瑞聲科技控股有限公司

AAC TECHNOLOGIES HOLDINGS INC.

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2018

# 2020 Sustainability Report

# Contents

# About this Report

This is the eighth stand-alone sustainability report of AAC Technologies Holdings Inc. (hereafter referred to as "AAC Technologies" or the "Company", together with its subsidiaries, the "Group") presenting a review of the Group's performance on environmental, social and governance ("ESG") aspects, focusing especially on the aspects that have an important impact on the long-term development of the Group.

The Board of Directors acknowledges its responsibility for ensuring integrity of this sustainability report. To the best of its knowledge, this report addresses the principles of materiality, quantitative, and consistency, presenting ESG performance of the Group in a balanced manner. The Board of Directors confirms that it has reviewed and approved the report.

## Reporting Frameworks and Reporting Principles

This report has been prepared in accordance with the Core Option of the Global Reporting Initiative's ("GRI") Sustainability Reporting Standards ("GRI Standards") and is in compliance with ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEX"). For information relating to the Group's strategy and governance practices, please refer to our annual report, available on our website.

The report is centred on four principles:

| | |
|---|---|
| Materiality | Stakeholder engagement and materiality assessment were conducted regularly to identify material ESG issues, and to ensure that these issues are addressed in the report. |
| Quantitative | Data presented in this report have been examined and verified. Please refer to the Performance Data Summary for standards and methodologies used for calculation of indicators. |
| Balance | Both positive and negative sides of our performance have been presented in a transparent manner. |
| Consistency | Unless otherwise stated, the disclosures, data collection and calculation methods have remained consistent throughout the years to facilitate comparability over time. |

The Group's sustainability management approach, where applicable, aligns with the United Nations Sustainable Development Goals ("UNSDGs") and the 10 principles of the United Nations Global Compact. The report also draws on the International Integrated Reporting Framework of the International Integrated Reporting Council ("IIRC").

**Feedback**

We welcome your thoughts and feedback on this report. Please address any queries and comments to our investor relations department at aac2018@aactechnologies.com. This report is published in English and Chinese. In case of any inconsistency between the two versions, the English version shall prevail. As a conservation measure, we do not publish hard copies. PDF version is available on HKEX's website and on our website under the section **"About AAC — Sustainability": http://www.aactechnologies.com**

The information and data collection and verification are currently done by various departments including investors relations, CSR and internal audit. We have established an internal platform for summarising data and information and regular reviews of the data. Nevertheless, we recognise the potential shortcomings of our reporting process and strive to enhance our work on disclosure, such as 1) identifying appropriate indicators for deriving intensity of environmental data, replacing the revenue indicator which is easily influenced by product price; 2) attempting to identify the unit of measurement for packaging materials to allow easier comparison.

# Report Boundary

The social data in the report covers the entire Group. The environmental data in the report covers the business operations of the Group located in Changzhou, Suzhou, Shuyang, Shenzhen, Nanning and Vietnam[1], unless otherwise stated. Our environmental data reporting boundary, includes production facilities with fixed assets exceeding RMB1 million.

During the year, as described in the annual report, with the assistance of a world's top consulting firm, the Company commenced a transformation to focus on improving the capabilities of our key talents to support the Company's diversified business development and productivity enhancement by product line. As there have been no significant changes in the Group's major business framework, no significant restatements of data were made during the year. Data in this report are analysed to account for year-on-year changes and presented in a way that allows for consistent comparison.

# Report Period

The reporting period is the fiscal year ending 31 December 2020, and, if appropriate, shall include activities from the past as well as more recent ones.

# External Assurance

Hong Kong Quality Assurance Agency ("HKQAA"), as in the previous year, has provided independent external assurance for the disclosures made in this report. Please refer to page 70 for the assurance statement.

# Our Policies

AAC Technologies keeps its policies transparent for its valued stakeholders who form the backbone of the value framework. The Company website has policies relevant to sustainability approach and corporate governance including but not limited to Sustainability Policy, Code of Conduct, Board Diversity Policy, Whistle-blowing Policy, Corporate Disclosure Policy, Shareholders Communication Policy, Procedures for a Shareholder to propose a person for election as a Director.

Policies relevant to sustainability approach and corporate governance are available on our website, which can be accessed through the hyperlinks on the right.

| Policies |
| --- |
| Sustainability Policy |
| Code of Conduct |
| Board Diversity Policy |
| Whistleblowing Policy |
| Corporate Disclosure Policy |
| Shareholders Communication Policy |
| Procedures for Shareholder to propose a person for election as a Director |
| Environmental Policy |
| Employment Policy |

[1] Due to variations in legal requirements across regions where the Company operates, certain quantitative indicators have not yet been used for reporting ESG performance of some of our subsidiaries. The Company will continue to ensure that these indicators are included in a single set of unified and standardised statistics in our future sustainability reports.

# Sustainability at AAC Technologies


## Key ESG Awards

### Special Mention

HKICPA Best Corporate Governance Awards 2020

### Citation for ESG Disclosure

2020 HKMA Best Annual Reports Awards


### Grand Awards in Best ESG Report — Large Cap
### Best GRI Report
### Excellence in ESG Governance

Hong Kong ESG Reporting Awards ("HERA") 2020

## ESG Ratings

Hang Seng Corporate Sustainability Index Series Member 2020-2021

### AA

Hang Seng Corporate Sustainability Index

MSCI ESG RATINGS A

### A

MSCI ESG Ratings

SUSTAINALYTICS a Morningstar company

### Low Risk 17.8

Sustainalytics ESG risks ratings

FTSE4Good

### 3.3

FTSE4Good Index

## Financial Highlights

**Revenue**

**RMB17,140 Million**

4.2%

**Net Profit**

**RMB1,507 Million**

32.2%

**Net Assets**

**RMB21,821 Million**

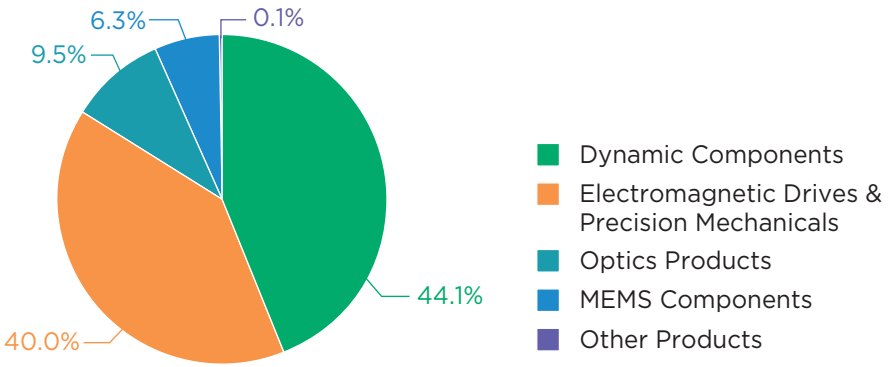
12.7%

**Return on Equity**

**7.4 %**

4.2 p.p.

### Revenue Distribution



## ESG Highlights

### Workforce

- Male to Female Ratio: 60:40
- Education: 49% Degree or Higher
- Average Training Hours: 13.4

### Health and safety

- Lost Time Injury Frequency Rate ("LTIFR"): 0.96 per million hours worked; ▲ 37%
- Safety Training Hours: 107,555; ▼ 24%

### Operation

- Patents: 6,034; ▲ 1,623
- R&D Staff and Technicians: 4,335; ▲ 4%
- R&D expenses to revenue: 11.2%; ▲ 1.6 p.p.
- 100% Conflict Mineral Free

### Environment

- >75% Clean Energy Consumption Target in 2030
- Energy Intensity: 237 GJ/million RMB Revenue; ▲ 10%
- Generated 14.8 million kWh Renewable Energy; ▲ 5.7%
- Greenhouse Gas intensity: 0.43 $tCO_2e$/ten thousand RMB Revenue; ▲ 11%
- Achieved 100% Waste Diversion Rate in 2 Changzhou Plants
- Water Intensity: 687 Tonnes/million RMB Revenue; ▼ 5%
- Non-hazardous Waste Intensity: 0.66 Tonnes/million RMB Revenue; ▲ 31%
- Hazardous Waste Intensity: 0.80 Tonnes/million RMB Revenue; ▼ 13%

# About Us

AAC Technologies is the world's leading solutions provider for smart devices with cutting-edge technologies in materials research, simulation, algorithms, design, automation and process development in Acoustics, Optics, Electromagnetic Drives and Precision Mechanics, MEMS, Radio Frequency and Antenna, providing advanced miniaturised and proprietary technology solutions. Our goal is to "Lead Innovation & Enhance User Experience". In delivering high-performance and superior quality products, the Group will continue to create value for customers with innovative user experience.

## Our Value Framework

Safety first, scientific management and sustainable development are the values which are at the core of every business decision. We strive hard to achieve a balance of economic performance, environmental stewardship and corporate social responsibility that extends beyond our business operations. These core values undergo regular review on their relevance.

### Organisational Excellence

- Structure and Process
- Discipline
- Training and Appraisal / People Excellence

### Corporate Culture

- Professional
- Open Minded
- Compatible

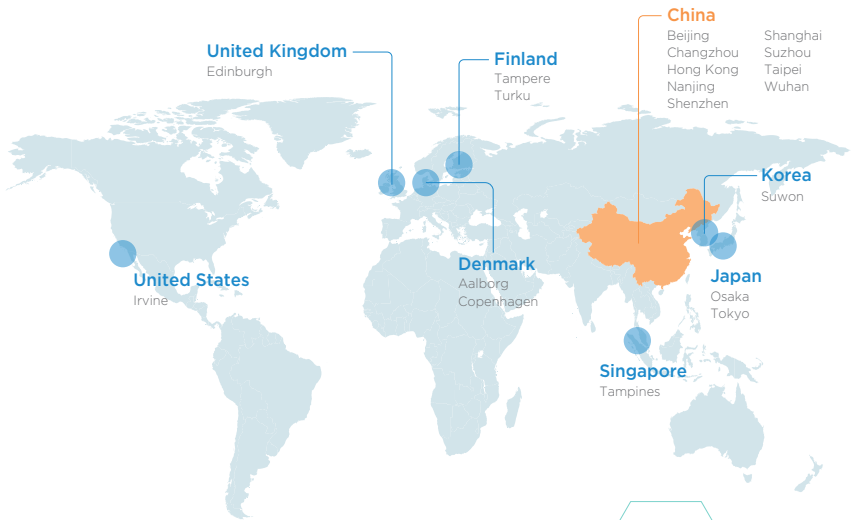
### Core Values

- Safety First
- Scientifc Management
- Sustainable Development

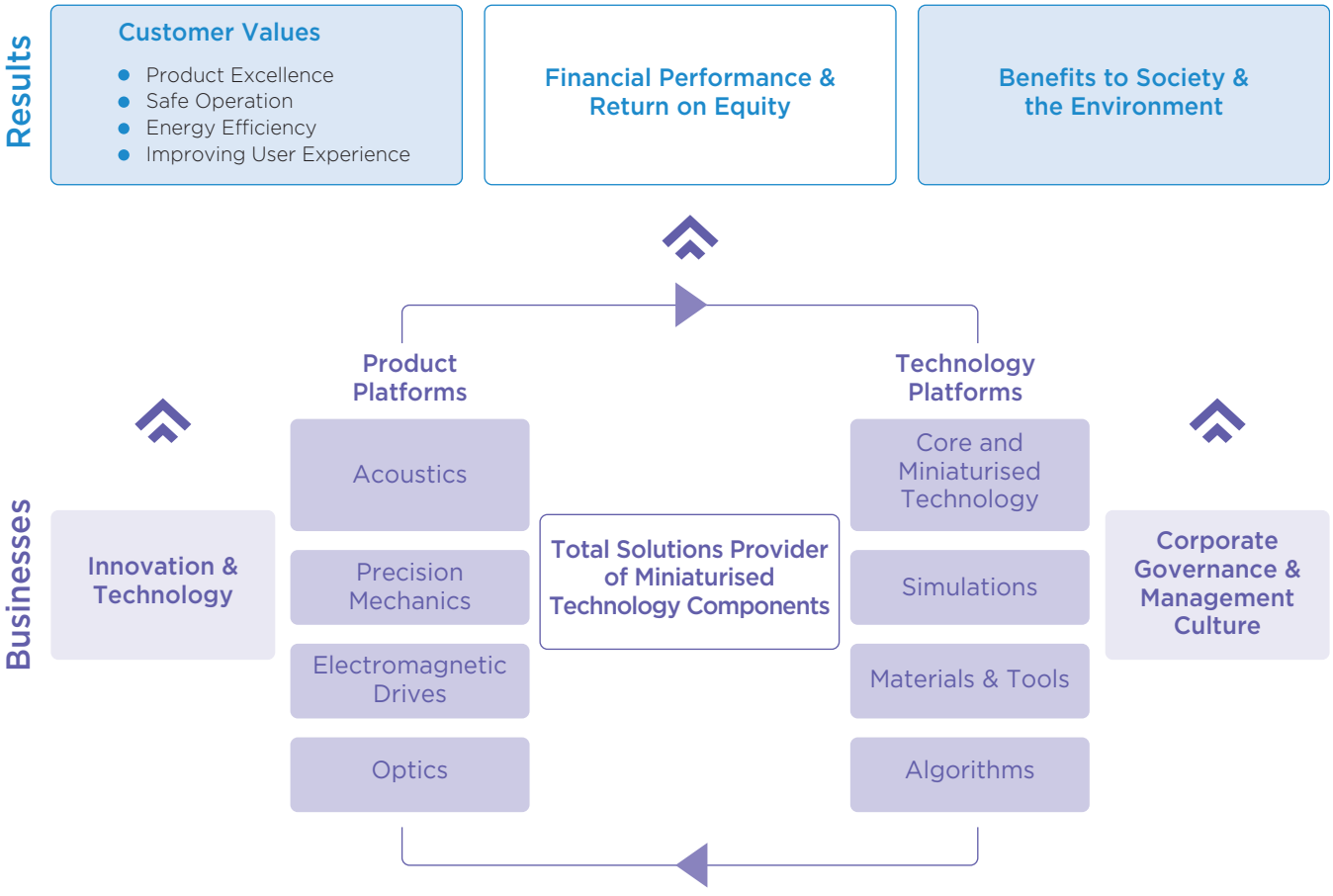
## Our Worldwide Operations

AAC Technologies operates around the globe with research and development ("R&D") centres in mainland China, Singapore, Japan, the United States, Finland, Denmark, Taiwan, Hong Kong and the United Kingdom, testing laboratories in Singapore and South Korea, manufacturing facilities in China and Vietnam and sales offices optimally located in different parts of the world. Being the Asia Pacific regional headquarters, AAC Singapore leads the major R&D operations as well as the global sales and marketing and treasury functions of the Group, and will continue to play a significant global strategic role for the Group.

## R&D Centres



# Our Operation Model




## Capital

### Intellectual Capital

R&D centres: China, US, Finland, Denmark, South Korea, Japan, Taipei, Hong Kong, UK and Singapore

R&D Engineer：1,876

Technician：2,459

Patents：6,034

### Production Capital

Production bases: Changzhou, Shuyang, Suzhou, Shenzhen, Nanning, Vietnam

Products and solutions: Acoustics, Optics, Electromagnetic Drives and Precision Mechanics, MEMS, Radio Frequency and Antenna

### Financial Capital

R&D expenditure: RMB1,920 million

Health and safety expenditure: RMB98,795 thousand

Environmental protection expenditure: RMB216,033 thousand

### Human Capital

Total employees：33,735 people

Employees with Bachelor's degree or Higher：16,537 people

Training Hours Per Employee：26.6 hours

### Social & Relationship Capital

Our stakeholders include customers, employees, suppliers, investors, the local communities and governments etc.

### Natural Capital

The natural resources that support our operation include land, water and minerals etc.

# Report to Stakeholders

**Dear stakeholders,**

AAC Technologies appreciates your continued support and we would like to take this opportunity to wish you good health in the backdrop of the global COVID-19 outbreak. We are committed to reducing the business disruptions by setting up a pandemic prevention taskforce. This includes targeted arrangements for human resources and manufacturing management to minimise the adverse impact to employee well-being, production capacity and product quality. The Group supported the community during the difficult times by making donations of 5,234 sets of protective wear and 350,000 pieces of surgical masks to medical staffs and suppliers. We believe that AAC Technologies is well positioned to face the challenges of this pandemic with its solid customer relationship and focus on corporate sustainability.

Challenges emanating from external environment have not slowed down our efforts for sustainable development. During the year, with the assistance of our consultants, as mentioned, the Group aligned its management organisation according to business segments which helps unlock the potential of each product line to become more eco-friendly and future-proof in terms of cost-competitiveness and productivity, and, for building a collaborative and innovative culture. This provides more opportunities for refining sustainability management and adding more value to the Group, the environment and the stakeholders. Each business segment and product line will now be striving to create value not only for the Group but also the environment and the society, responding to the global call for climate action and inclusiveness. Together with the Sustainability Working Group established during the year, the Board oversight of ESG risk management was further strengthened, providing effective leadership for formulating and implementing sustainability strategies on the ground.

The fast-paced operating environment of the industry has also created a lasting impact on the Group's talent acquisition and retention. After the continued efforts invested in the last few years on acquiring young engineering talents, we are experiencing the results of a more future-proof workforce that has agility to instantaneously responding to production issues. This helps unleash their fullest potential through performance benchmarking, making sure they can fit in with the next generation manufacturing processes. We have also continued to optimise engagement with our people by digitalising communication channels, learning platform and grievance redressal system to enhance employee satisfaction. To further strengthen corporate governance and management team, during the year 2020, we made 2 important senior appointments in the positions of executive vice president and chief financial officer.

With customers demanding quicker response in the smart devices industry, we are working closely with customers to ensure products conform with their requirements. To achieve that, we maintain transparent communication with customers covering raw materials sourcing, design, testing and quality management, which helps maintain superior product quality, close to zero product defect rate. We maintain and strengthen customer satisfaction and trust by daily data tracking, regular evaluation and customer visits. Multiple departments such as customer service and quality control collaborate to evaluate data and feedback, translating customer needs and expectations into clear company requirements. Customer grievances are managed by a dedicated team to ensure swift response in a manner in which customers can scrutinise the data concerning product quality.

We remain committed mitigate the environmental impact generated by optimisation of our management approach. With all manufacturing bases in China and Vietnam certified under the ISO 14001 standard, the Group has been striving to achieve sustainability performance beyond compliance by collaborating with its customers, on initiatives such as Zero Waste to Landfill and Clean Water Programme. Both projects have made positive progress during the year. Two of our production plants in Changzhou have successfully received Underwriters Laboratories ("UL") Zero Waste to Landfill validation of Platinum level, achieving 100% waste diversion. Water risk assessment was completed at the Shenzhen plant, paving the way for better water management and usage. Responding to the call for climate action by the PRC government, we have prioritised the use of clean energy, working towards the target of achieving over 75% clean energy in 2030. We began shifting to electric trucks and employee shuttles buses in Shenzhen during the year, while photovoltaic solar power is being generated at Changzhou and Shuyang output being 14.8 million kWh in 2020. We have also expanded the scope of clean production audits to further identify energy-saving opportunities.

During the year, National Standards of Volatile Organic Compounds ("VOCs") became effective and Law on the Prevention and Control of Environmental Pollution by Solid Waste was amended. AAC Technologies engaged closely with suppliers to immediately analyse the impact to the entire supply chain. Through a series of concerted efforts including precautionary measures and supplier outreach, we have been able to adapt to the new rules and regulations on VOC and solid waste in China. We collaborate with suppliers to keep the impact to the minimal for managing VOC emissions, providing training and formulating management systems. Our stringent supplier performance evaluation and risk management also ensure supplies do not contain any conflict minerals.

We are glad to inform you that in 2020, our efforts on sustainability were recognised by way of MSCI ESG Rating being upgraded from BBB to A and the Company getting included in FTSE4Good Index. Looking ahead, the Group not only strives to mitigate impacts but also continues to create environmental and social values while achieving positive economic outcomes. The events of 2020, both internally and externally, have created an opportunity for us to come together so we can build a better future. The management restructuring currently undergoing would take us further in the sustainability journey. Through solidarity and cooperation, we will overcome any new challenges the pandemic may bring. We thank you for your continued interest and ask for your unyielding support.

**Pan Benjamin Zhengmin**
Director

**Mok Joe Kuen Richard**
Director

# Sustainability Governance

AAC Technologies devotes itself to creating sustainable value for its products and services. As one of the core values, sustainability is embedded in management practices, from top leadership down to operations on the ground.

