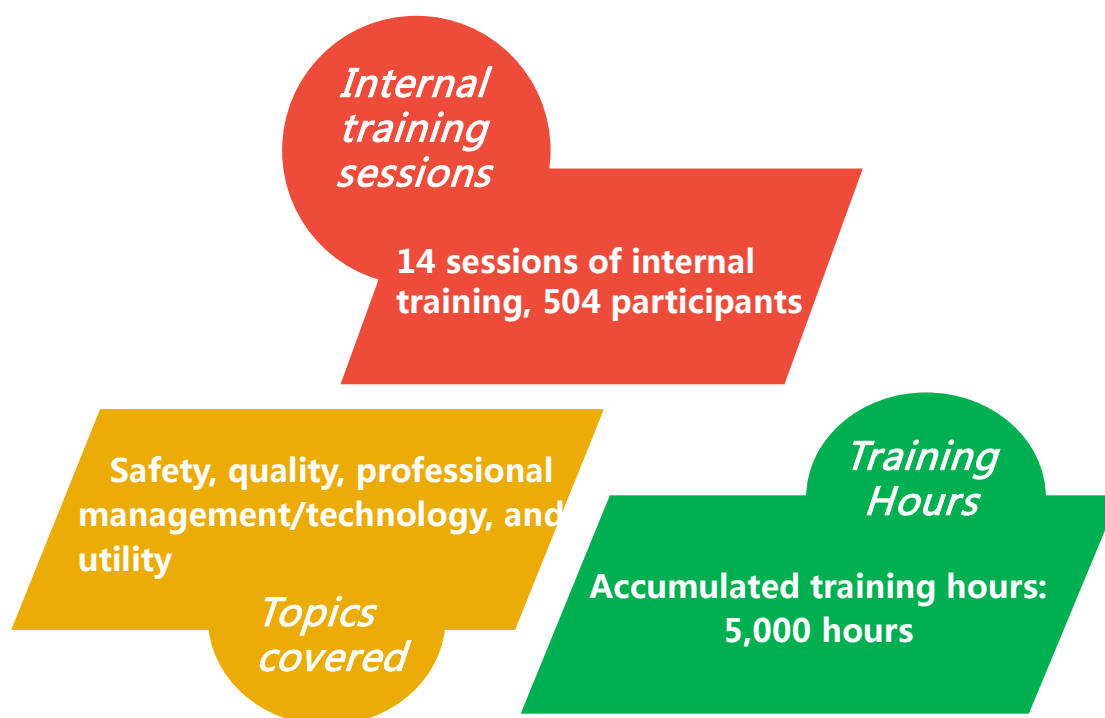


## 4.2 Employee Development

The Group focuses on the employee development very much with the annual investment in the training reaching approximately RMB 1 million. In addition, the Group will conduct a training demand survey and formulate an annual training proposal for employees at each level.

The training proposal for each employee is designed based on two aspects, namely the requirements of annual work plan on employees and the employees' improvement necessary for completing the work objectives.

The human resources department shall collect and compare the training proposals with the Group's annual objectives to find the matched objects and design the annual training plan. In 2016, a total of 14 internal trainings were conducted, covering four main topics, namely safety, quality, professional management/technology and utility. An aggregate of 504 employees participated in the trainings, and the cumulative training hours reached approximately 5,000 hours. Further, the Group has also arranged a total of 85 employees to participate in the external specialties trainings.



- **Enterprise management training.** In 2016, the Group arranged the department heads to participate in the "Innovation and Enterprise Growth" course. The objective of such training, was to cultivate the personal potential of the managerial staff, enhance the understanding of the modern enterprise management, promote understanding on the internal and external situation of the enterprise, set up long-term development view, and improve the planning and execution capabilities of the middle management.
- **Six Sigma Yellow Belt training.** In 2016, external lecturer was employed to provide Six Sigma Yellow Belt training and project counseling to employees of the Group. 30 technical personnel from various departments participated in systematic training and Six Sigma Yellow Belt project was launched. After seven months of project counseling, a total of 17 projects were completed successfully. As of the end of 2016, the Group has conducted several Six Sigma Yellow Belt trainings and project counseling, which are regarded as one of the annual key training programs for long-term follow-up to ensure the implementation of training projects and achieve practical results for lean improvement of the Group.