The Board of Directors takes the overall responsibility for sustainability management, with the leadership of the CEO and the Managing Director. In 2020, we established a Sustainability Working Group ("SWG"), reporting directly to the Board. The SWG's objectives include but are not limited to identifying the Company's sustainability risks and opportunities, evaluating the effectiveness of existing ESG initiatives and progress of ESG performance, as well as advising the Board on sustainability strategy and management approach.

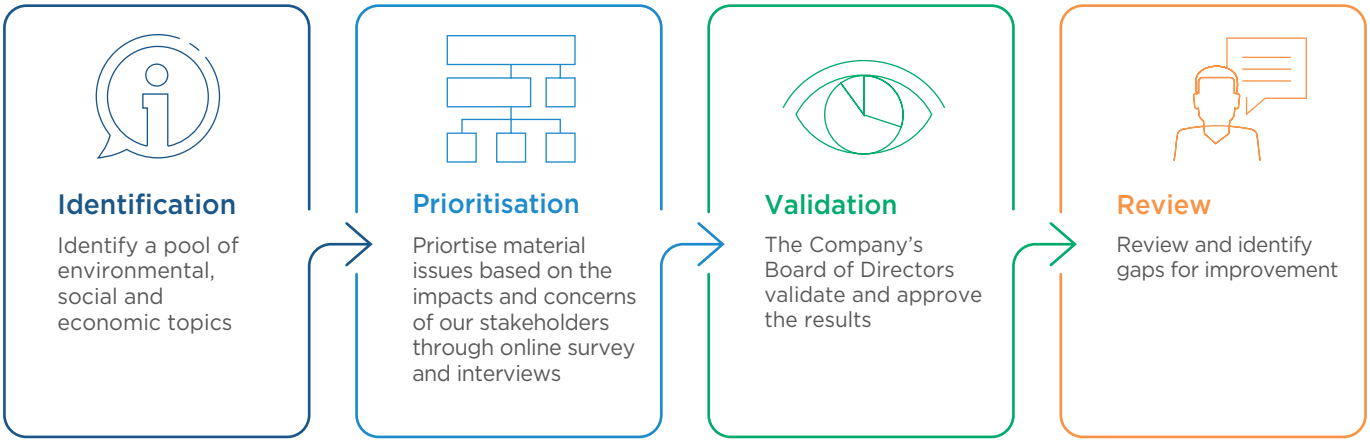
With a strengthened sustainability governance structure, the SWG joins the relevant departments to enable AAC Technologies to operate in compliance with all relevant laws and regulations, to manage its risks and opportunities and to achieve long-term sustainable growth. The terms of reference of the SWG can be found on our website under the section of Sustainability Policy.

# Stakeholder Engagement

AAC Technologies' holistic approach to sustainable development is closely linked to stakeholder engagement and materiality assessment. We believe that understanding thoroughly the needs and expectations of internal and external stakeholders is integral to maximising positive and minimising negative impacts on the social and environmental issues while fulfilling our responsibility as a corporate citizen. We, therefore, strive to build a trusted relationship with all stakeholders through transparent and open communication channels, including annual reports, ESG reports, survey, regular dialogue and meetings.

## Materiality Assessment

ESG issues that are pertinent to the Group and its stakeholders are identified through materiality assessment, which is a crucial step in developing the sustainability strategy. Materiality assessment is a four-step process of identification, prioritisation, validation and review.

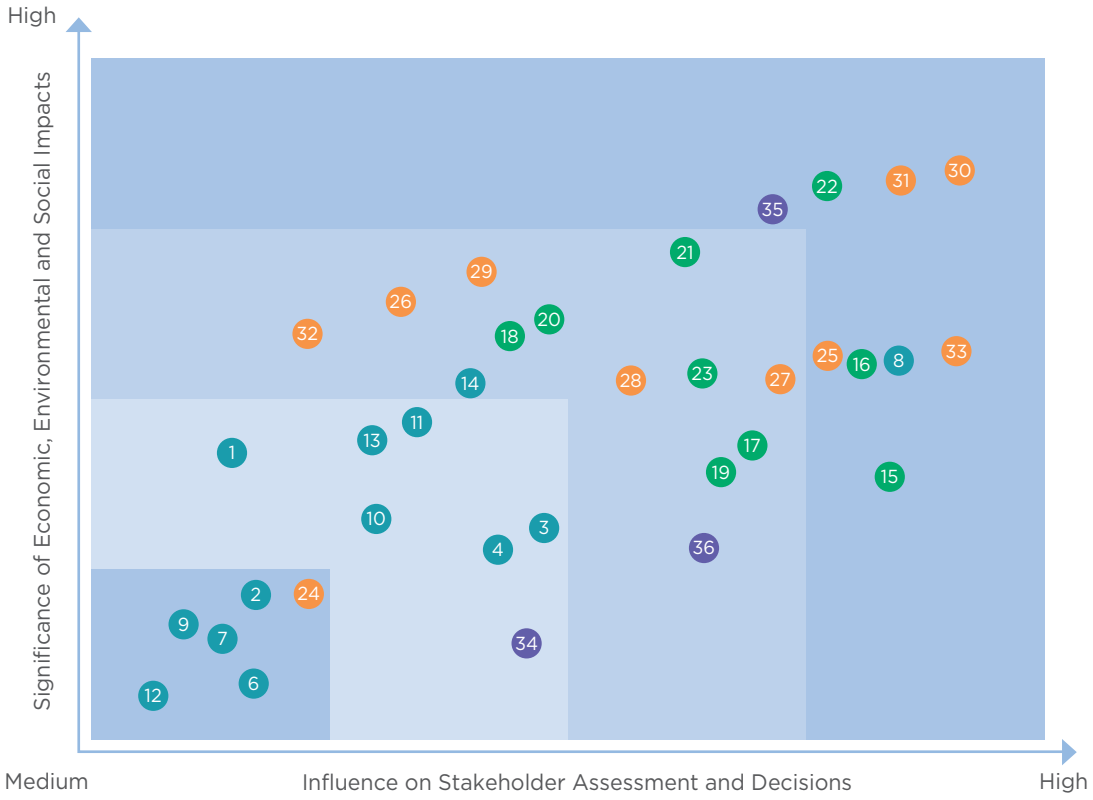



In addition to the practice of referencing to the HKEX ESG Reporting Guide and the GRI Sustainability Reporting Standards, media search and peer analysis. We also identify potentially material issues and to understand our role and impacts on the United Nations Sustainable Development Goals[2]. A list of 36 potentially material topics was identified, of which 5 topics were added. The list of the topics is reviewed and revised regularly to reflect the most recent developments in the industry and the Group, as well as the changes in expectations of stakeholders.

At prioritisation stage, various stakeholders were invited to complete an online questionnaire to express their views on each of potential ESG material topics. Their perception of the Group's sustainability development can have a direct impact on survival of the Group and its social license to operate.

[2] Reference is take from "Integrating the SDGs into Corporate Reporting: A Practical Guide" published by GRI and United Nations Global Compact.

Based on the impact of each potential material topic on the Group's business and its internal and external stakeholders, the findings of the materiality assessment have been plotted in the following materiality matrix. ESG issues located at Level 1 are our key material issues.




Environmental Labour Operational Economic

| Level I | Level II | Level III | Level IV |
|---|---|---|---|
| 8 Environmental compliance | 14 Expenditure on environmental protection | 1 Energy reduction and renewable energy | 2 Water consumption |
| 16 Occupational safety and health | 17 Training and development | 3 Raw materials consumption | 6 Air emission |
| 15 Talent management and retention | 18 Protecting labour rights* | 4 Waste management | 7 Wastewater discharge |
| 22 Child labour and forced labour prevention | 19 Employee communication | 5 Greenhouse gases emission | 9 Ecological conservation* |
| 25 Social and economic compliance | 20 Anti-discrimination | 10 Green products management | 12 Climate change risks management* |
| 30 Product quality management | 21 Diversity and equal opportunity | 11 Clean production and product life cycle assessment* | 24 Community relations |
| 31 Customer satisfaction | 23 Human rights protection | 13 Green procurement* | |
| 33 Innovation and intellectual property rights | 26 Product health and safety | 34 Provision of jobs and procurement locally | |
| 35 Anti-corruption | 27 Data security and customer privacy management | | |
| | 28 Suppliers' environmental and social performance | | |
| | 29 Product sales and labelling | | |
| | 32 Conflict minerals management | | |
| | 36 Anti-competitive behaviour management | | |

* Newly added topics

The list of material topics and the results of the assessment were presented to the Group's Board of Directors and were validated and approved. In this report, we disclose efforts in and commitment to these major areas in 2020. All identified topics have an impact both inside and outside the Group, while those relating to employees only have an impact within the Group, such as talent management and retention.

# Four Pillars of our Sustainability Actions

In order to strategically shape a future sustainability management approach that responds to stakeholders concerns and at the same time contributes to the SDGs, we conducted further analysis on AAC Technologies' impact at different stages of the value chain. We identified risks that our operations have on the environment and society and potential opportunities that can contribute to achieving SDGs. Together with the feedback from stakeholder engagement, we established the following four pillars that support our sustainability action plans and progress monitoring.

| SDG Targets | Material Topics | Risk/opportunities | 2020 Progress |
|---|---|---|---|
| **1. Build a Competent and Future-proof Workforce** | | | |
|  <br>Target 8.2 — Achieve higher levels of productivity through technological upgrades and innovation<br><br>Target 8.6 — Promote youth employment<br><br>Target 8.8 — Protect labour rights and promote safe and secure working environments for all workers | 15 Talent management and retention<br><br>16 Occupational safety and health | • Attracting and retaining talent, especially the younger generation, and harnessing the existing talent of employees allow us to deliver our promise.<br><br>• Swift response to fast-changing industry developments and labour market remains a challenge. | • Launched online learning platform with 149 courses<br><br>• Average training hours is 13.4<br><br>• Introduced mobile office app that covers all operations in China<br><br>• Expanded number of collaborating higher education institutions under university-enterprise cooperation<br><br>• Investment on health and safety increased by 92%<br><br>• Launched digital EHS platform for monitoring safety performance |

| SDG Targets | Material Topics | Risk/opportunities | 2020 Progress |
|---|---|---|---|
| **2. Investing in Environmental Impact Mitigation** | | | |
|  Target 6.3 – Improve water quality by reducing pollution<br><br>Target 6.4 – Increase water-use efficiency | 8 Environmental compliance<br><br>14 Expenditure on environmental protection | • We have to respond quickly to regulatory changes through exploring new technologies and enhance environmental management so as to mitigate the compliance risks. | • Commenced the Clean Water programme in Shenzhen plant<br><br>• Promoted water recycling in production plants |
|  Target 7.3 – Improve in energy efficiency | | | • Generated over 14.8 million kWh of renewable energy in Changzhou and Shuyang<br><br>• Introduced 1 electric truck and 4 electric employee commuter shuttle buses in Shenzhen |
|  Target 12.5 – Reduce waste generation through prevention, reduction, recycling and reuse | | | • Obtained Zero Waste to Landfill validation of Platinum level for 2 production plants in Changzhou |
|  Target 13.1 – Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters | | | • Identified climate-related risks and opportunities |
| **3. Innovating to Better Customer Experience** | | | |
|  Target 8.2 – Achieve higher levels of productivity through technological upgrades and innovation | 30 Product quality management<br><br>31 Customer satisfaction | • In the face of shortened product cycles and increasingly customised market demand, we have to react quickly to incorporate customer needs into product designs. | • Promoted and developed big data along with automated technology |
|  Target 9.5 – Enhance scientific research, upgrade technological capabilities | 33 Innovation and intellectual property rights | | • Own and operate 19 R&D centres<br><br>• Obtained 1,678 new patents |
|  Target 12.4 – Achieve environmentally sound management of chemicals and all wastes throughout the life cycles<br><br>Target 12.7 – Promote public procurement practices that are sustainable | 31 Customer satisfaction | • Continuous technological innovation offers an opportunity to maintain a competitive edge in the market. | • Complied with laws and regulations regarding hazardous substances, including RoHS and REACH<br><br>• All the suppliers are required to sign CSR Commitment Letter<br><br>• Required suppliers to establish management systems in accordance to ISO 14001 and ISO 9001 |
|  Target 16.1 – Reduce all forms of violence and related death rates everywhere | 31 Customer satisfaction | | • Maintained 100% conflict free minerals |

| SDG Targets | Material Topics | Risk/opportunities | 2020 Progress |
|---|---|---|---|
| **4. Be a Responsible and Reliable Enterprise** | | | |
| Target 8.7 – Take immediate and effective measures to eradicate forced labour and end child labour in all its forms | 25 Social and economic compliance<br>22 Child and forced labour prevention | • Maintaining full compliance and upholding ethical standards are the basics for building trust with our stakeholders. | • Regular risk assessments on compliance and labour issues<br>• Passed all customer CSR audits during the year |
| Target 12.4 - Achieve environmentally sound management of chemicals and all wastes throughout the life cycles | 25 Social and economic compliance | | • Formulated internal policy on restricted substance in response to latest regulatory requirements on VOCs standards. |
| Target 16.5 – Substantially reduce corruption and bribery | 35 Anti-corruption | | • On-going training on business ethics for employees and directors |

# Fighting Against the Pandemic

The outbreak of COVID-19 pandemic brought unprecedented challenges globally. The Group took swift actions to protect the health and safety of its employees, and strive for speedy recovery of daily operations. Following the principle of "Early detection, early report, early isolation and early treatment", we set up a pandemic prevention taskforce to manage the anti-pandemic effort holistically. In addition to stringent pandemic prevention and control measures, we made targeted arrangements on human resources and manufacturing management to minimise the adverse impact of the pandemic on employee well-being, overall production capacity and product quality.

**Comprehensive pandemic prevention**

The pandemic prevention taskforce and the EHS department conducted checks to ensure all parts of operations are well-equipped for pandemic prevention. We allocated sufficient supplies and implemented social distancing restrictions in product lines, dormitories and shuttle bus services. At the beginning of the outbreak, the Group provided free nucleic acid testing for all employees. Guidelines and procedures are established and implemented for controlling visitors, on-boarding of new employees, arranging quarantine for employees who return to the workplace after public holidays, as well as handling suspected cases swiftly and safely.

**Flexible work arrangement**

Contingency plans were drawn to maintain productivity during the pandemic. Employees who were unable to return to the workplace adopted remote working. To reduce physical contact among employees, we allowed staggered working hours and lunch breaks. The global spread of the pandemic brought disruptions to manufacturing for some of the product lines. We arranged temporary job transfer for affected employees in order to assure their income and to meet delivery requirements at the same time.

**Employee support**

A health information platform was set up to keep employees informed of the latest anti-pandemic measures, and to report on their health conditions on a daily basis. Employees were free to report to the pandemic prevention taskforce for any emergencies. Managers coordinated with the taskforce in maintaining close engagement with employees to address their needs.

We made sure employees' rights to welfare and benefits remained protected during the pandemic. Salaries were paid according to legal requirements to all including employees unable to return for duty. The Group also provided all employees with epidemic insurance to cover pandemic-related costs.

**Smooth operations**

To mitigate concerns on product quality and timely delivery, early warnings were sent to suppliers requiring them to establish relevant contingency working groups and response plans and to review the adequacy of the plans through emergency drills. We also encouraged suppliers to actively engage with us regarding any potential quality and delivery issues to ensure smooth operations.

As Six Sigma is a critical training to achieve zero defects in products, during the pandemic, we offered online training to reduce the number of gatherings and thus the risk of infection, while ensuring the training was conducted as scheduled.

**Community support**

We reached out to the community during the difficult times of the pandemic, supporting relief efforts by donating medical equipment and supplies to those in need. We made a donation of 5,234 sets of medical protective wear to Longgang District Government, Nanshan District Government, and Shenzhen Children's Hospital, as well as 350,000 pieces of surgical masks to our suppliers. We have also worked with Yushu Hohxil Wildlife Conservation Association to source the medical equipment and made donations to medical staff in Hubei, Guangdong, Qinghai, Sichuan and Tibet.

# Business Ethics

## Business Ethics Policy

Integrity and honesty are the core values underpinning AAC Technologies' business operations. We require our employees to uphold all ethical principles when engaging with different stakeholders and strictly prohibit any form of bribery, extortion, fraud and money laundering. AAC Technologies is conscious of the fact that misconducts such as accepting gifts and misleading customers can lead to serious repercussions including affecting the fair execution of business, damaging the Group's image as well as leakage of personal data. Our Code of Conduct and Business Ethics Guidelines stipulate the management approach on each focus area, forming the basis for delivering products and services in an honourable and responsible manner.


*Focus areas of managing business ethics*

## Managing Compliance and Ethical Risks

AAC Technologies is obliged to comply with relevant national and international laws and regulations. We keep abreast with the latest updates on laws and regulations under the rapidly changing external environment, including but not limited to corruption laws, trade restrictions and patent laws of relevant countries and regions. We adhere to existing management procedures and conduct regular evaluations to monitor and eliminate compliance risks.

Our business ethics committee, led by the CEO, ensures the code of conduct and business ethics guidelines are thoroughly implemented. We conduct risk assessment quarterly to review the severity and probability levels of different ethical risks associated with our business and determine the respective control measures. The assessment covers various operation activities including procurement, sales, advertising, information management and employee communication. We strengthen control measures such as arranging targeted trainings, and conducting background checks to avoid corrupt behaviour associated with close personal or family relationships. Business ethics Ombudsman of each operating location is responsible for monitoring and reporting on implementation of the measures.

# Whistleblowing

The business ethics committee handles and investigates reported cases of violation of ethical standards. Employees are encouraged to report cases of misconduct anonymously through email, mailbox and hotline to the business ethics committee. All complainants' identity and investigation process are kept confidential. The final results of investigation are recorded and reported to top management and relevant departments. The internal ethical policies are regularly reviewed to improve their effectiveness in enhancing ethical compliance. Disciplinary actions including but not limited to warnings, demotion or dismissals are taken against employees who are in breach of any form of unethical behaviour. Any unethical conduct can be subject to a 2-year retroactive period.

In 2020, there were 24 valid cases out of a total of 46 received. They involve mainly workshop management and employee discipline related to business ethics. All of them have been investigated and resolved with the appropriate action by the human resources team. During the year, the Group was not aware of any non-compliance of relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering.

# Prevention

All general staff and management have their respective responsibilities to ensure lawful operations. Business ethics are included in induction training for newcomers. Refreshers trainings are also conducted for all employees and Board members to ensure the ethical responsibilities are clearly communicated to them.

| General Staff | Management |
|---|---|
| • Avoid having conflict of interests:<br>– Report relationship with business partners, including suppliers, employees to the Group<br>– Employees shall not accept or claim any amount of cash, gifts, privileges or hospitality<br><br>• Anti-corruption behaviours:<br>– Report and return monetary or non-monetary gifts received from the external parties to the Group | • Prevent anti-competitive behaviour:<br>– Take cautious approach when conduct business in relation with competitors<br>– Provide guidance when subordinates seek anti-corruption related advice<br><br>• Strengthen employees' ethical awareness:<br>– Provide monthly and annual training on business ethics to newcomers and staff respectively<br>– Ensure staff have signed the business ethics agreement at the beginning of each year<br>– Encourage subordinates to report any suspicious corruption cases |

*Ethical responsibilities of general staff and management*

# Talent Management



## Average training hours

**13.4**

Hours

## Launched online learning platform

**149**

Courses available

## Investment on health and safety

**RMB 98,795,000**

▲ 89% yoy

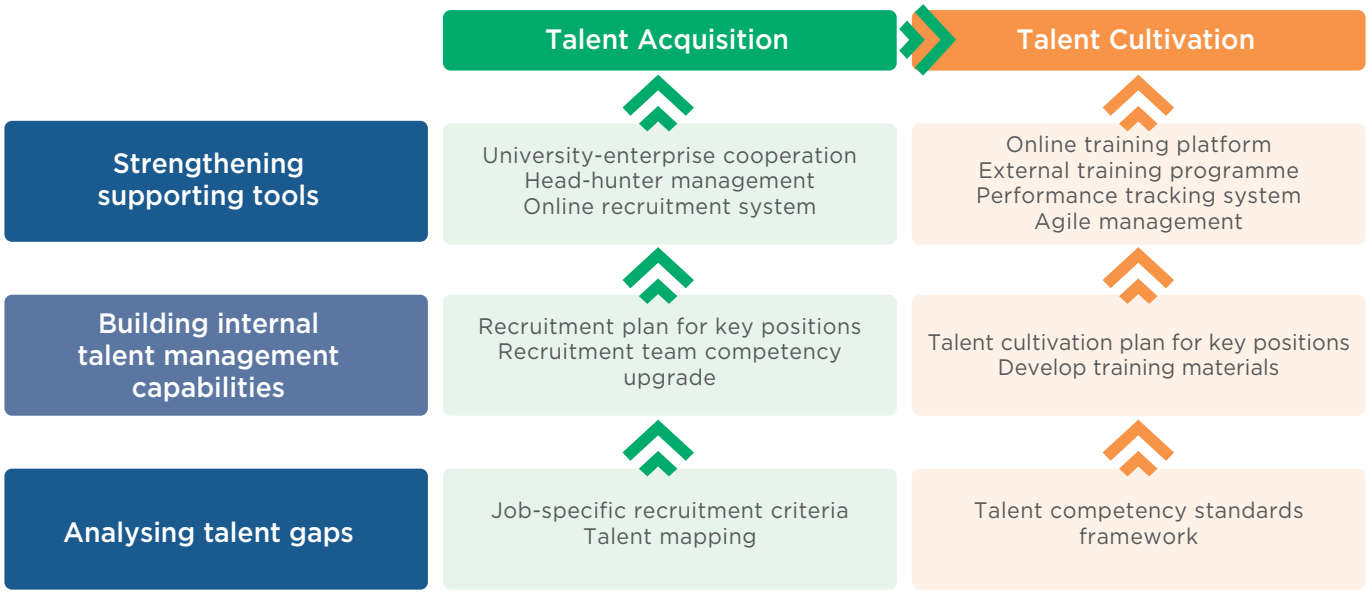
# Renewing Human Capital Management

We believe that it is essential to adopt a human capital management approach that responds to our business priorities. In a highly competitive market, we ensure the talent strategy is able to meet the immediate operational needs. Through enforcing a three-pillar system, the human resources ("HR") department takes up the role of an internal business partner, offering tailor-made HR management solutions to each product-line or business segment that best suits their specific needs. Supported by an HR services database system, we facilitate precision management of human capital to address the distinct challenges faced by each product line, for example, allocating appropriate resources, recruiting and retaining the most suitable talents that the product line might be lacking. In the long run, the HR department becomes a change agent which plays a strategic role in continuously developing our human capital management system that is sensitive and responsive to the dynamics of the industry and global business environment, continuously improving the performance of the workforce to boost business performance.

# Building a Future-proof Workforce

Identifying, attracting and retaining the best-fit talents to meet the needs of different business segment is the goal of AAC Technologies' talent management. This requires a well-built capacity for talent acquisition and cultivation. The renewed talent acquisition management system lays more emphasis on analysing recruitment needs of each business segment and building a stronger employer brand.

We have refined recruitment criteria and standardised talent competency requirements for key positions. Talent mapping provides a clear overview of the distribution, characteristics, skills and abilities of the existing talent pool. Together with market trends analysis and our product development strategy, we have designed targeted solutions for specific professions and positions, including recruitment plan, internal talent cultivation plan, succession planning and motivation measures etc., ensuring all positions are filled by the most suitable talents. Employees are able to upgrade their capabilities effectively following a set of talent development framework of their own positions, holistically enhancing professionalism which delivers a consistent quality service to customers. This provides solid support to business development and brings value to employees and customers at the same time.



## Talent Acquisition

The industry and the labour market are rapidly changing, leading to challenges in meeting the demand for talents. We identify and acquire the best talents efficiently and effectively through two approaches: modifying the acquisition system internally, and strengthening partnerships with higher education institutions externally.

Apart from identifying talent gaps, we have built a team of competent recruitment professionals and interviewers, providing them with guidelines on interviews process and training on assessing recruitment needs, arranging and conducting interviews, managing candidates and CV selection etc. In addition, we have revised the managing procedures and evaluation standards of headhunting consultancies, mobilising their resources on certain types of positions to expand our talent pool.

University-enterprise cooperation is a key strategy to expand the talent pool and support youth employment. With 5 partnering institutions added in 2020, we collaborate with targeted schools and academic departments that specialise in professional aspects relevant to our product lines and job types such as optics and manufacture engineering. With the strengthened network built with universities and teachers, we actively reach out to young talents, understanding their career expectations and promoting our company culture and career prospects. Together with data collected from online recruitment channels and market research, we are able to stay abreast of current workforce trends. During the year, a lot of engagements were done online, reaching a broader audience and deriving satisfactory response. University-enterprise cooperation will continue to be an important approach in attracting young talents on-board.

## Targeted Training

We make every effort to offer long-term growth prospects to employees, through continued training opportunities and multiple career development channels. Our targeted development programmes help maintain and develop their skills and competencies to meet the anticipated changes in the market.

One of the major training programmes is the one offered to newly promoted plant managers. The aim is to develop leaders who manage and build strong and effective teams to boost productivity. This programme focuses on experience sharing, as well as cultivating skills and abilities that they may be lacking including cost management, teambuilding and lean manufacturing, motivating them to become competent in both strategic thinking and problem-solving. Another targeted programme is offered to assistant general managers of radio frequency (“RF”) products, for enhancing their product knowledge. Future training focus will be on building customer relations and communication skills. It aims to enable managers to seize market opportunities and bring value to customers.

We continue to offer external management training to senior engineers and directors in partnership with Nanjing University Business School and China Europe International Business School, for developing core management skills such as coaching. External courses were also provided to senior management and HR department, which specialises in change management, organisational design and influence, equipping the company leaders with the necessary skills and mindsets to achieve in their respective roles. The average training hour per person was 13.4 hours, with a total of 451,481 training hours.

| | Training person-times | Total training hours | Average training hours |
|---|---|---|---|
| **Manufacturing** | 137,281 | 390,033 | 15.1 |
| **Non-manufacturing** | 1,559 | 3,955 | 1.7 |
| **Management** | 31,465 | 57,492 | 10.2 |
| **Total** | 170,305 | 451,481 | 13.4 |

## Employee Motivation

As part of the talent retention strategy, we motivate all employees to explore their own potential and contribute their best. Our triple-channel system allows employees to develop their career pathways according to abilities and desires. We keep opportunity for professional advancement open and diverse to encourage employees to achieve both personal and career growth. We also make efforts to assist employees to adapt to our corporate culture through frequent one-on-one engagements, with greater understanding of employees' varying cultural backgrounds and career expectations.

For raising productivity, we have embedded the performance tracking system into the regular employee evaluation framework. We assist employees, from management positions to frontline workers, in goal setting and performance benchmarking. As mentioned, our product lines have been re-organised and adopted the agile management approach which aims to raise efficiency of work distribution, project leadership and execution, building a team with strong cohesiveness and striving towards a common goal. Employee performance data gathered are useful for improving work arrangements, rewarding employees with satisfactory performance, providing employees with guidance for improvement and job rotation opportunities. We saw an increase in overall productivity during the year. We have also effectively identified and promoted outstanding employees to management positions, consolidating talent pool for the Group's future development.

# Striving for Employee Satisfaction

## Employee Communication

The Group strives to ensure employees' concerns and feedback are addressed. All enquiries, complaints and grievances can be submitted by mail, email, hotline and a scan of QR code. We have renewed the grievance redressal system to smoothen communication on employee matters. The system provides clear categorisation of complaints. It also stipulates the approach and the timeframe within which they are required to be handled and resolved. Investigations are conducted in a fair manner and in respect of the complainants' rights and privacy. To promote the use of the grievance channels, employees who provide constructive feedback and truthful complaints are rewarded. Those who provide false information, obstruct the investigation process and misuse the channel for their own advantage are held responsible according to the code of conduct. During the year, the grievance system received 336 enquiries and 485 complaints in total, from a range of issues covering accommodation and catering services and work arrangements. All of them were handled according to procedures, with records of grievances are kept at the online grievances handling platform.

| Complaints received | Investigation | Report | Internal communication |
|---|---|---|---|
| The legal department gathers and monitors all complaints. The complainant must be contacted within 3 working days. | Cases are reviewed and filed for investigation. If the cases are found not suitable for investigation, complainants are notified of the reasons. | Follow-up actions are taken for violation cases. Complainants are notified of the results in 5 working days after investigation is completed. They have the right to appeal the results. | Cases of non-compliance are communicated to employees via intranet and internal bulletin by the HR department. |

## HR Services Database System

Creating satisfactory employee experience is key to empowering the workforce, and we believe technology plays a crucial part in achieving this goal. The HR services database system has been one of our main focuses of human capital management. By utilising cloud technology, employees can complete all HR related procedures anytime at their convenience, improving both efficiency and quality of HR services and communications. During the year, recruitment procedures, training and grievance channels became digitalised, marking an important step towards greener workplace and closer employee engagement.

**Online Recruitment System**

CVs submitted by candidates are categorised and analysed at the information recruitment system, which directly updates the talent pool. Time needed on CV screening and related administrative work are considerably shortened. This allows the HR department to monitor the recruitment process, enrich the talent pool and search for the right talent in a timely manner. The system plays a role in speeding up the recruitment process at a low cost. Our operation in Nanning received over 9,500 CVs online during the pandemic, with over 1,500 candidates hired.

**Mobile Office Platform**

To promote a paperless workplace , our operations in PRC have shifted HR services including take attendance, leave application, overtime records to the mobile office app. Attendance enquiries can now be made on the app in less than one minute. The app also supports submission of daily temperature recording as part of the anti-pandemic measures.

**Online Learning Platform**

Launched in September 2020, the online learning platform aims to raise flexibility and accessibility of training, breaking the geographical and time barriers of face-to-face learning. More resources are diverted to identifying training needs of each business segment, developing new training programmes and improving training materials that suit our business needs. Besides, the platform allows employees to rate the course and provide feedback, which is proven to be more effective in evaluating the courses. The platform now provides 149 courses, accessed by 113,787 person-times. Broadening participation to all levels and collecting training data will be the next step.

**Online Grievance Handling**

A centralised online platform is launched in conjunction with the renewed grievance redressal system. Information and status of the complaints are easily recorded and monitored, leading to swift responses to enquiries and complaints. We have received positive feedback from employees relating to the system and it has become a trusted communication channel.

## Welfare

Employees' well-being is crucial to long-term business success. The Group ensures welfare and benefits are provided to all employees without any form of discrimination. Salary is adjusted annually based on merit. Annual leave, allowances, bonuses and social insurance etc. are provided according to regulatory requirements. As expected, overseas employees also enjoys retirement pensions under the relevant laws and regulations in their respective countries.

The Group conducts employee satisfactory survey annually which covers aspects including work arrangement, salary and welfare, accommodation and catering, career development, communication and engagement. We have been constantly improving accommodation, catering and shuttle bus services based on employee feedback from the survey. Teambuilding and employee engagement activities continued to be held during the year under safe anti-pandemic precautions in lower risk locations.

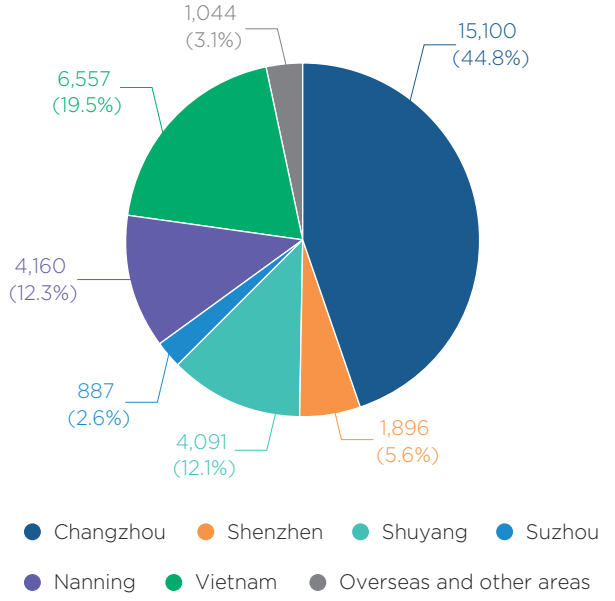
To protect the rights and welfare of women employees, related policies have already been in place, including special work arrangements for pregnant employees, and breastfeeding times for nursing mothers. During the year, we established guidelines for setting up of breastfeeding rooms, to ensure accessibility and quality of the breastfeeding room. The Group also supports employment of low-income individuals. We offer special allowances through government subsidies to some low-income employees.

# Our Workforce

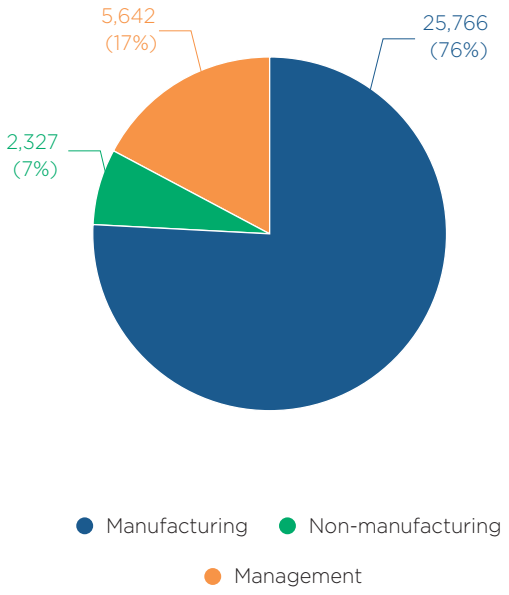
As of 31 December 2020, the Group had a total of 33,735 employees. 76% of the Group's employees were production workers, while 7% were non-manufacturing staff and 17% were management executives.

Around 80% of our employees were located in PRC, with Changzhou, Nanning and Shuyang remain the three sites with the largest workforce in the PRC, accounting for 44.8%, 12.3% and 12.1% respectively. Vietnam, one overseas production base, is where we have the largest overseas employees, takes up 19.4% of the total group's employees.

### Geographical distribution




### Employee distribution by business function




### Employee distribution by gender

| | Changzhou | Shenzhen | Shuyang | Suzhou | Nanning | Vietnam | Overseas or other areas | Total |
|---|---|---|---|---|---|---|---|---|
| **Male** | 10,840 (32.1%) | 1,347 (4.0%) | 2,676 (7.9%) | 610 (1.8%) | 2,270 (6.7%) | 2,372 (7.0%) | 813 (2.4%) | 20,928 (62.0%) |
| **Female** | 4,260 (12.6%) | 549 (1.6%) | 1,415 (4.2%) | 277 (0.8%) | 1,890 (5.6%) | 4,185 (12.4%) | 231 (0.7%) | 12,807 (38.0%) |

Despite decrease in total number of employees, there was a 4% increase in R&D staff and technicians, recorded at 4,335, bringing solid support to our innovation projects and product development. We maintained the same distribution by age, gender and business function. Mechanics and operators took up 37.5% and 43.8% of the total employees, which also forms the majority in the manufacturing function. 45.7% the manufacturing employees were aged 30 or below. The proportion of male to female employees was at 60:40. Approximately 49% of employees have degree level qualifications or higher.

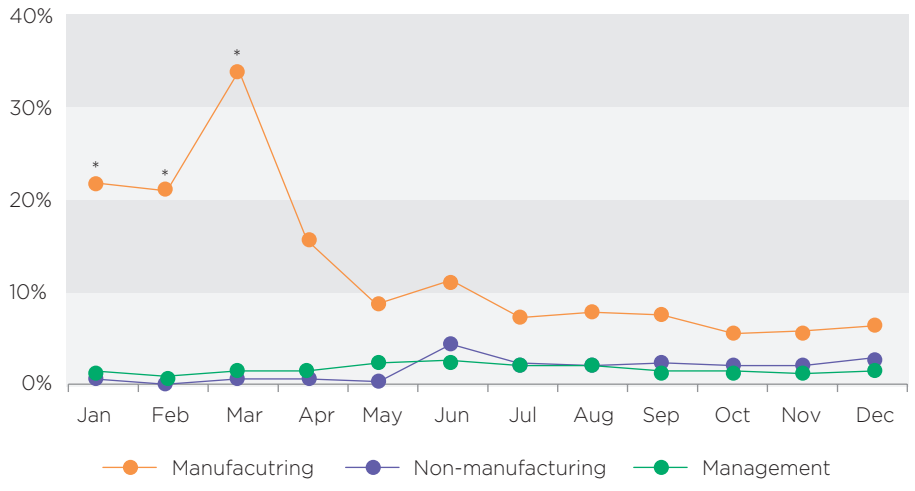
## Employee distribution by age, school and profession

| | By Age | | | | By Education | | By Profession | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ≤30 | 31-40 | 41-50 | >50 | Degree or above | High school or below | Management | R&D | Technicians | Mechanics | Operators |
| **Manufacturing** | 15,421 (45.7%) | 9,025 (26.8%) | 1,255 (3.7%) | 65 (0.2%) | 9,941 (29.5%) | 15,825 (46.9%) | 0 (0.0%) | 191 (0.6%) | 235 (0.7%) | 11,707 (34.7%) | 13,633 (40.4%) |
| **Non-manufacturing** | 856 (2.5%) | 1,067 (3.2%) | 323 (1.0%) | 81 (0.2%) | 1,125 (3.3%) | 1,202 (3.6%) | 0 (0.0%) | 100 (0.3%) | 127 (0.4%) | 956 (2.8%) | 1,144 (3.4%) |
| **Management** | 2,577 (7.6%) | 2,558 (7.6%) | 397 (1.2%) | 110 (0.3%) | 5,471 (16.2%) | 171 (0.5%) | 1,960 (5.8%) | 1,585 (4.7%) | 2,097 (6.2%) | 0 (0.0%) | 0 (0.0%) |
| **Total** | 18,854 (55.8%) | 12,650 (37.6%) | 1,975 (5.9%) | 256 (0.7%) | 16,537 (49.0%) | 17,198 (51.0%) | 1,960 (5.8%) | 1,876 (5.6%) | 2,459 (7.3%) | 12,663 (37.5%) | 14,777 (43.8%) |

## Employee turnover rate

To improve employee retention, we collect and analyse types of turnover and the reasons behind. 98.3% of employees left by voluntarily resignation, while 1.4% left by agreement with the Group and the remaining 0.3% due to contract termination.

### Employee monthly turnover rate




* Turnover rate was higher as employees were unable to return to the workplace during the pandemic. Some employees chose other job opportunities after returning to their hometowns.

### Turnover rate by age, gender and business function

| By Age | | | | By Gender | | By Business Function | | |
|---|---|---|---|---|---|---|---|---|
| ≤30 | 31-40 | 41-50 | >50 | Male | Female | Manufacturing | Non-manufacturing | Management |
| 13.8% | 6.2% | 2.9% | 2.0% | 10.2% | 10.4% | 12.6% | 1.6% | 1.5% |

# Regulatory Compliance

## Our Commitment

AAC Technologies is committed to respecting basic human rights and labour rights, aligning with Universal Declaration of Human Rights, United Nations International Covenant on Civil and Political Rights, United Nations International Covenant on Economic, Social and Cultural Rights and other international covenants and declarations. We strictly comply with labour related laws and regulations in all locations where we operate, including but not limited to the "Labour Law of the PRC". We also adhere to the principles stipulated in Responsible Business Alliance (RBA, formerly known as EICC) Code of Conduct, as well as other industry standards on social compliance.

One of the three core corporate cultures, as mentioned, is "open-mindedness". The Group supports the principles of inclusion, diversity and equal opportunity, taking responsibility to build a fair and respectful workplace. We prohibit any discrimination and harassment of employees because of the contract type, ethnicity, gender, religion and disability etc. Ensuring the non-discrimination policy is implemented at daily operations, our Code of Conduct outlines the set of appropriate behaviours of employees and consequences of violation. We respect the right to unionise and right to collective bargaining. Any discrimination and retaliation against employees on union membership and activities is not allowed.

During the year, there were not any violations of any laws and regulations related to remuneration and dismissal, recruitment and promotion, working hours and equal opportunities, anti-discrimination and other treatments and benefits, which had a significant impact on the Group. Nor any incidents of human rights infringement reported. And the Group absolutely forbids use of child and forced labour.