**Training workshop onsite**



**Discussion in the training workshop**





## 4.3 Caring for Employees

The Group strongly believes that employees are the Group's wealth, so human-based management is provided for humanistic care.



### Transportation

The Group provides shuttle bus for the employees to solve traffic difficulties.



### Housing

For employees without housing, company dormitories with air-conditioner and washing machine equipped are provided.



### Network

To the joy and convenience of the employees, the dormitory and the rest area of plant area are equipped with WIFI hotspots, so they can have free Internet access.



### Environment

Green space covers more than 30% of the living area, in which the beautiful flowers and fresh air, providing a good leisure place to the employees.



**Pleasant  
resting  
environment**



**Cozy living area**



**Football field  
and ring-shaped  
track**

## Off-duty Activities

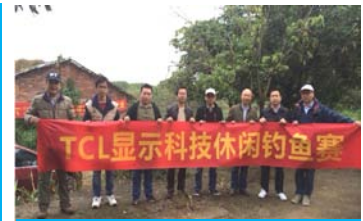
- The Group organize kinds of sport activities annually on the football field and basketball court in plant area, the employees always get together and compared notes after the match.
- The labor union also set up the Badminton Association, Yoga Association, Swimming Association, Fishing Association, Dance Association, etc. Besides, walking along Honghu Lake in Huizhou is organized once a month, and various sports competitions are organized every year.
- In 2016, a total of 105 activities were organized, which enriched the employees' spare time life and increased group cohesiveness.
- As for the aspect of employee care, the Group will organize more activities in 2017 to encourage better health, life, psychology of employees.

**Diet:** Engage diet experts, sports experts, and doctors and establish an WeChat official account, to provide guidance and advice on diet, health, and exercise to employees.

**Network:** Install a wireless hotspot on staff shuttle bus.

**Venue:** Provide space and facilities as the training space for dancing, and the venue is available on a regular basis.

**Caring:** Organize employees to participate in family parent-child activities.



Fishing Association activities



Badminton competition

## Canteen Management

In 2016, the canteen management center, based on the "Safety and Demand Come First" management approach, established the *Approval on the Review of Suppliers' Qualification* management system, thus all the procurement of ingredients are required to be approved by the canteen management personnel, and the Safety Production Committee Office ( "Safety Office" ) of the Group will from time to time arrange inspections and on-site assessment for the canteen. A daily inspection point check system was established, according to which the canteen management personnel will carry out daily check as per a checklist to identify areas which are required to be improved. The canteen conducts satisfaction surveys twice a year to in order to better respond to employees' demands. In 2016, the dining rate at the canteen among employees was 89%.

In the next year, the Group will continue to strengthen the management of the canteen, to provide employees with satisfactory catering services. The canteen satisfaction index is targeted to be 92% and the overall dining rate to be 90%.



## 4.4 Safety and Health

The Group has set up the Safety Production Committee ( "Safety Committee" ), leading the Group' s security management guarantee system. The members of the Security Committee comprised of department heads at all levels, strictly implementing the *"Safety and Prevention Come First with Comprehensive Management"* safe working principle and the *"Prevention first, with Combination of Fire Fighting"* fire fighting policy. A safety management responsibility book will be signed by levels starting from the general manager, so that the responsibility for safety management can be implemented at all levels and among all individuals and positions. At the same time, the "one-vote veto" system for safety is implemented based on the principles of *"Management of Production must go along with Management of Safety"* and *"The Person-in-charge Shoulder the Responsibility"*. In 2016, the Group has complied with relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational disease.

### Safety Production Investment in 2016

The Group has spared no effort to invest in safety production and make continual progress, including:

- Modification, transformation and maintenance of safety production facilities and equipment in the workshop, warehouse and other workplaces;
- Distribution, preservation and maintenance of emergency rescue facilities and equipment, as well as expenditure on emergency drill;
- Carrying out accident assessment and rectification;
- Safety production inspection, assessment, consulting and standardized construction;

In 2016, annual safety production investment<sup>1</sup> was approximately RMB 6 million.