## Managing Labour Risks

The Group manages labour risks comprehensively through due diligence procedures. During the year, all production plants have completed the annual labour risks assessment, which covers various aspects, including working hours and freedom of association. Under a refined risk assessment framework, risks are mitigated according to the risk level identified. Key risks and mitigation method are summarised in the table below.

| Labour-related aspects | Risk level | How we mitigate |
|---|---|---|
| **Maternity protection** | Low | To protect women's right to work, pregnancy tests are forbidden during the recruitment process. Night shifts, overtime work and hazardous tasks are not assigned to pregnant employees. |
| **Working hours** | Medium | Overtime work is strictly voluntary. We strengthen coordination on production plans to minimise excessive working hours. |
| **Salary payment** | Medium | Salary is paid accurately and timely according to laws and regulations. Employees can make enquiries regarding salary calculations through online HR services system. Salary deduction as a disciplinary action is prohibited. |
| **Freedom of association** | Medium | We respect the right to unionise and right to collective bargaining. Any discrimination and retaliation against employees on union membership and activities is not allowed.<br><br>To prevent potential labour strikes, we maintain effective grievance system and open dialogue with employee-elected representatives. In the Vietnam sites, emergency response mechanism is in place to resolve any conflict lawfully and peacefully with mutual respect, seeking solutions that benefits all parties when investigate the root cause. |
| **Discrimination and harassment** | Medium | Job advertisements are checked for any discriminatory terms. Related training is provided to managers. Grievance channels are available for reporting suspected cases of discrimination and harassment. |
| **Forced labour** | Medium | Recruitment personnel are not allowed to withhold candidates' identification documents or collect deposits as a condition of employment. Random checks and interviews with newcomers are conducted to ensure compliance of the recruitment process. The Group absolutely forbids forced labour. |
| **Child and young labour** | High | We check identification documents and interview candidates to verify employees' age. Suspected cases are further investigated. The Group absolutely forbids child labour. |

Education is another key approach to labour risks management. CSR training is embedded in induction training for all newcomers to create awareness on rights that the new hires are entitled to and ways to protect their rights. Training is also conducted for HR personnel who are responsible to carry out employment procedures, with contents covering labour laws, company policies and code of conduct.

## Child and Young Labour

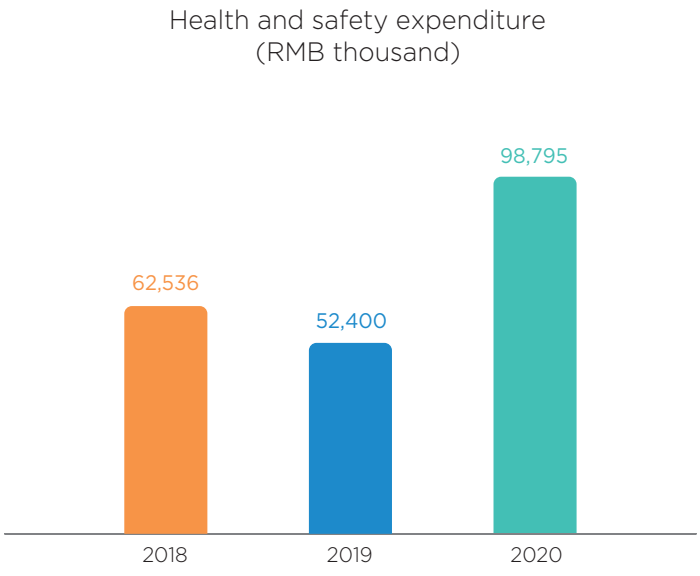
Use of child labour of age under 16 is strictly prohibited at the Group. Any cases of child and young labour found are handled in accordance with relevant laws. A child labour remedial policy is in place to ensure children's rights including the right to education is protected until they reach legal working age. Though we do not recruit young labour aged between 16 to 18, a young workers protection policy is maintained to monitor the related labour risks. The policy prohibits young workers from holding hazardous job positions and working overtime. Information of the workers is recorded and managed in cooperation with their parents and schools.

## CSR Audits

The Group works closely with customers on social compliance and mitigating labour risks. During the year, we completed 36 customer-audits initiated by 8 major customers, covering production plants in Changzhou, Shuyang, Shenzhen, Nanning and Vietnam. Action plans for improvement are drawn and implemented under customer approval and third-party inspection. During the year, improvements are made mainly on reducing overtime work, smoothening operational procedures and refining salary calculation method. All outstanding items have already been addressed and closed.

# Managing Health and Safety

## Management Approach




Committed to achieving zero fire accidents, injury and disaster, the Safety Management Committee continues to supervise occupational safety matters. The committee is superintended by the committee officer for facilitating management of safety production, researching occupational safety and health trends and resolving critical problems in the area. In 2020, quarterly meetings were held to propel the progress of various occupational health and safety programmes and enhance the targets, to strengthen the corporate safety culture. To ensure opinions from different functions can be adopted and an effective communication channel is in place, employee representatives are invited to participate in quarterly meetings. Through the structured management system, we aim to further reinforce the supervision and management of safety risks and employee wellness, thereby moving on from remedy to prevention.

We have maintained OHSAS 18001 certification at all production plants in Shenzhen, Changzhou, Shuyang, Suzhou, Nanning and Vietnam and have commenced transition to ISO 45001 standard during the year. Currently one plant in Shenzhen and all plants in Changzhou have already attained ISO 45001 certification. We will work steadily to obtain certification for rest of the production plants.

### Three-tier safety inspection

The Safety Management Committee underwent a major revamp on in-house safety inspection this year, reforming the structure into three tiers from solely responsible by full-time safety inspectors. The refinement fosters the implementation of autonomy in health and safety management. In this regard, each department has to manage its safety training and inspection at its own initiative.

| | Responsible party | Safety responsibilities |
|---|---|---|
| **Tier 1** | Environmental Health and Safety ("EHS") Engineer | Examine the safety performance of each product-line, draw up safety check schedules and frequency |
| **Tier 2** | Safety Inspector | Conduct safety inspection and facilitate client engagement |
| **Tier 3** | At the department level | Regulate self-checking and periodical reviews |

*Structure of three-tier safety inspection*

### Specialised safety inspections

We continued to coordinate specialised safety inspections with an expanded scope of practices. Alongside the themed inspections corresponding to electrical safety and safety culture which were set up in 2019, we now conduct weekly joint inspections on various topics including but not limited to hazardous chemicals, occupational health and safety, construction and facility safety management. Through the joint inspection, we aim to discern the safety concerns and develop corrective measures at the department level, enabling prompt precautionary actions.

During the year, there were no non-compliance with laws and regulations having a significant impact on the Group relating to occupational health and safety.

### Chemical safety

The hazardous chemicals management system is maintained to ensure compliance with safety regulations during procurement, transportation, storage, utilisation and eventually end-of-life disposal. The chemicals management system has been digitalised this year, representing another advancement during the year. Digitalisation facilitates both a structured approach to the application of chemicals and a flexible system for chemicals safety training before onboarding. Employees are now able to receive the pre-onboarding training via visual materials and assessment on the EHS platform without time constraints. Not merely transforming training from face-to-face to virtual mode, we are also ensuring participation of all employees, who are eligible to review the course content when necessary.

## Training and Communication

### Digitalised EHS platform

Improving the EHS platform a centralised one-stop platform is a significant move toward digitalisation. File storage, data sharing and synchronisation are the preliminary functions of the platform, which ensures a universal code of practices such as laws and regulations are adopted. At the same time, up-to-date data such as the total number of employees who have completed body check are shared among all production plants. Going beyond information sharing, the centralised dashboard embodies information ranging from risk assessment, OHS management to data analysis and inspection results. Among these features, mandatory safety training modules and assessments have been incorporated into the system starting from this year. All managers are required to accomplish the digitalised on-board training. The rollout of the tool has successfully ensured smooth and interactive communication between different production plants.

To cultivate and promote a corporate safety culture, we have to ensure discussions at the decision-making level are communicated effectively to employees at all levels. The objective is the primary goal of our Wechat official account. The EHS management team regularly publishes timely and seasonal content. For instance, precautions of utilising natural gas as transportation fuel in winter and combating rumours on COVID-19 have been published in the form of reminder on the official account or newsletter. We also uploaded the induction training material onto the account for employees to subscribe and proceed further.

## Strengthening safety culture through training

In addition to delivering the message through notices and digital means, training is of great importance to receive instant feedback from employees on the message delivered. Echoing the core concentrations of our clients, emergency preparedness is one of the major themes for safety training this year. We conduct drills on identified potential emergencies with developed and implemented emergency plans and response procedures. Corrective actions on responsiveness are taken subsequent to the training.

**Confined space emergency rescue drill**

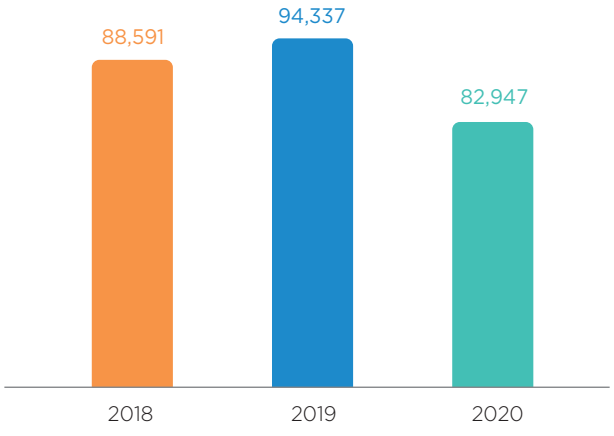
- Assure the code of practice for safety and health at work in confined space
- Enhance the emergency response preparedness at maintenance and cleansing operation
- Ensure the effectiveness of the emergency rescue plan

**Special equipment emergency rescue drill**

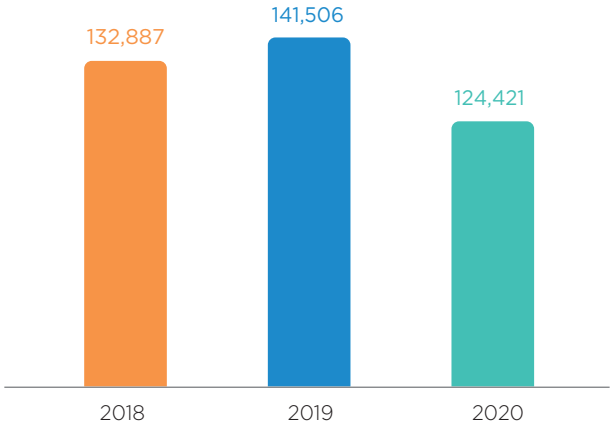
- Acquire the procedures and emergency measures in an accident that involving forklift truck
- The drill was evaluated with instant corrective measures, making certain that all employees comprehend the message delivery

*Drills and safety training highlights in 2020*

Total person-time safety training (person-times)




Total safety training hours (hours)



## Occupational Health and Safety Performance

During the year, we recorded loss of 3,005 workdays due to work-related injuries.

One tragic traffic accident: took place outside the Company's premises in Changzhou resulted in the death of an employee, who was hit by a commercial vehicle driven by another employee. The accident was caused by the driver's negligence in observing the road condition and failure to observe traffic rules.

What we have implemented: we strengthened the Group's drivers and employees' road safety education, such as training provided by the external fire department and internal drills and campaigns, to embed a road safety culture. We also installed speed cameras in major production plants to monitor road conditions and punish illegal parking and exceeding the speed limit.

In addition, the Group sets safety targets under each product line directors, which is linked to their performance evaluation. The safety target for 2021 is to reduce the injury rate per thousand workers to 75% of the 2020 figure.

# Preventing Occupational Diseases

To shield employees from safety hazards and occupational diseases, the Occupational Health Management Procedure is stipulated with preventive, responsive and follow-up measures. For instance, deployment of UV light sanitiser, maximisation of wind-induced ventilation at the production plants and provision of nutritional supplements.

Supervised and coordinated by the Emergency Response Team, the management procedure are structuralised and allocating roles and responsibilities to various departments. Among the preventive measures, personal protective equipment distribution and health checks are vitally important. We have a standard in place for personal protective equipment distribution, guaranteeing the employees are equipped with sufficient and qualified gears for their scope of work. Besides, all employees are entitled to both induction and annual health checks for identifying occupational health issues at the earliest possible. A comprehensive check-up will be arranged for employees with abnormal results. During the year, the number of health checks conducted for new employees amounted for 33,909 person-times. No cases of mental illness were recorded.

# Managing Environmental Impacts



## Clean energy consumption target

To achieve

**>75%**

in 2030

## Renewable energy consumption

**14.8**

million kWh

▲ 5.7%

## Waste diversion

Achieved

**100%**

waste diversion in 2 Changzhou Plants

# Strengthening Environmental Risk Prevention

The Group continues to make progress in mitigating our environmental impacts by gradually improving resources usage efficiency and waste management and adopting clean production technologies throughout our business operations.

## Management Approach

The Group's environment policy sets out the overall direction of its environmental management. Environmental Management Department is responsible for ensuring the effective implementation of environmental control measures including water, chemical safety and waste management.

We are aware of environmental impacts of renovation and expansion projects. In the early stage of project development, we conduct environmental impact assessment to identify the potential environmental impacts that might arise during construction. During the construction and operation stages, we implement mitigation and preventive measures in accordance with relevant laws and regulations, ensuring operational compliance.

To manage environmental performance, we conduct environmental monitoring and commission third-party testing at least once a year. All major production plants in PRC and Vietnam have obtained ISO 14001 Environmental Management System certification and 2 of the plants in Changzhou have been certified under ISO 50001 Energy Management System. We completed clean production audits at the major production facilities in Changzhou, and expanded the audit to Shuyang during the year.

In response to risks brought by extreme weather such as flooding, we implemented natural disasters emergency plan which stipulates emergency procedures including issue warnings and activate back-up power. Regular checks on building facilities and flood drills are conducted to strengthen our resilience.

In addition, during the year, the Group commissioned an independent third-party consultant to supervise the environmental management process and perform a compliance audit, aiming to identify risks and evaluate our resources management so as further improve our environmental performance. To ensure employees are equipped with relevant skills, we provide internal and external training to relevant personnel covering clean production, wastewater and air pollution management and updates on laws and regulations.

## New Related Regulation

In 2020, the PRC published a mandatory national volatile organic compounds ("VOCs") standards and promulgated amendments to the "Law on the Prevention and Control of Environmental Pollution by Solid Waste". The Group strictly complies with these regulatory changes, formulating promptly an internal policy for restricted substances with reference to the VOCs standards and enhancing current waste management. In addition, we proactively participate in training and meetings organised by the local environmental departments to facilitate information exchange. Ensuring legal discharge of pollutants, major production plants have obtained the Pollutants Discharge Permits in 2020. Going forward, we will continue to obtain the latest information by regularly monitoring policy updates and maintains close communication with governmental departments and customers, embracing the increasingly stringent environmental laws and regulations in the PRC.

During the year, there were no violations of any laws and regulations related to emission of gas and greenhouse gases, discharge to the water or land, and generation of hazardous or non-hazardous waste, which had a significant impact on the Group.

# Addressing Climate Change

Starting from 2018, we have started to disclose climate-related risks and opportunities by adopting recommendations from the Taskforce on Climate-related Financial Disclosure ("TCFD"). In 2020, we continued to align disclosures with TCFD, and stepped up efforts by reporting our progress in managing the potential risks and opportunities.


## Strategy and Risk Management

Climate change issues have been incorporated in the Group's sustainable management system. The Group manages its environmental performance in alignment with the ISO 14001 certified environmental management system and ISO 50001 certified Energy Management System. To reduce energy usage and thus greenhouse gases emissions, the Group adopts renewable energy at the plant and implements energy-saving initiatives, raising its energy efficiency.

## Governance

The climate-related issues are managed by the Board of Directors and the SWG. The Board of Directors plays a central role in climate governance, and it is supported by the SWG which oversees the Group's management of climate issues and regularly reports to the Board. The functions and responsibilities of the SWG is specified at the "Sustainability Governance" section.

## Understanding Risks and Opportunities

Potential climate-related risks faced by the Group include physical risks such as extreme weather events and rise in sea level, and transition risks such as policy and legal risks, technology risks, market risks and reputational risks. We included materiality assessments in stakeholders engagements to understand stakeholders' concerns, including climate change-related issues. The below table shows our response in managing potential business impacts and benefits brought by the climate-related risks and opportunities that the Group may be facing, following the TCFD recommendations.

| | Risks/ Opportunities | Potential Business Impacts/Benefits | Our Response | Corresponding Section |
|---|---|---|---|---|
| ***Physical risks*** | | | | |
| Acute | Increased frequency and severity of extreme weather events (e.g. typhoons) may damage our facilities and affect materials and products transportation | • Increased operating and maintenance costs<br>• Loss of revenue | • Implemented natural disasters emergency plan<br>• Conducted flood drill | Strengthening Environmental Risk Prevention |
| Chronic | Prolonged period of extreme hot weather | • Increased operating cost such as energy cost<br>• Increased chance of heat-related injuries which affect employees' health and safety | • Established ISO 50001 Energy Management System in 2 plants in Changzhou<br>• Implemented energy-saving measures | Optimising Energy Structure |
| ***Transition risks*** | | | | |
| Policy and legal | Enactment of more stringent laws and regulations related to climate change | • Increased compliance cost | • Regularly monitor the regulatory trends | Strengthening Environmental Risk Prevention |
| Market | Change in customer preferences for green products | • Reduced revenue due to the decrease in demand for current products | • Ongoing study of application of recycled materials<br>• Control and avoid hazardous materials in products | Green Products |

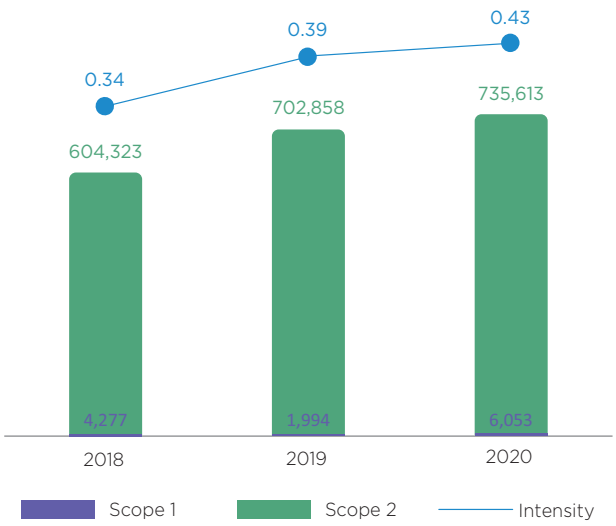
| | Risks/ Opportunities | Potential Business Impacts/Benefits | Our Response | Corresponding Section |
|---|---|---|---|---|
| ***Opportunities*** | | | | |
| Products | More low-carbon, energy-saving technologies are developed | • Introduction of new technology to boost product competitiveness | • Exploring new environmental technologies and develop green products | Optimising Energy Structure |
| Resource efficiency | Raise energy efficiency, improve operation management | • Reduced energy cost | • Adopted energy saving technologies including waste heat recovery<br>• Automisation of production<br>• Machinery upgrade and refurbishment | Optimising Energy Structure<br>Green Products |

## Metrics and Targets

### Greenhouse gases emissions

We measure our greenhouse gases ("GHG") emissions and energy consumption on a monthly basis to monitor the effectiveness of energy saving initiatives. During the year, total greenhouse gases emissions were 741,666 tonnes of carbon dioxide equivalent ($tCO_2e$), with an emission intensity of 0.43 $tCO_2e$ per ten thousand RMB revenue. The total GHG emissions increased by 11% compared to 2019.

Greenhouse gas emissions ($tCO_2e$) and intensity ($tCO_2e$/ten thousand RMB revenue)



Indirect emissions from purchased electricity (Scope 2) account for 99% of the total emissions. To reduce our Scope 2 emissions, we actively explore the possibilities of reducing electricity consumption and increasing energy efficiency in operations. Please refer to the "Optimising Energy Structure" section for more information.

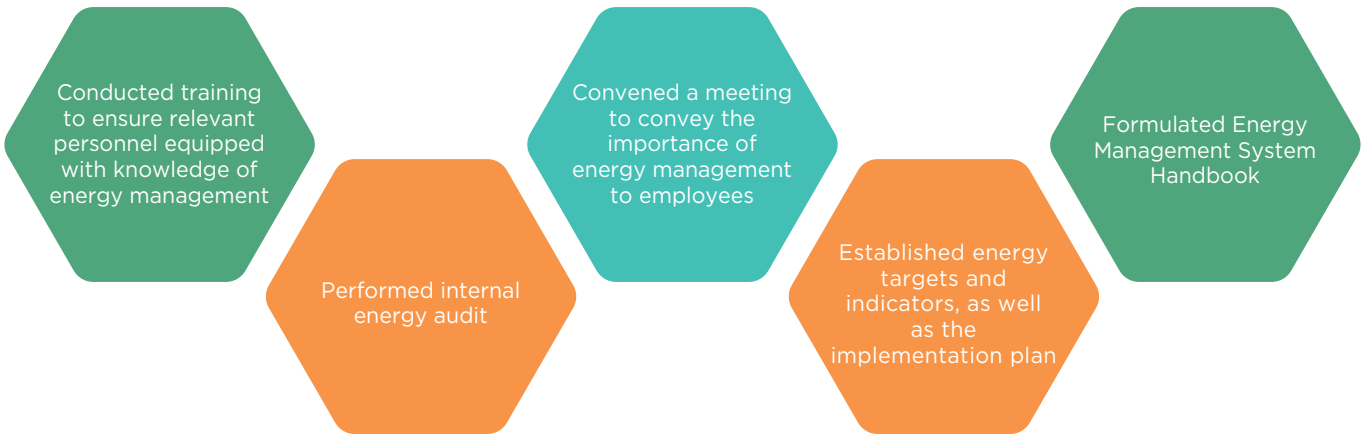
PRC has announced its target to achieve carbon neutrality in 2060. It is expected that the policies and regulations on carbon emissions will be more stringent in coming years. Our Shenzhen plant has participated in the carbon emission trading scheme since 2018. To manage our carbon emissions, we have set an annual carbon emission reduction target of 5% lower than the government quotas. The carbon emissions of the Shenzhen plant in 2019 have been reviewed in 2020, with the carbon reduction target being achieved. To prepare for enactment of the carbon trading system, the Group has a carbon emission database in place which systematically records carbon emissions data of each production plant.

## Optimising Energy Structure

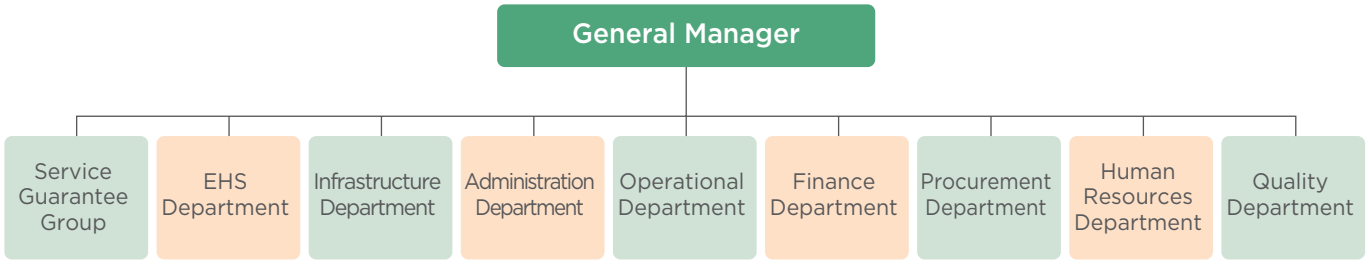
### Energy management

We prioritise the use of clean technologies in production, constantly upgrading the facilities and equipment to increase energy efficiency. In 2020, two production facilities in Changzhou have obtained the ISO 50001 Energy Management System certification. Since the launch of the system, a total of 10 energy management training courses have been held, with more than 200 person-times recorded. Energy-related targets, which cover energy efficiency, overall energy consumption, annual energy saving capacity, and energy consumption per unit product in each production workshop, are set by the two facilities to continue to monitor their energy consumption.

Energy management centre is responsible for daily energy management. Some of the production plants have an established energy management structure in place, in which the general manager is responsible for ensuring compliance with laws and regulations, supervising the establishment of the energy management system and implementation of energy management measures.

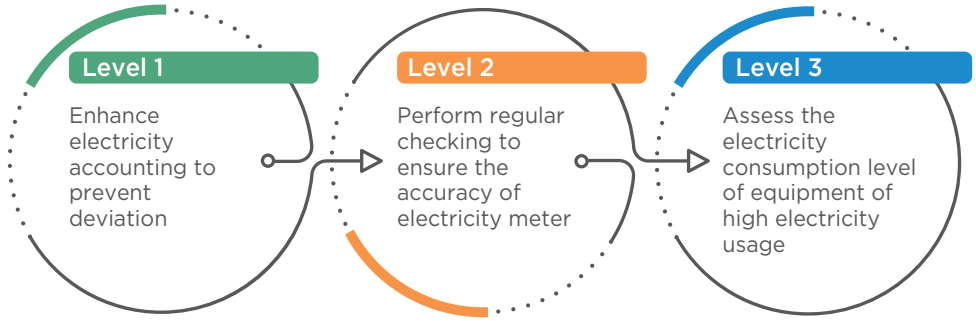



*Focus of energy management centre*



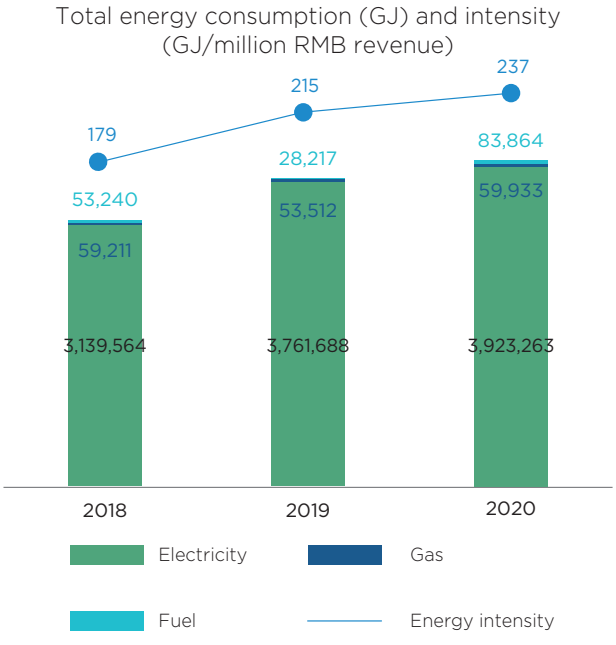

*Energy management structure*

As the major source of energy consumption for the Group, electricity accounted for more than 96% of total energy consumption in 2020. We are working to strengthen electricity management through implementing a 3-tier electricity accounting and management system, with an aim to improve the precision of electricity accounting, improve operational efficiency of equipment and reduce idling of machinery.




*3-tier electricity accounting management*

Regular online monitoring of electricity usage enables us to spot unusual variations in consumption and manage the energy consumption more effectively. We optimise the coverage of electricity monitoring, including installation of a smart monitoring system in new plants in Changzhou. Electricity consumption data is transmitted to the control centre for data management and analysis. In addition, monthly consumption data is reported to production units so that they can implement measures to avoid wastage.



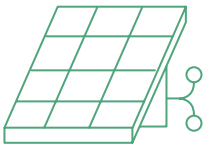

In 2020, the Group consumed a total of 4,067,060 GJ of energy, with an energy intensity of 237 GJ per million RMB revenue. Fuel oil consumption increased in 2020 due to the increased proportion of self-owned company vehicles.

Currently, we have adopted a three-pronged approach to reduce energy consumption and GHG emissions, including developing clean energy, installing energy saving devices, and optimising energy efficiency of facilities.

## Transitioning to Clean Energy

We believe there is a significant opportunity to reduce GHG emissions and contribute to cleaner air quality by switching to clean energy. To be in line with PRC's clean energy 100% target and customer demand, production plants in Changzhou should set high target, above 75%, of clean energy consumption in 2030. To achieve this goal, we formulated clean energy consumption indicators to gradually increase clean energy consumption throughout to 2030. During the year, the Group started using electric cars and continues to develop and operate renewable energy generation facilities at some of our production plants. We installed photovoltaic solar power generation systems in Changzhou and Shuyang. In Shenzhen, 1 electric truck and 4 electric employee commuter shuttle buses have commenced operation.

**>75%** Clean energy consumption target in 2030



**Over 14.8 million kWh** of solar energy generated in Changzhou and Shuyang

**Electric vehicles** introduced in Shenzhen

## Improving Energy Efficiency

The Group continuously explores energy saving technologies to reduce energy consumption, enhance energy efficiency and reduce operational cost.

**Replacement of LED Lights**

- Replace streetlights in one of the production plants to LED lights
- Expected to save **more than 25,000** kWh of electricity annually

**Upgrading Refrigerating Equipment**

- Enhancing energy efficiency of refrigerating machines
- Reduced electricity consumption by approximately **1,000,000** kWh

**Waste Heat Recovery from Air Compressor**

- Utilise the heat energy generated by the air compressor during operation to heat the water in employee dormitories in Changzhou
- Reduced the annual natural gas consumption by approximately **300,000** cubic metres

**Installation of Frequency Transformer in Air Compressor System**

- Install frequency transformer in air compressor in Shenzhen to reduce energy consumption of air compressors in non-peak production hours, saving a total of **129,600** kWh electricity

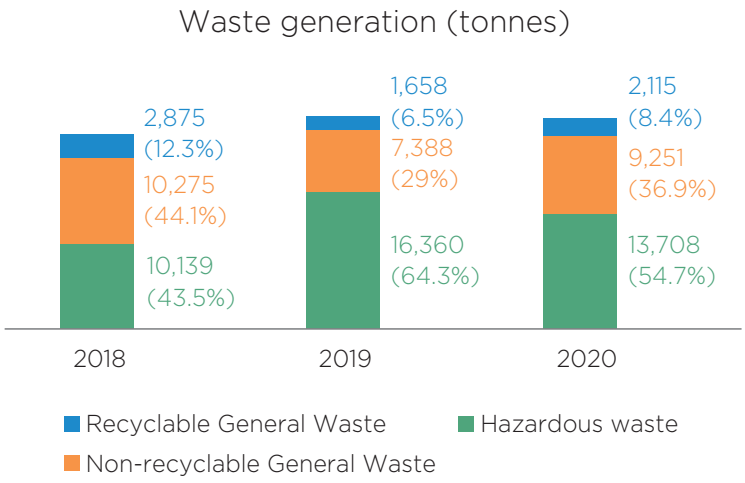
*Energy saving initiatives*

# Our Pledge to Achieve Zero Waste to Landfill

The Group is committed to optimising the waste management system, reducing waste generation and achieving zero waste to landfill, by adequately implementing recycling, reuse and proper treatment of waste. Starting from 2019, we commenced the Zero Waste to Landfill project at some of our facilities according to UL ECVP2799[3] standards. To achieve this, we are optimising waste management procedures in response to enactment of "Law on the Prevention and Control of Environmental Pollution by Solid Waste" amendments, and implementing waste management projects to reduce, reuse and recycle hazardous and non-hazardous waste.

## Waste Management

Responding to the law amendments, the Group has undertaken a series of waste management measures to optimise its waste management system. Training is provided to educate employees on waste segregation and handling. In addition, the Group has assigned dedicated staff for waste management in each production plant to ensure proper management of waste.




Hazardous waste generated by the Group includes waste cutting fluid, organic solvent and plastic hose etc. The Group manages its hazardous waste according to the Hazardous Waste Management and Control Procedures, ensuring the waste treatment complies with the laws and regulation. Hazardous waste such as waste mineral oil is treated and reused by the authorised waste collectors. Avoiding runoff pollution, we regularly test rainwater samples to ensure it is not contaminated by hazardous waste.

In non-hazardous waste, recyclable waste consists of metal, paper, food waste, is recycled by qualified environmental agencies, while non-recyclable waste is sent to the municipal environmental and hygiene companies for handling.

**Hazardous Waste**

- Optimise the record of waste treatment
- Ensure proper labelling of hazardous waste with signs and labels
- Rectify the hazardous waste collection, segregation, storage and treatment

**Non-hazardous Waste**

- Maintain a reocord of waste handling
- Revamp the waste storage area
- Refine the waste segregation in facilities, including the separation of production waste and domestic waste

[3] UL ECVP2799 refers to the Environmental Claim Validation Procedure for Zero Waste to Landfill, which is developed for validation of zero waste environmental claims at individual facilities. The facilities should send little or no waste for landfilling or incineration without energy recovery, and achieving a landfill waste diversion rate of over 80%.

## Transitioning to Zero Waste to Landfill

The Zero Waste to Landfill project aims to divert 100% of waste normally sent to landfills, avoid incineration without energy recovery and promote the beneficial reuse of waste including reuse, recycle and incineration with energy recovery.


During the year, we commissioned the Zero Waste to Landfill project in Shenzhen and continue to implement the same project in Changzhou. Through the project, we optimise the waste management system, achieving effective collection, separation, quantification, storage and disposal of waste according to UL ECVP2799 standards. Responding to the "13th Five-Year Plan" for the harmless treatment of solid waste, 2 plants in Changzhou have achieved 100% green incineration with energy recovery for the non-recyclable production and domestic waste. In 2020, 2 of our production plants in Changzhou have passed the on-site verification and received UL Zero Waste to Landfill validation of Platinum level and the Shenzhen plant is undergoing data collection stage.

| Preparation | Awareness Training | Enhance Waste Management | Zero Waste to Landfill |
|---|---|---|---|
| • Conducted assessment to identify possible risks and rooms of improvement<br>• Formulate an implementation plan for the project | • Training was provided to the management team and employees to enhance their understanding on the "Zero Waste of Landfill" concept, and raise their awareness on waste sorting and recycling | • Commenced on-site waste segregation project, including assigning areas for different waste<br>• Constructed chemical storage warehouse in plant<br>• Renovated the waste storage area to protect the waste from rain and wind | • All non-recyclable waste is sent for green incineration with energy recovery |

The Group is proactively exploring technologies to reduce hazardous waste production, including hazardous waste reuse and reduction in the volume of sludge.

### Reuse of cutting fluid

Our production process involves the consumption of cutting fluid which is a coolant and lubricant used in production. The Group has implemented a cutting fluid treatment and recycling system, with an aim to reduce the oil, bacteria and impurities in the cutting fluid waste, so that the cutting fluid can be reused after treatment. The project can not only reduce the hazardous waste, but also save the material cost and waste handling cost. It is expected that 50% of waste cutting fluid emissions is reduced in Changzhou.

### Reuse of organic solvent and plastic hose

The Group undergoes several waste-reusing projects to reduce the amount of hazardous waste generation as well as the operational cost. Used plastic hose is reused in production after ultrasonic-cleaning. For organic solvents waste, we perform distillation to separate the reusable portion from the waste.

### Reduction of sludge

Residual sludge is generated after the wastewater treatment process in the casting production facility. In Shuyang plant, we reduce the water content of the sludge using the sludge dryer to evaporate the water inside it and that greatly lowers the amount of hazardous waste generated. It is expected that 528 tonnes of sludge can be reduced in Shuyang plant.

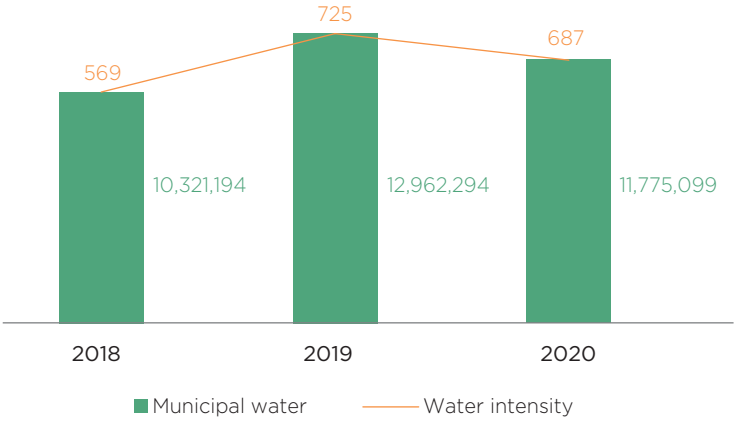
## Water Conservation

The Group consumes water for industrial and domestic purposes. In 2020, the Group consumed a total of 11,775,099 tonnes of water, with a water consumption intensity of 687 tonnes per million RMB revenue. During the year, the Group did not experience any issue in sourcing water fit for the purpose.

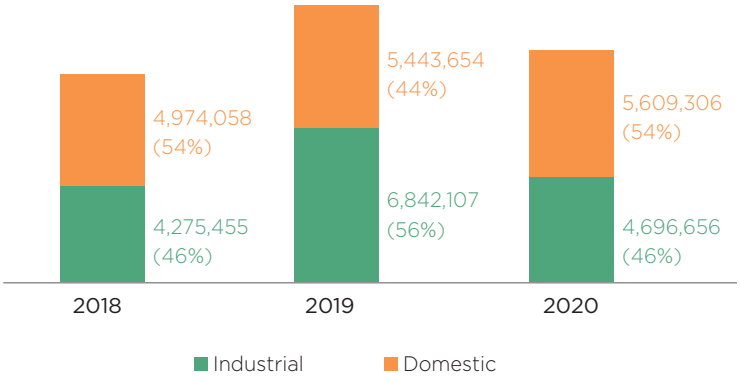
The Group discharged a total of 10,305,962 tonnes of wastewater in 2020; industrial and domestic wastewater is treated in on-site wastewater treatment plant and municipal treatment plant. To minimise wastewater discharge, we reduce the amount of wastewater through electrodialysis evaporation, achieving an annual reduction of wastewater discharge of approximately 15,000 tonnes.

The Group has a management system in place to ensure efficient water consumption management. To minimise the use of water resources and reduce wastewater discharge, we actively implement water conservation and management measures to promote water saving message and new technologies, avoid water leakage from pipes and promote water recycling and reuse. During the year, we progressed towards effective water management by participating in the Clean Water programme in Shenzhen.

Municipal water consumption (tonnes) and intensity (tonnes/million RMB revenue)




Wastewater discharge (tonnes)



### Water Recycling Project

The Group recycles water to conserve water resource and reduce wastewater discharge. Several production plants have been equipped with wastewater recycling facilities, making use of technology such as reverse osmosis ("RO"). Wastewater after treatment is reused in daily operations including toilet flushing. We are also studying ways to treat and reuse the wastewater through low-temperature heat pump evaporation.

#### Reuse of unpolluted water

For unpolluted water, we directly reuse them into operation so as to alleviate the pressure of wastewater treatment plant in Shenzhen. It is expected to reduce 30 tonnes of wastewater treatment and discharge daily.

### Clean Water Programme

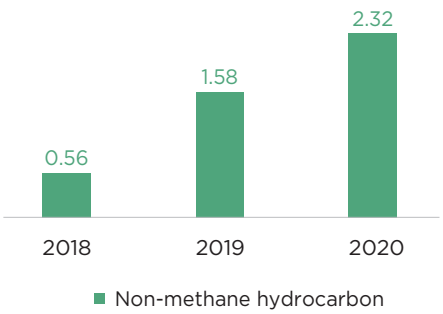
In 2020, the production plant in Shenzhen commenced the Clean Water programme, aiming to understand the risk we are facing, to strengthen water management, reduce water consumption, promote water recycling and prevent water pollution. We finished an assessment on water management and usage, water stress and water balance of the plant, and are currently conducting preliminary research and data collection.

Through this project, we can have a better understanding of the current water management performance and identify room for improvement.

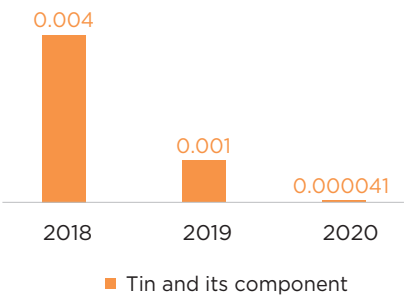
# Reducing Air Pollutants

The Group's operations involve generation of organic exhaust gas during bonding adhesive process and insignificant amount of welding fumes. The air emissions are considered as insignificant due to the nature of the miniature product production. In 2020, the Group emitted a total of 2.32 tonnes non-methane hydrocarbons and 0.000041 tonnes of tin and its compounds respectively. Our production does not involve the consumption of coal.

Non-methane hydrocarbon (tonnes)




Tin and its component (tonnes)



To mitigate the impact of air emissions, we have adopted new technologies and chemicals, and revamped current treatment units to increase the exhaust treatment efficiency.

### Replacing conventional adhesive with UV adhesive

Through replacing the conventional adhesives with Ultraviolet ("UV") adhesive, we successfully reduce the VOCs emissions by achieving a **29%** reduction in non-methane hydrocarbons emissions from adhesive bonding process.

### Increasing fume treatment efficiency

During the year, we increased the number of organic fume treatment units in plants, leading to a **10%** reduction of non-methance hydrocarbons emissions.

### Gas boiler revamping project

Aiming to reduce nitrogen oxides ("NOx") emissions, the Company adopted low Nox burners in gas boilers. By reducing the peak flame temperature, less NOx is fromed during combustion. It is expected that the revamping project can reduce **35%** of NOx emissions..