### Achievements of Safety Objectives in 2016

Index Name	Objectives	Value in 2016
Major casualties incident	0	0
Significant safety incident in the plant (machinery, fire, chemicals, explosions, environmental pollution and so on)	0	0
Traffic safety incident	0	0
Control of general occupational injury incident	3‰	0

<sup>1</sup> Safety Production Investment including: personal care products, physical examination occupational diseases, safety training, safety investment and hidden dangers rectification by administrative means investment



## Safety Management System

The Safety Management Committee has established the Safety Office, which is mainly responsible for the Group's overall production safety, construction planning of occupational health, management inspection, follow-up and promotion and coordination work. There are a total of six specific safety management personnel in the Safety Management Committee, forming a top-down and layered safety management system with intersecting supervision and inspection.

### ■ Improving the Safety System

Through the three-class verification of safety standardization, with the combination of the safety standardization and the Group's occupational health and safety management system, the Group has completed a total of 28 safety production management documents and 23 rules and regulations relying on safety standards. The safety production responsibility books are signed level by level to implement the safety production responsibility system.

### ■ Setting up "Mini Fire Station"

In 2016, according to the requirements of fire-control units, the "mini fire station" was set up and equipped with the corresponding emergency materials to provide hardware protection for fire emergencies.



Mini Fire Station



Fire Fighting Equipments



Safety Training



Anti-terrorist Drills

### ■ Safety Inspection

Routine inspection, monthly inspection, quarterly inspection and external inspection are performed by the safety officer, the safety volunteers and firefighters all year around, and a total of 347 safety risks were found while 343 rectification items were completed.

## ■ Safety Training and Publicity

Safety production education and training work is an important way to implement the business principles and objectives, achieve safety production, improve safety consciousness of employee, and reduce human error. All employees of the Group participated in the safety training and passed the assessment, so that employees can learn related safety knowledge, and master the relevant safety skills to enhance self-awareness, thereby reducing the occurrence of production safety accidents. The Group's special operating personnel are holders of certificates to prevent unlicensed employment.



## ■ Special Operation Control

The Safety Office is responsible for carrying out strict control of special operations which have not obtained special operation bill or carried out sufficient protective measures. When the operation is carried out, the safety officer will follow up on site to ensure smooth operation. The special operations were carried out 117 times around the year without abnormal issue.

## ■ Emergency Drills

To improve the employee's awareness of fire control and knowledge about each channel and exit of the plant, equip them with the contingency ability when facing sudden fire, enhance their escape skills, and test operability of the Group's emergency response plan, a total of three employee fire evacuation drills were held by the Group during the year. The Group has also organized an annual chemical spill drill to improve the response and rescue organizing ability of relevant personnel, and for improving the environmental and safety knowledge of employees.

### Fire Drills



## Occupational Health & Safety Measures Policies

The Group sets up different working attire and protective clothing requirements for different level of employees in accordance with the level of occupational hazards exposed by the relevant employee to ensure a safe working environment. Information cards for occupational hazards have been made available at various areas and posts. First aid kits are provided at all workshops, which supplies dressings and drugs to deal with trauma for emergencies.

The Group has adopted procedures regarding occupational health management, for instance, occupational health checks will be arranged for relevant employees before employment, in the course of employment and post-employment. Physical examinations have been conducted on all new employees in 2016. All employees at occupational hazard posts have also taken the occupational health check when dismissed. An annual occupational health check was also offered to employees at occupational hazard posts by the Group and no suspected occupational diseases were found in 2016.



**Wear activated charcoal mask at posts using chemicals**



**Wear sputtering glasses at posts using corrosive liquid**



**Exhaust fan device for special posts**



## Safety Management Objectives in 2017

In 2017, the Group shall be accountable for safety management, delicacy management and safety standardization as the keys to achieve benchmarking enterprises level and comprehensively improve safety management capability under its solid foundation. The Group plans to carry out two emergency ability trainings each month to improve emergency response capability of voluntary safety officers.