### Renovation of exhaust treatment system

We reduce the organic exhaust emissions through renovating our current exhaust treatement system at end pipes. UV photolysis purifiers and activated carbon adsorption towers are installed to ensure proper treatment of exhaust before discharge.

# Operational Excellence




## Number of patents

6,034

▲ 37% yoy

## Conflict mineral free

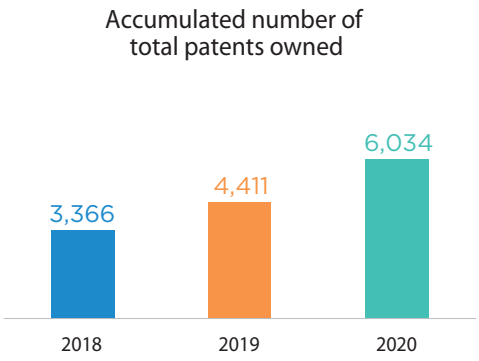
100%

# Lead Innovation

We have assigned significant resources to research and development to maintain and strengthen our position as the leading solutions provider for smart devices. With investment in R&D accounting for 11.2% of revenue, we operate 19 R&D centres with 4,335 senior research engineers and technicians. We continue to strengthen our competitive edge by providing incentives to inventors. During the year, we revised our Patent Incentive Scheme to provide higher incentives for utility model, patent commercialisation and other high-quality patents. Multiple employees have received relevant recognitions and rewards.

One of our subsidiaries was awarded the 21st China Patent Excellence Award by the China National Intellectual Property Administration

In 2020, the Group successfully obtained 1,623 new patents, and now holds a total of 6,034 patents, representing an increase of 37% in 2019.




To efficiently manage intellectual property budget and build a strong patent portfolio, we take industry, market and legal factors into consideration, adopting a more thoughtful and international approach to the R&D process. In the future, we will continue to optimise our patent strategy to reduce costs and maximise resources utilisation by focusing on high-value and highly competitive patent rights.

## Intellectual Property Rights

We respect intellectual property rights ("IPRs") of third parties and consider our own IPRs an important asset. The Group's Intellectual Property Department has formulated a set of internal regulations including Intellectual Property Management Practices and Intellectual Property Operating Procedures, and regularly reviews the management system and provides relevant training to prevent IRPs risk. During the year, we launched a new patent business management system to further standardise the management of IPRs, enabling us to work seamlessly and efficiently through electronic management of the entire patent process.

In order to avoid infringement of others' IPRs and to comply with the laws and regulations, we take a collaborative approach, in which our Intellectual Property Department works with R&D and Marketing teams to support the decision-making process from the design stage by closely monitoring intellectual property data in the market and modifying our product designs when necessary.

In the event of a patent dispute, an emergency response team comprising the Head of Intellectual Property Department, account managers and the patent owners act in accordance with the Intellectual Property Rights Contingency Plan. During the year, the Group was not involved in any litigation relating to infringement of any intellectual property rights.

# The Path to Zero Defects

To achieve the operational excellence philosophy of "zero defects", the Group safeguards the quality and safety of its products and services through a well-defined management system, a team of qualified engineers and big data and automation.

## Quality Management System

A robust quality management system is the key to zero defects. The Group strives to apply and maintain the latest updates of international quality standards. All production plants are certified for ISO 9001 quality management systems and IECQ QC080000[4], including two new plants in Shuyang and Nanning. We developed IATF 16969 certification[5] implementation plan for the new business line of in-car products and will be working towards this in the coming year. Meanwhile, our GP laboratory in Changzhou has obtained CNAS[6] laboratory accreditation certification, exhibiting our compliance with ISO/IEC 17025[7].

To continuously reinforce the management system, the Group reviews and refines internal policy regularly. During the year, a total of 55 internal documents were revised to optimise a number of operational processes, ensuring the adequacy of the management system. In addition, we adhere to the Group's Internal Quality Audit Procedures and conduct internal audit on a rolling basis, besides an annual audit on the quality management system to reassure the effectiveness of the quality management approach. Where the management system is not sufficiently practical or effective, the relevant departments are asked to take corrective actions based on the auditor's report.

During the year, moving away from our traditional location-based management approach, we have started to implement a product line management system based on characteristics of different products, through which we are able to offer more specific and targeted solutions, enabling synergies between different production plants and similar products. Similarly, we are adapting the auditing approach to better understand the problems identified in different production plants manufacturing the same product line, and to introduce improvement through building greater coherence. Correspondingly, we have formulated a strategy to enhance specialisation of internal audit teams in 2021 through training, performance review and incentives as a response to the changes in the management structure.

In case of unqualified products, our Non-Conforming Product Control Procedure clarifies the procedures to handle products at each stage of production, from raw materials to after sales. During the year, the Group was not aware of any non-compliance of relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

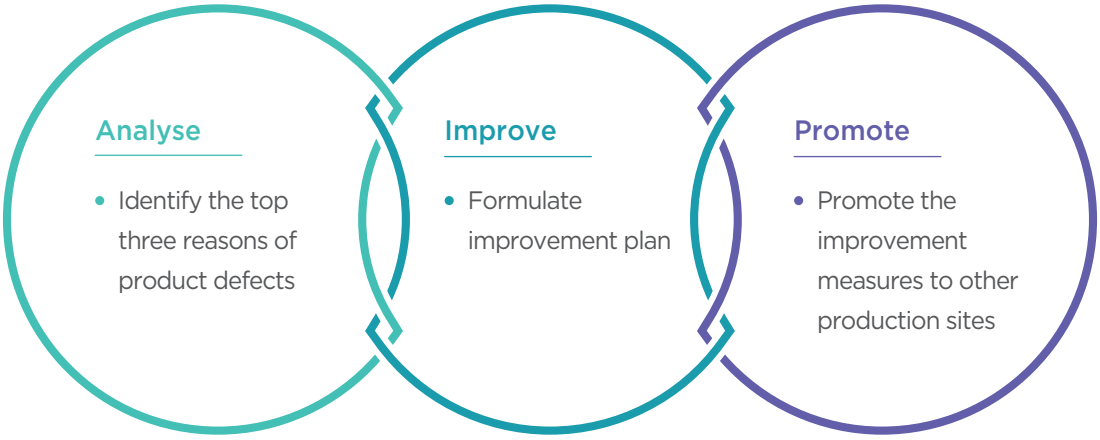
[4] Hazardous Substance Process Management Standards in Electrical and Electronic Components and Products.
[5] IATF 16969 certification is a technical specification for automotive sector quality management systems.
[6] CNAS refers to China National Accreditation Service for Conformity Assessment.
[7] ISO/IEC 17025:2017 General Requirements for the Competence of Testing and Calibration Laboratories.

## Team of Well-qualified Engineers

Our well-qualified team is an indispensable part of the path to zero defect as it is the key resource for quality improvement. Other than the regular training about quality improvement, we have been supporting engineers to attain Six Sigma certification, a set of techniques and tools that not only allows engineers to identify problem areas and recurring issues that affect the quality of the product but also equips them with comprehensive data-based analytical and creative thinking skills.

The Six Sigma training is offered in four stages, of which the green belt for manufacturing engineers is unique to the Group, consisting of 20 training hours with exam and projects. The course covers some of the most commonly used tools to improve engineers' ability to collect and analyse data and is one of the key requirements for staff promotion. These training programmes not only improve the theoretical knowledge of the employees but also encourage them to acquire practical experience by identifying and solving problems through project assessment, thus achieving the goal of pioneering innovation and continuous improvement.


As a consequence of encouraging problem-solving, more than 470 innovative ideas for improving production process or equipment efficiency were proposed during the year. Proposals were assessed based on rationality, application of technology and tools, benefits, application prospects and demonstration value. Employees were rewarded with year-end awards, recognising their outstanding contribution to the Group's march to zero defects.



| Case Study: Improve linear motor test yield | Originally a large section of the gold test pin was exposed, resulting in a shorter life cycle and a high rate of misjudgement due to resonance. After taking an employee's suggestion, the length of the exposed pin was greatly reduced, thus extending the life cycle and making resonance negligible, effectively improving the test accuracy. |
|---|---|

Furthermore, to raise the quality awareness of employees, we promote the quality culture within the Group, creating an operational excellence atmosphere.

### Promotion

- Distributed quality culture brochures to all employees
- Published several promotional articles on DingTalk

### Communication

- Monthly meeting to disucss and share good performances

### Motivation

- Introduced 'Likes Card' to reward employees who proactively identify problems and suggest improvement measures. It can be used to redeem gifts.

### Competition

- Organised competitions, such as passing rate competition

### Target setting

- Clarified roles and responsibility for each department in achieving quality targets

### Specialised teams

- Set up a number of working groups for specific improvement projects

## Big Data and Automation

In addition to the sound management system and a team of high-quality employees, we leverage big data and automation for real-time monitoring, resulting in excellent and stable product quality.

Our big data management of raw materials, production parameters, shipment labels, etc. has been well received by customers. In 2020, we have received an excellent score of 100 in IT traceability assessment by our customers.

The Group continues to use Quality Data Management ("QDM") system and is constantly building a vast array of new features to construct an all-encompassing closed-loop system for management of abnormal test results, which collects information, stores and analyses data and provides real time alerts. All of these are accessible through a mobile app, allowing us to keep track of the production situation and make timely decisions and to draw lessons from the past and improve product quality.

### Supplier Quality Detection System

In an event of unqualified incoming material, an abnormality alert will be sent through SMS. Abnormality is linked to supplier performance review

### Internet of Things ("IOT")

Provide data support for the production management system to maximise resource allocation

### Interception System

Apply robotic testing technology on the production line to reduce labour costs. Testing data is stored online to enhance traceability

### CNC Fool-proofing mechanism

Minimising the chance of errors and thus achieving a 100% pass rate

# Suppliers' Management

The environment, labour, human rights and social prosperity are becoming increasingly important to the public. To fully implement sustainable management, we are committed to promoting sustainability throughout the supply chain.

Suppliers are required to comply with our Supplier Code of Conduct (the "Code"), covering compliance with multiple international principles, such as Responsible Business Alliance and International Labour Standards of International Labour Organisation ("ILO"), Social Accountability 8000 International Standard, etc. The Code outlines requirements for labour and human rights protection, health and safety, chemicals management and environmental protection, which we expect our suppliers to adhere to.

## Suppliers Assessment

The Group selects and evaluates suppliers based on transparent and fair criteria. Adhering to the well-established Supplier Selection, Certification, and Evaluation Management Procedure, new suppliers are subject to a rigorous pre-qualification process, comprising background due diligence, site audits and component certification. Assessments are conducted by multiple departments including the sourcing team, R&D Department, Supplier Quality Engineer ("SQE"), Green Product ("GP") team, etc. to ensure supplier's competence in all aspects.

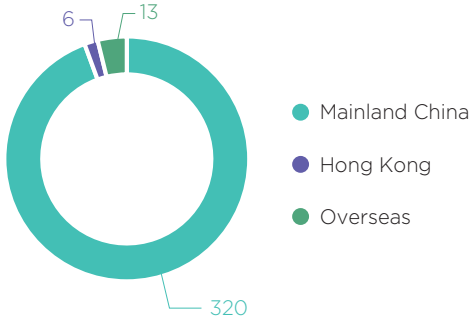
In addition to the general evaluations, such as price and quality, social and environmental assessments too have been specified as mandatory requirements. Suppliers are required to establish a Quality Management System and an Environmental Management System according to the latest ISO 9001 standard and ISO 14001 standard respectively. All suppliers are also required to submit a signed CSR Commitment Letter confirming compliance with the Code, adherence to requirements for labour and human rights protection, health and safety, chemical management and environmental protection. Following are the four key aspects of our supplier assessment:

| Economy | Quality | Environment | Society |
|---|---|---|---|
| • Delivery date, costs and services<br>• Business reputation<br>• Business ethics<br>• Legal compliance | • Quality management systems<br>• Product quality<br>• Technical and processing ability<br>• Production capacity and equipment | • Environmental management systems<br>• Energy management<br>• Air emissions and waste management<br>• Chemical management<br>• Fire and emergency management | • Human rights<br>• Labour practices<br>• Health and safety<br>• Conflict minerals management |

Suppliers who pass every stage of assessment are shortlisted as approved suppliers. In 2020, the Group had 339 suppliers in mainland China, Hong Kong and other areas in Asia. We evaluated 85 suppliers based on their social responsibility performance during the year.

Every year, we evaluate the supplier relationship through daily management, annual audits and annual comprehensive performance evaluation. Under-performing and disqualified suppliers are required to submit a written improvement report within one month and pass the quality audit to get reinstated as approved suppliers. Suppliers who are disqualified from supplying all materials are not allowed to reapply for one year, after which they need to be re-certified.

Suppliers geographical distribution




## Communication and Capacity Building

We engage with suppliers through various channels, including seminars, training sessions, onsite visits, in-person meetings and audits. We have a GSM system in place and any updates to documents and regulations are announced on the system promptly, while the suppliers can upload required documents onto the system, facilitating an effective information exchange between the Group and its suppliers.

The Group is making concerted efforts to enhance suppliers' abilities and to achieve win-win relationships. In the process of supplier selection and evaluation, we provide training to unqualified or underperforming suppliers and discuss the improvement plan together. In 2020, we offered online environmental training to suppliers. A total of 124 suppliers from the Changzhou and Shenzhen plants successfully completed the training.

## Conflict Minerals

A small percentage of our products and suppliers get involved in the use of conflict minerals[8]. As a responsible corporate citizen, AAC Technologies believes in ethical sourcing and has management procedures in place regarding conflict minerals to ensure that all minerals procured from suppliers are free from any conflicts. We have remained 100% conflict free and will continue our longstanding efforts to work closely with suppliers to promote responsible sourcing practices.

Our management approach is as follows:

| | |
|---|---|
| **Management system** | We strictly comply with Regulation ("EU") 2017/821, which imposes supply chain due diligence obligations on Union importers of tin, tantalum, tungsten, their ores, and gold originating from conflict-affected and high-risk areas.<br><br>The Group's Hazardous Substances Management Regulation prohibits procurement of minerals from conflict areas such as Democratic Republic of Congo and it is overseen and executed by the GP team. |
| **Identify, assess and manage risks** | We continue to improve material traceability. As an integral part of due diligence, we require 100% of suppliers to fill out the Conflict Minerals Reporting Template ("CMRT") formulated by RBA and Global e-Sustainability Initiative ("GeSI") during the supplier selection process. It requires suppliers to disclose information regarding country of origin and the smelters and refiners who have processed the minerals. |
| **Audit of smelter and refinery due diligence practice** | All suppliers using tin, tantalum, tungsten, their ores and gold are required to sign a Conflict Mineral Declaration (the "Declaration") to certify that the products, components and materials they supply are free of any conflict minerals.<br><br>The Declaration also requires suppliers to conduct RBA and GeSI Conflict Free Smelter Audit on smelters or refineries in their supply chains and terminate all purchases of conflict minerals.<br><br>All the information is uploaded and managed on GSM system. |
| **Report** | We conduct due diligence to ascertain conflict-free performance of all suppliers from conflict-affected and high-risk areas. |

[8] Conflict minerals refer to minerals that are mined under conditions of armed conflict, notably in the Democratic Republic of Congo and adjoining countries. Profits from the sale of these minerals finance ongoing armed conflicts. The four most commonly mined conflict minerals are cassiterite (for tin), wolframite (for tungsten), coltan (for tantalum) and gold ore.

# Green Products

Our commitment to "Green Materials, Green Process, Green Products" philosophy requires us to source and produce green and safe products, enabling us to fully safeguard the health and wellbeing of employees, customers and the environment.

The Group has a Hazardous Substance Management Regulation which governs the management of hazardous substances, stipulating the management procedures, responsible parties and a list of restricted hazardous substances. Every year, we update the list in compliance with national and international laws and regulations, including RoHS[9], REACH[10], California Proposition 65 etc., as well as customers' specific requirements in a timely manner, forming a stringent internal regulatory process.

*Restricted Hazardous Substance List*

| **Classification** | **Class 1** | **Class 2** | **Class 3** |
|---|---|---|---|
| | Substances restricted by RoHS | Substances restricted by national regulations or conventions other than RoHS | Substances concerned by the industry due to their environmental and health impacts |
| **Response** | Prohibit | Prohibit | Report and reduce |
| **Number of items** | 8 | 73 | 13 |
| **Examples** | • Cadmium and its compounds (Cd)<br>• Lead and its compounds (Pb)<br>• Mercury and its compounds (Hg)<br>• Chromium VI and its compounds (Cr (VI))<br>• PBBs<br>• PBDEs<br>• Phthalates<br>• Halogen | • Arsenic and its compounds (As)<br>• Asbestos and its compounds<br>• Antimony and its compounds (Sb)<br>• Halogen<br>• Organic tin compounds<br>• Other brominated flame retardants<br>• Other chlorine compounds | • Bismuth and its compounds<br>• Barium and its compounds<br>• Chromium III compounds<br>• Rare earth elements<br>• Benzophenone<br>• Mineral wool<br>• Isocyanates |

9 Restriction of Hazardous Substances Directive, a directive on restriction on the use of certain hazardous substances in electrical and electronic equipment.

10 Registration, Evaluation, Authorisation and Restriction of Chemicals.

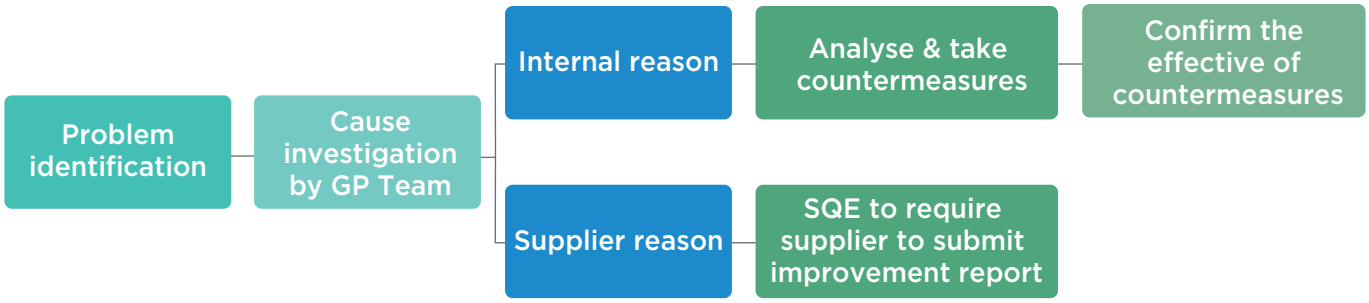
The Group performs due diligence on all suppliers. The GP team is responsible for auditing the suppliers in terms of their management of green products and hazardous materials and providing relevant training to their employees. All incoming materials are inspected against the checklist set out in the Hazardous Substances Management Regulations. In order to identify all chemicals used in the products and to ensure full compliance with Group's regulations, suppliers are required to provide a number of documents and to label their products with an environmental label to ensure that they have met all the requirements.

Likewise, we disclose all relevant information to our customers, including but not limited to Declaration of Non-use of Restricted Substances, RoHS Compliance Pledge and a comprehensive identification of all chemicals used in the products.

| Documents to be provided by suppliers | |
|---|---|
| 1) Signed Commitment of Non-use Hazardous Substance form | 4) MSDS or other material composition list |
| 2) Third party test reports for hazardous substances | 5) Conflict Mineral Survey and Declaration |
| 3) Suppliers' REACH SVHC survey | 6) Any other documents as required by customer |

In response to the new VOC standards published this year, we have established a new internal regulation for the management of environmentally restricted substances and informed our suppliers in a timely manner. Meanwhile, all relevant suppliers were audited and were required to provide third party testing reports and declaration of conformity.

Any raw materials, semi-products and end products containing unqualified environmental substances are recalled and scrapped, and the management representative is notified immediately to execute containment measures in strict accordance with the internal handling procedures. During the year, we have not received any complaints about environmentally harmful substances.




*Procedures for handling of unqualified environmental substances*

# Enhancing Customer Experience

The Group is committed to maintaining long-lasting customer relationships and to enhancing customer satisfaction, stickiness and trust.


We continue to engage with our customers proactively through a three-dimensional management approach. In daily operations, we monitor data such as product return rate and number of complaints on an on-going basis. Regularly, the customers are invited to conferences and quarterly review meetings to share feedback with us. Last but not least, we are always hospitable to visiting clients and keep them engaged in a cordial manner.

We have several internal policies in place, which guide our work related to communication with customers and enhancing customer experience. The Group's Communication Management Procedure and Customer Satisfaction Management Procedure clarify the roles and responsibilities of each department in customer engagement and enhancement of customer satisfaction to ensure that the information can be delivered effectively and accurately. As the core organisation for customer management, the Sales and Marketing Department is responsible for understanding and meeting the needs and expectations of customers and translating the requirements into clearly defined company policies. Meanwhile, other departments work collaboratively to improve customer satisfaction by incorporating customers' needs in product design, development, pilot production and mass production stages.

| | |
|---|---|
| Sales and Marketing Department | • Handle customer complaints and product returns<br>• Collect and organise customers' requirements and forward the feedback to relevant departments for follow up<br>• Conduct customer satisfaction surveys<br>• Organise regular customer visits |
| Quality Department | • Provide quality improvement measures |
| R&D Department | • Provide technical improvement measures |
| Operation Department | • Provide improvement measures on delivery capacity |

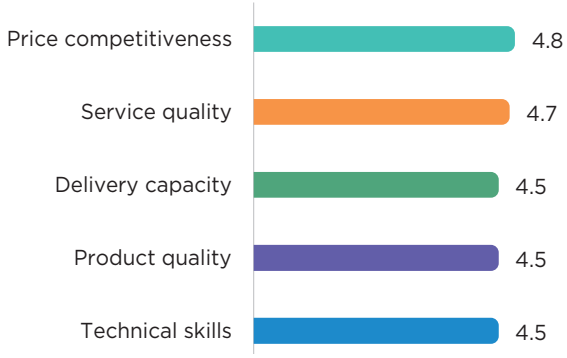
We maintain a high level of transparency with our customers. Training is provided to the Sales Department to deepen their understanding of the products and to enable them to communicate accurately with customers, avoiding any miscommunication. All data in our QDM is open to our customers, through which they are kept informed of the entire production process.

## Gauging Customer Satisfaction

Through the quarterly business review, daily visits, annual questionnaires and other various engagement channels, we assess customer satisfaction based on five criteria, namely, price competitiveness, service quality, delivery capacity, product quality and technical skills. Based on the scores on the five criteria, a customer satisfaction analysis report and follow-up action plan are compiled annually.

In response to the increasingly bespoke nature of the market, the Group is able to react swiftly through weekly and monthly reviews to keep up with customers' needs and resolve any problems. In 2020, we have been awarded the Best Delivery Award and Best Innovation Award by one of our main customers, recognising our outstanding performance.

2020 customer satisfaction (out of 5)




## Handling Customer Complaints

We actively reach out to customers to solicit and resolve their complaints. The issues are classified into four grades according to the significance of their impacts on customers and the product. Issues that call for a delay of more than 3 days in production and delivery are viewed as the most severe and are given the highest priority. A response team is formed to analyse the causes of the defect, manage risk and implement countermeasures to resolve the problem and prevent it from recurring. 359 customer complaints were recorded during the year and all were handled according to procedures. In the event of a defect relating to quality, we follow Non-Conforming Product Control Procedure to investigate the problem.

# Information Security and Privacy

Protecting information security is a crucial part of our business operations, especially given the Group's on-going informationalisation strategy. It concerns not only our reputation but also interests of stakeholders including employees, customers and business partners. We safeguard data and information through comprehensive risk management and management approach.

## Risk Assessment

The Group has obtained ISO 27001 certification for its information security management system and strictly complies with the Cybersecurity Law of the PRC and the EU General Data Protection Regulation. During the year, we extended the coverage of business units that are ISO 27001 certified from one department and two sites to three departments (IT, R&D and production) and nine sites. It is also important for us to meet customers' security requirements. We completed over 100 information security audits without any major defects discovered. We received satisfactory ratings from customers in this regard.

| Identification | Assessment | Mitigation | Evaluation |
|---|---|---|---|
| Identifying information assets and security threats of the current information security system. | Assessing risk level of the assets according to vulnerability, severity and significance of the asset to the business. | Action plans drawn to address the issues that pose high risk to the Group. Mitigation methods include avoidance, transformation, reduction and acceptance. | We continuously monitor and evaluate the effectiveness of the remedial actions to maintain risks at the lowest level. |

*Information Security Risk Management*

The annual information security risk assessment helps effectively identify and manage any underlying risks in AAC Technologies' information security system and IT assets which include hardware, software and confidential information. Existing assets from which risks are identified include electronic assets, personnel assets, software assets and service assets, with risk level assessed according to its significance, vulnerability and severity. Mitigation approaches such as avoidance, transformation, reduction and acceptance are then taken against the risks according to the corresponding risk level.

For risks that are found to be significant, information security department formulates specific remedial plans within the required time period and reports the final results of risk re-assessment to the information security committee.

During the year, there were no non-compliance of relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redressal.

## Risk prevention and response

Taking a holistic approach in preventing potential information security threats including cyber-attacks and hardware failure, external preventive measures and internal regulations are adopted to protect our hardware and software systems.

## Software update

As the first line of defence that shields us from external attacks on the information system, we work closely with service suppliers to ensure that the Intrusion Prevention System ("IPS"), which includes firewalls and anti-malware software, are regularly upgraded to acquire the best protection. An automatic monitoring and alert mechanism is embedded in the system to monitor against virus intrusion. It reports the extent and distribution of virus attacks to each endpoint including office and production endpoints on a daily basis, as well as the exact building and floor being intruded. The closed-loop management system enables us to address cyber-attacks more accurately and effectively. An IT technical support engineer for each site is responsible for monitoring the data reported and improve the system when necessary.

Emergency response procedures are executed in the event of a cyberattack. During the year, we conducted several emergency drills to test whether our systems and business functions are capable of handling different scenarios of significant incidents including firewall malfunction and network failure.

## Hardware protection

To protect our hardware facilities, three emergency drills were conducted during the year to ensure all hardware function normally and are capable of operating effectively. These drills served to protect the information security system from potential hazards. The rehearsals included simulation of power failure, air conditioning system malfunction as well as a fire drill. Abnormalities were identified and rectified immediately, all equipment such as fire-fighting appliances and pressurised chemicals functioned properly and responded to the simulated emergencies promptly.

## Internal regulations and training

Controlling information access internally is another critical part in safeguarding data. Apart from installing anti-virus software on all computer devices, we take multiple measures for managing authentication and authorisation of our systems, such as granting access rights to the appropriate personnel and maintaining an independent encrypted back-up system.

We consider safety aspects when selecting service providers. We have established a list of safety control points and regulations for suppliers and development team to ensure that the launching and processes of all projects strictly comply with our information security standards and customer requirements.

Prevention through building awareness among employees includes induction training for newcomers and target training. Training contents include regulatory requirements, information security strategy and management, regulations of the Group, personal information protection etc. Targeted trainings are offered to employees at specific product lines, with emphasis on customers' security requirements.

# Community Care

AAC Technologies is always keen to contribute to the economic and societal development of local communities where it operates. Aligning with the PRC government's targeted poverty alleviation policy, we collaborated with the Nanning municipal government and launched the "Career and Poverty Alleviation Day". During the event, we took part in a career fair together with 33 enterprises. While a total of 2,236 job opportunities were provided at the fair, aiming to relieve the burden of targeted groups including poverty-stricken families, early school leavers and migrant workers. We gifted stationary and necessities to underprivileged students so they could meet learning needs.

We also participated in other education support activities including school visits in Guangdong province, showing care for the well-being of students and creating a better learning environment. We will continue to review the focus and direction of our efforts, creating positive impacts to the community.

We reached out to the community during the difficult times of the pandemic, supporting relief efforts by donating medical equipment and supplies to those in need. We made a donation of 5,234 sets of medical protective wear to Longgang District Government, Nanshan District Government, and Shenzhen Children's Hospital, as well as 350,000 pieces of surgical masks to our suppliers. We have also worked with Yushu Hohxil Wildlife Conservation Association to source the medical equipment and made donations to medical staff Hubei, Guangdong, Qinghai, Sichuan and Tibet.

# Appendices

## Performance Data Summary

The data summary provides statistical information on the Group's sustainability performance, which helps facilitate stakeholders' understanding and benchmark our environmental and social performance.

| Workforce Demographics | | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **By Geographical Distribution** | | | |
| Changzhou | **15,100** | 17,312 | 18,617 |
| Shenzhen | **1,896** | 1,921 | 1,971 |
| Shuyang | **4,091** | 6,213 | 6,321 |
| Suzhou | **887** | 901 | 710 |
| Nanning | **4,160** | 4,554 | 1,653 |
| Vietnam | **6,557** | 7,352 | 5,999 |
| Overseas and other areas | **1,044** | 1,138 | 723 |
| **Total** | **33,735** | 39,385 | 35,994 |
| **By Age** | | | |
| ≤30 | **18,854** | 23,343 | 23,584 |
| 31-40 | **12,650** | 13,511 | 10,139 |
| 41-50 | **1,975** | 2,201 | 2,057 |
| >50 | **256** | 270 | 214 |
| **By Gender** | | | |
| Male | **20,928** | 24,783 | 22,123 |
| Female | **12,807** | 14,602 | 13,871 |
| **By Educational Background** | | | |
| Degree or above | **16,537** | 16,991 | 15,632 |
| High school or below | **17,198** | 22,394 | 20,362 |
| **By Employee Category** | | | |
| Management | **1,960** | 2,090 | 2,041 |
| R & D | **1,876** | 1,644 | 1,532 |
| Technician | **2,459** | 2,533 | 2,450 |
| Mechanics | **12,663** | 13,394 | 12,670 |
| Operators | **14,777** | 19,724 | 17,301 |
| **Employees Training** | | | |
| Average training hours | **13.4** | 19.1 | 16.6 |

| Health and Safety | | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **Safe Manufacturing Investments (RMB thousand)** | **98,795** | 52,400 | 62,536 |
| **Major pollution/safety incidents** | **0** | 0 | 0 |
| **Fire hazard** | **0** | 2 | 1 |
| **Total Work-related accidents[11]** | **97** | 69 | 79 |
| Type A — Slight injury | **47** | 28 | 30 |
| Type B — Minor injury | **49** | 39 | 48 |
| Type C — Severe injury | **0** | 1 | 1 |
| Type D — Fatalities | **1*** | 1 | 0 |
| **Work-related injuries per 1,000 workers** | **2.88** | 1.75 | 2.19 |
| **Lost time injury frequency rate (LTIFR) (per million hours worked)[12]** | **0.96** | 0.70 | 0.89 |
| **Lost days due to work-related injury** | **3,005** | 2,861 | 2,720 |
| **Number of occupational disease cases** | **0** | 0 | 0 |
| **Training on Occupational Safety and Health** | | | |
| Total person-times training | **82,947** | 94,337 | 88,591 |
| Total training hours | **124,421** | 141,506 | 132,887 |
| Percentage of workers trained | **100%** | 100% | 100% |

* A fatal traffic accident occurred in February 2020 outside the Company's premises, causing the death of one employee (described on p.35).

| Environment[13] | | | |
|---|---|---|---|
| | **2020** | **2019** | **2018** |
| **Environmental Protection Expenditure (RMB thousand)** | **216,033** | 95,480 | 52,696 |
| **Total Resources Consumption** | | | |
| Electricity (kWh) | **1,089,795,192** | 1,044,913,303 | 872,101,143 |
| Fuel Oil (kg) | **1,965,732** | 659,409 | 1,246,150 |
| Fuel Gas ($m^3$) | **1,539,468** | 1,374,547 | 1,520,925 |
| Coal (Tonnes) | **0** | 0 | 0 |
| Total energy intensity (GJ per million RMB revenue) | **237** | 215 | 179 |
| **Water** | | | |
| Water consumption (Tonnes) | **11,775,099** | 12,962,294 | 10,321,194 |
| Water intensity (Tonnes per million RMB revenue) | **687** | 725 | 569 |

11 Work-related injury in 2020 includes data of Nanning.

12 Lost time injury frequency rate (LTIFR) is calculated based on the following formula: Number of lost time injuries in the reporting year x 1,000,000 / Total hours worked in the reporting year.

| Environment[13] | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Emissions** | | | |
| **Air Pollutant** | | | |
| Non-methane hydrocarbon (Tonnes) | **2.32** | 1.58 | 0.56 |
| Tin and its compounds (Tonnes) | **0.00004** | 0.001 | 0.004 |
| **Wastewater discharge (Tonnes)** | **10,305,962** | 12,285,761 | 9,249,513 |
| **Waste** | | | |
| Hazardous waste (Tonnes) | **13,708** | 16,360 | 10,139 |
| Hazardous waste intensity (Tonnes per million RMB revenue) | **0.80** | 0.91 | 0.56 |
| Non-hazardous waste (Tonnes) | **11,366** | 9,046 | 13,150 |
| Non-hazardous waste intensity (Tonnes per million RMB revenue) | **0.66** | 0.51 | 0.73 |
| **Greenhouse Gases Emissions[14]** | | | |
| Total GHG emissions ($tCO_2e$) | **741,666** | 704,852 | 608,600 |
| Scope I ($tCO_2e$) | **6,053** | 1,994 | 4,277 |
| Scope II ($tCO_2e$) | **735,613** | 702,858 | 604,323 |
| Emission intensity ($tCO_2e$ per ten thousand RMB revenue) | **0.43** | 0.39 | 0.34 |
| **Usage of Packaging Materials** | | | |
| Carton (Pcs) | **4,552,960** | 5,492,677 | 4,371,985 |
| Blister boxes (Pcs) | **71,804,936** | 65,647,858 | 55,964,934 |
| Carrier tape (Meter) | **13,719,934** | 14,361,704 | 11,913,176 |
| Carrier disc (Pcs) | **495,088** | 648,795 | 408,897 |
| Packing belt (Roll) | **2,265** | 975 | 1,931 |
| Sealing paper (Roll) | **1,003,387** | 1,746,525 | N/A |
| Sealing paper (Square meter) | **132,597** | 108,353 | N/A |
| Label (Pcs) | **45,646,289** | 9,410,019 | 24,013,367 |

| Community | 2020 | 2019 | 2018 |
|---|---|---|---|
| Donation (RMB thousand) | **880[15]** | 800 | 1,400 |

13 **Environmental KPIs calculation methodology**
Environmental KPIs stated in the report are calculated with reference to HKEX's "How to Prepare an ESG Report Appendix 2: Reporting Guidance on Environmental KPIs".

14 **GHG calculation methodology**
GHG emissions calculations are referenced from the "GHG Protocol Tool for Energy Consumption in China (Version 2.1)", and the "2011 and 2012 China Regional Grid Average Carbon Dioxide Emission Factors" published by the National Development and Reform Commission of the People's Republic of China.

15 For the year end 31 December 2020, the Group made donations equivalent to approximately RMB880,000 to various communities related to COVID-19 precautionary measures.

# Awards and Recognitions

| Award Received | Awarded to | Awarded by |
|---|---|---|
| **Sustainability** | | |
| Constituent Member of "Hang Seng Corporate Sustainability Index" | AAC Technologies Holdings Inc. | Hang Seng Indexes Company Limited |
| Grand Award in Best ESG Report — Large Cap | AAC Technologies Holdings Inc. | Hong Kong ESG Reporting Awards |
| Grand Award in Excellence in GRI Report | AAC Technologies Holdings Inc. | Hong Kong ESG Reporting Awards |
| Grand Award in Excellence in ESG Governance | AAC Technologies Holdings Inc. | Hong Kong ESG Reporting Awards |
| Citation for ESG Disclosure 2020 | AAC Technologies Holdings Inc. | The Hong Kong Management Association |
| **Corporate Transparency** | | |
| "Special Mention" at the Best Corporate Governance Awards 2020 | AAC Technologies Holdings Inc. | Hong Kong Institute of Certified Public Accountants |
| **Socio-Economic Contribution** | | |
| Fortune China 500 in 2020 | AAC Technologies Holdings Inc. | Fortune Magazine |
| Asia's Fab 50 Companies in 2020 | AAC Technologies Holdings Inc. | Forbes |
| "Best TMT Company" at The 5th Golden Hong Kong Stocks Awards | AAC Technologies Holdings Inc. | Zhitongcaijing.com and 0033.com |
| 2020 Chinese Manufacturing Enterprises 500 | AAC Technologies Holdings Inc. | China Enterprise Confederation |
| 2020 Chinese Private Manufacturing Enterprises 500 | AAC Technologies Holdings Inc. | All-China Federation of Industry & Commerce |
| Top 100 Enterprises with Comprehensive Strength of Guangdong Electronic Information Manufacturing Industry in 2020 | AAC Technologies Holdings Inc. | Guangdong Electronics and Information Industry Association |
| 2020 33rd Top 100 China Electronics Components Enterprises | AAC Technologies Holdings Inc. | China Electronic Components Association |
| 2020 Top 500 Shenzhen Enterprises | AAC Technologies Holdings Inc. | Shenzhen Enterprise Confederation |
| The Single Champion of Manufacturing Industry in 2020 | AAC Acoustic Technologies (Shenzhen) Co. Ltd | Ministry of Industry and Information Technology of the People's Republic of China |

| Award Received | Awarded to | Awarded by |
|---|---|---|
| Top 500 Guangdong Enterprises 2020 | AAC Acoustic Technologies (Shenzhen) Co. Ltd | Guangdong Provincial Enterprise Confederation |
| Top 500 Guangdong Private Enterprises 2020 | AAC Acoustic Technologies (Shenzhen) Co. Ltd | Guangdong Provincial Enterprise Confederation |
| Top 500 Guangdong Manufacturing Enterprises 2020 | AAC Acoustic Technologies (Shenzhen) Co. Ltd | Guangdong Provincial Enterprise Confederation |
| Top 500 Guangdong Innovative Enterprises 2020 | AAC Acoustic Technologies (Shenzhen) Co. Ltd | Guangdong Provincial Enterprise Confederation |
| 2020 China Top 10 Semiconductor MEMS Manufacturer | AAC Acoustic Technologies (Shenzhen) Co. Ltd | China Semiconductor Industry Association |
| China New Economy Enterprise 500 | AAC Acoustic Technologies (Shenzhen) Co. Ltd | China Enterprise Evaluation Association |
| **Environmental Responsibility** | | |
| Green Office and Eco-Healthy Workplace Awards Label | AAC Technologies Holdings Inc. | World Green Organisation |
| **Product Excellence** | | |
| The 21st of Chinese Patent Excellence Award | AAC Optoelectronics Technology (Changzhou) Co., Ltd. | National Intellectual Property Administration of the People's Republic of China |

# Memberships and External Initiatives

We actively involved in a number of initiatives and charters promoting sustainable development in economic, environmental and social aspects. The table below summarises our memberships of industry associations and chambers.

| Organisations | Membership company |
|---|---|
| **China Electronic Components Association** | AAC Technologies Holdings Inc. |
| **Federation of Shenzhen Commerce in Shenzhen** | AAC Technologies Holdings Inc. |
| **Jiangsu Chamber of Commerce in Shenzhen City** | AAC Technologies Holdings Inc. |
| **Changzhou Overseas Chinese Entrepreneurs Association** | AAC Technologies Holdings Inc. |
| **Changzhou Capital Market Industry Chamber of Commerce** | AAC Technologies Holdings Inc. |
| **China Semiconductor Industry Association** | AAC Acoustic Technologies (Shenzhen) Co., Ltd. |
| **Shenzhen Hi-Tech Industry Association** | AAC Acoustic Technologies (Shenzhen) Co., Ltd. |
| **Federation of Shenzhen Industries** | AAC Acoustic Technologies (Shenzhen) Co., Ltd. |
| **Shenzhen General Chamber of Commerce** | AAC Acoustic Technologies (Shenzhen) Co., Ltd. |
| **Shenzhen Changzhou Chamber of Commerce** | AAC Acoustic Technologies (Shenzhen) Co., Ltd. |

# Laws and Regulations

The Group strictly abides by relevant laws and regulations, including but not limited to the following.

| Topic | Applicable laws and regulations |
|---|---|
| Environment | • The Environmental Protection Law of the PRC<br>• The Law of the PRC on Environmental Impact Assessment<br>• The Environmental Protection Tax Law of the PRC<br>• The Law of the PRC on the Promotion of Clean Production<br>• The Law of PRC on the Prevention and Control of Water Pollution<br>• The Regulation on Urban Drainage and Sewage Treatment<br>• The Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste<br>• The Administrative Measures for the Prevention and Control of Environmental Pollution by Electronic Waste<br>• The law of the PRC on the Prevention and Control of Air Pollution<br>• Integrated Emission Standard of Air Pollutants |
| Employment | • Labour Law of the People's Republic of China<br>• Labour Contract Law of the People's Republic of China<br>• Provisions on the Prohibition of Using Child Labour<br>• Law of the People's Republic of China on the Protection of Minors |
| Safety | • Production Safety Law of the People's Republic of China<br>• Law of the People's Republic of China on the Prevention and Control of Occupational Diseases |
| Product Liability | • Tort Liability Law of the People's Republic of China<br>• The Patent Law of the People's Republic of China<br>• The Decision of the State Council on Further Strengthening of Protection of Intellectual Property,<br>• Cybersecurity Law of the People's Republic of China<br>• The General Data Protection Regulations (EU) |
| Anti-corruption | • Criminal Law of the People's Republic of China<br>• Anti-Unfair Competition Law of the People's Republic of China<br>• Hong Kong Prevention of Bribery Ordinance |

HKQAA
HONG KONG QUALITY ASSURANCE AGENCY
香港品質保證局

# VERIFICATION STATEMENT

## Scope and Objective

Hong Kong Quality Assurance Agency ("HKQAA") was commissioned by AAC Technologies Holdings Inc. ("AAC") to undertake an independent verification for the 2020 Sustainability Report ("the Report"). The Report stated the economic, safety, environmental and social performance of AAC for the period from 1st January 2020 to 31st December 2020 for its operations. This is the eighth report that AAC published to communicate its commitments, efforts and progress of performance towards sustainability.