### Safety Production Objectives in 2017

Categories	Management indicators	Definition of indicators / Computational formula	Management of index values	
			Values in 2016	Objectives in 2017
Incidents	Major casualties	Death or disability: one personas when achieving at six grade	0	0
	Factory major security incidents (Machinery, fire, chemicals, explosions, environmental pollution etc.)	Direct economic loss 50,000 above RMB	0	0
	Numbers of occupational disease	People counting of occupational disease	0	0
Control of general occupational injury incidents		Proportion of occupational injury (The ratio that occupational injuries on overall numbers of people)	≤3‰	



## 4.5 Annual Data of Employees

### Annual Data of Employees (I)

Categories	No.	Indicator index (Note)	Index Name	Value in 2016
A1 Working Environment	A1.1	A1.1.1	Contract workers (person)	3,018
		A1.1.2	Senior management (person)	6
		A1.1.3	Middle management (person)	442
		A1.1.4	Other employees (person)	2,570
		A1.1.5	Total number of employees(person)	3,018
		A1.1.6	Employees aged under 18 (person)	0
		A1.1.7	Employees aged 18~30 (person)	2,275
		A1.1.8	Employees aged above 30 (person)	743
		A1.1.9	Male-Female ratio	1.3 : 1
		A1.1.10	Disabled employees (person)	10
		A1.1.11	Proportion of ethnic minority	12.13%
		A1.1.12	Fresh graduates (person)	34
		A1.1.13	Employees with Bachelor Degree qualification (person)	194
		A1.1.14	Owned dispatched worker (person) <sup>2</sup>	234
	A1.2	A1.2.1	Turnover rate	9.84%
		A1.2.2	Turnover rate (employees aged 18~30)	8.72%
		A1.2.3	Turnover rate (employees aged 30 or above)	1.12%
		A1.2.4	Proportion of employees with over 5 years of entry	8.78%
		A1.2.5	Return-to-work rate after maternity leave	100%
		A1.2.6	Coverage of social insurance	95%

<sup>2</sup> the maximum number of dispatched worker is 234 in 2016.

## Annual Data of Employees reports (II)

Categories	No.	Indicator index (Note)	Index Name	Value in 2016
A2 Health and safety	A2.1	A2.1.1	Fire accident (No.)	0
		A2.1.2	Chemicals spill (No.)	0
		A2.1.3	General occupational injuries accidents control	0.07%
		A2.1.4	Major casualties (person)	0
		A2.1.5	Persons with occupational disease (person)	0
	A2.2	A2.2.1	Lost working days due to occupational injury (day)	9.5
	A2.3	A2.3.1	Coverage rate of employees physical examination	100%
		A2.3.2	Amount of personal care products (RMB)	2,435,402
		A2.3.3	Amounts of physical examination for occupational diseases (RMB)	83,097
		A2.3.4	Cost of safety training (RMB)	12,172
		A2.3.5	Amount of safety investment (RMB)	3,073,455
		A2.3.6	Amount of hidden dangers rectification by administrative means investment (RMB)	383,000
		A2.3.7	Fire-drill and chemicals spill drill ( No.)	4
A3 Development and training	A3.1	A3.1.1	Ratio of training hours for workers and employees	17:1
		A3.1.2	Male to female ration of participating employees	1 : 1.45
	A3.2	A3.2.1	Training hours for senior managements (hour)	546
		A3.2.2	Training hours for middle managements (hours)	7,301
		A3.2.3	Training hours for ordinary employees (hours)	51,487
		A3.2.4	External training cost (RMB)	601,621
		A3.2.5	Training hours for outsourcing/supplier (hours)	88
A4 Labor principles	A4.1	A4.1.1	Child labor employed (person)	0
		A4.1.2	Illegal employments ( No.)	0
		A4.1.3	Communications of employees' representative (times)	79

Note: indicator index is set as per the KPI items set out in the ESG Reporting Guide issued by the Stock Exchange.

# 5

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5.2	Annual Data of Charitable Activities	47

# Voluntary Service Report



## 5.1 Voluntary Services

The Group is always been responsive to TCL Group's calling, insists on the principals of repaying society to focus on social problems and needs; it also carries out long-term investment in welfare fields such as promoting educations development, and caring about vulnerable groups and disaster rescues. The Group established the first branch association of TCL Voluntary Association in March 2015 to organize voluntary activities. We advocate for our employees to participate in social practices actively and contribute to public welfare promotion.