The aim of this verification is to provide a reasonable assurance on the reliability of the report contents. The Report has been prepared in accordance with the Core Option of the GRI Sustainability Reporting Standards (GRI Standards) and Appendix 27 "Environmental, Social and Governance Reporting Guide ("ESG Guide")" of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited.

## Level of Assurance and Methodology

The process applied in this verification was based on the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. Our evidence gathering process was designed to obtain a reasonable level of assurance as set out in the standard for the purpose of devising the verification conclusion. The extent of this verification process undertaken covered the criteria set in the GRI Standards: Core Option and the ESG Guide.

The verification process included verifying the systems and processes implemented for collecting, collating and reporting the sustainability performance data, reviewing relevant documentation, interviewing responsible personnel with accountability for preparing the reporting contents and verifying selected representative sample of data and information. Raw data and supporting evidence of the selected samples were also thoroughly examined during the verification process.

## Independence

AAC is responsible for the collection and presentation of the information presented. HKQAA does not involve in calculating, compiling, or in the development of the Report. Our verification activities are independent from AAC.

# Conclusion

Based on the verification results and in accordance with the verification procedures undertaken, HKQAA has obtained reasonable assurance and is in the opinion that:

- The Report has been prepared in accordance with the GRI Standards: Core Option and the ESG Guide;
- The Report illustrates the sustainability performance of AAC, covering all material aspects, in a balanced, comparable, clear and timely manner; and
- The data and information disclosed in the Report are reliable and complete.

Nothing has come to HKQAA attention that the selected sustainability performance information and data contained in the Report has not been prepared and presented fairly and honestly, in all material aspects, in accordance with the verification criteria.

**Signed on behalf of Hong Kong Quality Assurance Agency**

**Jorine Tam**
*Director, Corporate Business*
March 2021

# GRI and HKEX ESG Content Index

This Content Index includes references to Key Performance Indicators of the GRI Standards and the HKEX ESG Reporting Guide.

| Material Topics | Disclosure | HKEX ESG Guide | Section Title | Page | Remarks/ Reasons for Omission |
|---|---|---|---|---|---|
| **GRI 101: Foundation 2016** | | | | | |
| **GRI 102: General Disclosures 2016** | | | | | |
| **Organizational Profile** | | | | | |
| | 102-1 Name of the organization | | **Sustainability at AAC Technologies** *About us* | P.7-8 | |
| | 102-2 Activities, brands, products and services | | | | |
| | 102-3 Location of headquarters | | | | |
| | 102-4 Location of operations | | **Sustainability at AAC Technologies** | P.7-8 | |
| | 102-5 Ownership and legal form | | | | |
| | 102-6 Markets served | | | | |
| | 102-7 Scale of the organization | | | | |
| | 102-8 Information on employees and other workers | KPI B1.1 | **Talent Management** *Our Workforce* | P.26-28 | |
| | 102-9 Supply chain | KPI B5.1 | **Operational Excellence** | P.55 | |
| | 102-10 Significant changes to the organization and its supply chain | | **Operational Excellence** | | No significant changes |
| | 102-11 Precautionary principle or approach | | **Sustainability at AAC Technologies** | P.14-16 | |
| | 102-12 External initiatives | | | | |
| | 102-13 Membership of associations | | **Appendices** | P.68 | |
| **Strategy** | | | | | |
| | 102-14 Statement from senior decision-maker | | **Sustainability at AAC Technologies** | P.9-10 | |
| **Ethics and Integrity** | | | | | |
| | 102-16 Values, principles, standards, and norms of behaviour | | **Sustainability at AAC Technologies** | P.7 | |
| **Governance** | | | | | |
| | 102-18 Governance structure | | **Sustainability at AAC Technologies** | P.11 | |
| **Stakeholders** | | | | | |
| | 102-40 List of stakeholder groups | | **Sustainability at AAC Technologies** *Stakeholder Engagement* | P.12-14 | |
| | 102-41 Collective bargaining agreements | | **Talent Management** *Regulatory Compliance* | P.29 | |
| | 102-42 Identifying and selecting stakeholders | | **Sustainability at AAC Technologies** *Stakeholder Engagement* | P.12-14 | |
| | 102-43 Approach to stakeholder engagement | | | | |
| | 102-44 Key topics and concerns raised | | | | |

| Material Topics | Disclosure | HKEX ESG Guide | Section Title | Page | Remarks/ Reasons for Omission |
|---|---|---|---|---|---|
| **Reporting Practice** | | | | | |
| 102-45 | Entities included in the consolidated financial statements | | **Sustainability at AAC Technologies** *About Us* | | Annual Report |
| 102-46 | Defining report content and topic boundaries | | **About this Report** | P.2-3 | |
| 102-47 | List of material topics | | **Sustainability at AAC Technologies** *Stakeholder Engagement* | P.12-14 | |
| 102-48 | Restatements of information | | | | There are no restatements. |
| 102-49 | Changes in reporting | | **Sustainability at AAC Technologies** *Stakeholder Engagement* | | No significant changes. |
| 102-50 | Reporting period | | **About this Report** | P.2-3 | |
| 102-51 | Date of most recent report | | | | April 2020 |
| 102-52 | Reporting cycle | | | | |
| 102-53 | Contact point for questions regarding the report | | **About this Report** | P.2-3 | |
| 102-54 | Claims of reporting in accordance with the GRI standards | | | | |
| 102-55 | GRI content index | | **Appendices** *GRI and HKEX ESG Content Index* | P.72-79 | |
| 102-56 | External assurance | | **Appendices** *Verification Statement* | P.70-71 | |
| **Material Topics** | | | | | |
| **GRI 307: Environmental Compliance 2016** | | | | | |
| **GRI 103: Management Approach 2016** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | A1 GD | **Managing Environment Impacts** *Strengthening Environmental Risk Prevention* | P.37-38 | |
| 103-2 | The management approach and its components | A1 GD KPI A3.1 | | | |
| 103-3 | Evaluation of the management approach | A1 GD | | | |
| **Topic-specific Disclosures** | | | | | |
| 307-1 | Non-compliance with environmental laws and regulations | A1 GD | **Managing Environment Impacts** *Strengthening Environmental Risk Prevention* | | During the year, there were no non-compliance incidents. |

| Material Topics | Disclosure | HKEX ESG Guide | Section Title | Page | Remarks/ Reasons for Omission |
|---|---|---|---|---|---|
| **GRI 205: Anti-corruption 2016** | | | | | |
| **GRI 103: Management Approach 2016** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B7 GD | **Sustainability at AAC Technologies** *Business Ethics* | P.18-19 | |
| 103-2 | The management approach and its components | B7 GD<br>KPI B7.2<br>KPI B7.3 | | | |
| 103-3 | Evaluation of the management approach | B7 GD | | | |
| **Topic-specific Disclosures** | | | | | |
| 205-3 | Confirmed incidents of corruption and actions taken | B7 GD<br>KPI B7.1 | **Sustainability at AAC Technologies** *Business Ethics* | | During the year, there were no non-compliance incidents. |
| **GRI 401: Employment 2016** | | | | | |
| **GRI 103: Management Approach 2016** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B1 GD | **Talent Management** *Striving for Employee Satisfaction* | P.23-25 | |
| 103-2 | The management approach and its components | | | | |
| 103-3 | Evaluation of the management approach | | | | |
| **Topic-specific Disclosures** | | | | | |
| 401-1 | New employee hires and employee turnover | KPI B1.2 | **Talent Management** *Our Workforce* | P.26-28 | |
| 401-2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees | B1 GD | **Talent Management** *Striving for Employee Satisfaction* | P.23-25 | |
| **GRI 403: Occupational Health and Safety 2018** | | | | | |
| **GRI 103: Management Approach 2016** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B2 GD<br>KPI B2.3 | **Talent Management** *Managing Health and Safety* | P.32-35 | |
| 103-2 | The management approach and its components | | | | |
| 103-3 | Evaluation of the management approach | | | | |

| Material Topics | Disclosure | HKEX ESG Guide | Section Title | Page | Remarks/ Reasons for Omission |
|---|---|---|---|---|---|
| **Management Approach Disclosures** | | | | | |
| 403-1 | Occupational health and safety management system | | **Talent Management** *Managing Health and Safety* | P.32-33 | |
| 403-2 | Hazard identification, risk assessment, and incident investigation | | **Talent Management** *Managing Health and Safety* | P.32-33 | |
| 403-3 | Occupational health services | | **Talent Management** *Preventing Occupational Diseases* | P.35 | |
| 403-4 | Work participation, consultation, and communication on occupational health and safety | B2 GD KPI B2.3 | **Talent Management** *Managing Health and Safety* | P.33-34 | |
| 403-5 | Worker training on occupational health and safety | | **Talent Management** *Managing Health and Safety* | P.33-34 | |
| 403-6 | Promotion of worker health | | **Talent Management** *Managing Health and Safety* | P.32-35 | |
| 403-7 | Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | | **Talent Management** *Managing Health and Safety* | P.32-35 | |
| **Topic-specific Disclosures** | | | | | |
| 403-9 | Work-related injuries | KPI B2.1 KPI B2.2 | **Appendices** *Performance Data Summary* | P.65 | |
| **GRI 404: Training and Education 2016** | | | | | |
| **GRI 103: Management Approach 2016** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | | **Talent Management** *Building a Future-proof Workforce* | P.21-23 | |
| 103-2 | The management approach and its components | B3 GD | | | |
| 103-3 | Evaluation of the management approach | | | | |
| **Topic-specific Disclosures** | | | | | |
| 404-1 | Average hours of training per year per employee | KPI B3.2 | **Appendices** *Performance Data Summary* | P.64 | |
| 404-2 | Programs for upgrading employee skills and transition assistance programs | B3 GD | **Talent Management** *Building a Future-proof Workforce* | P.21-23 | |

| Material Topics | Disclosure | HKEX ESG Guide | Section Title | Page | Remarks/ Reasons for Omission |
|---|---|---|---|---|---|
| **GRI 408: Child Labour 2016** | | | | | |
| **GRI 103: Management Approach 2016** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B4 GD | **Talent Management** *Regulatory Compliance* | P.29-31 | |
| 103-2 | The management approach and its components | | | | |
| 103-3 | Evaluation of the management approach | | | | |
| **Topic-specific Disclosures** | | | | | |
| 408-1 | Operations and suppliers at significant risk for incidents of child labour | B4.1 | **Talent Management** *Regulatory Compliance* | P.29-31 | |
| **GRI 409: Forced or Compulsory Labour 2016** | | | | | |
| **GRI 103: Management Approach 2016** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B4 GD | **Talent Management** *Regulatory Compliance* | P.29-30 | |
| 103-2 | The management approach and its components | | | | |
| 103-3 | Evaluation of the management approach | | | | |
| **Topic-specific Disclosures** | | | | | |
| 409-1 | Operations and suppliers at significant risk for incidents of Forced or Compulsory Labour | B4.1 | **Talent Management** *Regulatory Compliance* | P.29-31 | |
| **GRI 419: Social and Economic Compliance 2016** | | | | | |
| **GRI 103: Management Approach 2016** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B1 GD<br>B2 GD<br>B4 GD<br>B7 GD | **Sustainability at AAC Technologies** *Business Ethics* | P.18-19 | |
| 103-2 | The management approach and its components | | | | |
| 103-3 | Evaluation of the management approach | | | | |
| **Topic-specific Disclosures** | | | | | |
| 419-1 | Non-compliance with laws and regulations in the social and economic area | B1 GD<br>B2 GD<br>B4 GD<br>B7 GD | **Sustainability at AAC Technologies** *Business Ethics* | | During the year, there were no non-compliance incidents. |
| **Product Quality Management** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B6 GD | **Operational Excellence** *The Path to Zero Defects* | P.51-54 | |
| 103-2 | The management approach and its components | B6 GD<br>KPI B6.4 | **Operational Excellence** *The Path to Zero Defects* | | |
| 103-3 | Evaluation of the management approach | B6 GD | **Operational Excellence** *The Path to Zero Defects* | | |

| Material Topics | Disclosure | HKEX ESG Guide | Section Title | Page | Remarks/ Reasons for Omission |
|---|---|---|---|---|---|
| **Customer Satisfaction** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B6 GD | **Operational Excellence** *Enhancing Customer Experience* | | |
| 103-2 | The management approach and its components | B6 GD KPI B6.2 | **Operational Excellence** *Enhancing Customer Experience* | P.59-60 | |
| 103-3 | Evaluation of the management approach | B6 GD | **Operational Excellence** *Enhancing Customer Experience* | | |
| **Innovation and Intellectual Property Rights** | | | | | |
| 103-1 | Explanation of the material topic and its boundary | B6 GD | **Operational Excellence** *Lead Innovation* | | |
| 103-2 | The management approach and its components | B6 GD KPI B6.3 | **Operational Excellence** *Lead Innovation* | P.50 | |
| 103-3 | Evaluation of the management approach | B6 GD | **Operational Excellence** *Lead Innovation* | | |
| **Non-material Topics** | | | | | |
| **GRI 201: Economic Performance 2016** | | | | | |
| 201-1 | Direct economic value generated and distributed | KPI B8.2 | **Sustainability at AAC Technologies** *About Us* | P.7 | |
| | | | **Community Care** | P.63 | |
| 201-2 | Financial implications and other risks and opportunities due to climate change | A4 GD KPI A4.1 | **Managing Environmental Impacts** *Addressing Climate Change* | P.38-40 | |
| **GRI 301: Materials 2016** | | | | | |
| 301-1 | Materials used by weight or volume | KPI A2.5 | **Appendices** *Performance Data Summary* | P.65-66 | |
| **GRI 302: Energy Management 2016** | | | | | |
| 302-1 | Energy consumption within the organization | KPI A2.1 | **Managing Environmental Impacts** *Optimising Energy structure* | P.41-42 | |
| 302-4 | Reduction of energy consumption | KPI A2.3 | **Managing Environmental Impacts** *Optimising Energy structure* | P.41-43 | |

| Material Topics | Disclosure | HKEX ESG Guide | Section Title | Page | Remarks/ Reasons for Omission |
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| **GRI 303: Water and Effluents 2018** | | | | | |
| 303-1 | Interactions with water as a shared resource | KPI A2.4 | **Managing Environmental Impacts** | P.46-47 | |
| 303-5 | Water consumption | KPI A2.2 | *Water Conservation* | | |
| **GRI 305: Greenhouse Gases Management 2016** | | | | | |
| 305-1 | Direct (Scope 1) GHG emissions | KPI A1.1<br>KPI A1.2 | **Managing Environmental Impacts**<br>*Addressing Climate Change* | | |
| 305-2 | Energy indirect (Scope 2) GHG emissions | KPI A1.1<br>KPI A1.2 | **Managing Environmental Impacts**<br>*Addressing Climate Change* | P.40 | |
| 305-4 | GHG emissions intensity | KPI A1.2<br>KPI A1.5 | **Managing Environmental Impacts**<br>*Addressing Climate Change* | | |
| 305-5 | Reduction of GHG emissions | KPI A1.2<br>KPI A1.5 | **Managing Environmental Impacts**<br>*Optimising Energy Structure* | P.41-43 | |
| **GRI 306: Waste 2020** | | | | | |
| 306-3 | Waste generated | KPI A1.3<br>KPI A1.4 | **Managing Environmental Impacts** | P.44-46 | |
| 306-4 | Waste diverted from disposal | KPI A1.6 | *Our Pledge to Achieve Zero Waste to Landfill* | | |
| **GRI 308: Supplier Environmental Assessment 2016** | | | | | |
| 308-1 | New suppliers that were screened using environmental criteria | KPI B5.2 | **Operational Excellence**<br>*Suppliers' Management* | P.54-58 | |
| **GRI 405: Diversity and Equal Opportunity 2016** | | | | | |
| 405-1 | Diversity of governance bodies and employees | KPI B1.1 | **Talent Management**<br>*Our Workforce*<br>**Appendices**<br>*Performance Data Summary* | P.26-28<br>P.64 | |
| **GRI 413: Local Communities 2016** | | | | | |
| 413-1 | Operations with local community engagement, impact assessments, and development programs | KPI B8.1 | **Community Care** | P.63 | |

| Material Topics | Disclosure | HKEX ESG Guide | Section Title | Page | Remarks/ Reasons for Omission |
|---|---|---|---|---|---|
| **GRI 414: Supplier Social Management 2016** | | | | | |
| 414-1 | New suppliers that were screened using social criteria | KPI B5.2 | **Operational Excellence** *Suppliers' Management* | P.54-58 | |
| **GRI 416: Customer Health and Safety 2016** | | | | | |
| 416-2 | Incidents of non-compliance concerning the health and safety impacts of products and services | KPI B6.1 | **Operational Excellence** *The Path to Zero Defects* | | During the year, there was no non-compliance incidents. |
| **GRI 417: Product Sales and Labelling 2016** | | | | | |
| 417-2<br>417-3 | Incidents of non-compliance concerning product and service information and labeling<br>Incidents of non-compliance concerning marketing communications | B6 GD | **Operational Excellence** *Enhancing Customer Experience* | | During the year, there was no non-compliance incidents. |
| **GRI 418: Customer Privacy 2016** | | | | | |
| 418-1 | Substantiated complaints concerning breaches of customer privacy and losses of customer data | KPI B6.5 | **Operational Excellence** *Information Security and Privacy* | | During the year, there were no complaints concerning breaches or losses of customer data. |

# International Standards

We endorse United Nations Global Compact which is a set of 10 principles in the areas of human rights, labour, environment and anti-corruption. In addition, we also adhere to the following international guidelines and standards: International Labor Organisation Conventions; United Nations Guiding Principles on Business and Human Rights; Occupational Health and Safety Assessment Series ("OHSAS") 18001; ISO 14001; ISO 50001; Electrotechnical Commission Quality Assessment System for Electronic Systems ("IECQ") QC 080000; UL2799 Environmental Claim Validation Procedure for Zero Waste to Landfill.

| United Nations Global Compact 10 Principles | | Location in this report |
|---|---|---|
| **Human Rights** | | |
| Principle 1 | Business should support and respect the protection of internationally proclaimed human rights; and | P.30, 55 |
| Principle 2 | Make sure that they are not complicit in human rights abuses. | P.30, 55 |
| **Labor Standards** | | |
| Principle 3 | Business should uphold the freedom of association and the effective recognition of the right to collective bargaining; | P.30, 31 |
| Principle 4 | The elimination of all forms of forced and compulsory labor; | P.30, 31 |
| Principle 5 | The effective abolition of child labor; and | P.30, 31, 32 |
| Principle 6 | The elimination of discrimination in respect of employment and occupation. | P.30 |
| **Environment** | | |
| Principle 7 | Business should support a precautionary approach to environmental challenges; | P.38-41 |
| Principle 8 | Undertake initiatives to promote greater environmental responsibility; and | P.38-49 |
| Principle 9 | Encourage the development and diffusion of environmentally-friendly technologies. | P.38-49 |
| **Anti-corruption** | | |
| Principle 10 | Business should work against corruption in all its forms, including extortion and bribery. | P.19-20 |