### ■ Supporting Public Welfare Undertakings

In March 2016, the Group called for all staff to participate in the tree planting activity held in Honghua Lake Scenic Area in Huizhou in order to promote environmental awareness. The staff gave great support and took active participation in the activity, with an aim to make Huizhou a better place.

The Group also sent stationery and sports goods to local primaries in Tibet in October during the National Day holidays, 2016, and contributed towards caring for Tibetan children.

### ■ Supporting Education in China

Li Dongsheng, the chairman of TCL Group and his wife, Wei Xue initiated the establishment of Huameng Foundation, which is the special fund under China Youth Development Foundation, aimed at helping excellent junior high school graduates to finish senior high school education and to receive college education. Huameng Foundation contributes to promote equitable education opportunities for a long time, accelerating balanced development of education in China to provide every child with rights to receive education, which allows the children to be equipped with kindness and love, enables them to be a person with self-responsibility, love and contribution towards the society and humans.

In July, 2016, the Group organized volunteers to participate in third-quarter activity in Guangzhou, which is 2016 "Huameng Foundation Figure youth GO! Summer Camp"—"Tour in Guangzhou and cool play with Olympic". Zhang Jiewen, the Olympic champion and Wang Zhizhi, the male basketball star, were invited to be "Welfare Tutor" of the third-quarter activity of Huameng Summer Camp.

In August, 2016, the Group organized volunteers to participate in the celebration farewell party for the first graduates of "Huameng Class of The first high school in Dali", Huameng Foundation cooperated with Cheung Kong Graduate School of Business for establishing "Welfare Hiking in Dali held by Huameng Foundation and Cheung Kong Graduate School of Business".

## ■ Disaster Rescues

The Group together with TCL Public Welfare Foundation participated in major disaster rescues for many times, and invested manpower and materials in the earthquake rescues of Yunnan and Ya'an City of Sichuan. In the early July, 2016, heavy rainfall for many days resulted in the serious flood disaster of Wuhan City, and about one million persons were affected. The Group participated in the donation campaign held by TCL Group, and TCL Group donated approximately RMB 3 million to disaster area in Wuhan for personnel placement and reconstruction.

### 2016 Important Matters of the Group's Voluntary Services

#### March 2016

All staff was called by the Group to participate in the treeplanting activity held in Honghua Lake Scenic Area in Huizhou, with an aim to make Huizhou a better place.



#### July 2016

The Group organized participation in Huameng Foundation Summer Camp, leading Huameng members to visit TCL exhibition room, Company history exhibition hall, aiming at helping members to broaden horizons, enriching their knowledge and experiences and developing friendships

#### August 2016

The Group organized volunteers together with Huameng Foundation to participate in home visiting of freshmen of Huameng Class in Hua Luogeng Middle School, Huizhou.



#### October 2016

The Group gave away stationery and sports goods to local primaries in Tibet during the National Day holidays, and contributed caring towards Tibetan children.



## 5.2 Annual Data of Charitable Activities

Categories	No.	Indicator index	Index Name	Value in 2016
D1 Community caring	D1.2	D1.2.1	Volunteers, charitable activities	4 times
		D1.2.2	Activity cost for party organization and labor union organization (RMB)	746,905

Note: indicator index is set as per the KPI items set out in the ESG Reporting Guide issued by the Stock Exchange.

# 6

## 6.1 Instructions for Report Preparation 49

# Appendix





## 6.1 Instructions for Report Preparation

### Report release cycle

The report is annual report, which will be released in each financial year.

### Report time range

As of the year ended 31 December 2016, part of expressions and data are related to the past years.

### Report Scope

The content of this Report covers relevant and sustainability issues arising from the Company's operations in Huizhou, the PRC.

### Reporting Guide

Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Report Title Statement

Unless the context otherwise requires, in this report "the Company" shall refer to China Display Optoelectronics Holdings Limited and collectively "the Group" with its subsidiaries.

This report is prepared in Chinese and translated into English. In the event of any inconsistency or ambiguity between the English version and the Chinese version, the Chinese version shall prevail.