



Sunny Optical Technology (Group) Company Limited 舜宇光學科技 (集團) 有限公司

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

A large, abstract graphic in the background of the cover page. It consists of various overlapping geometric shapes, lines, and curves in shades of blue, teal, and green. Some elements resemble technical drawings or optical diagrams, with dashed lines and arrows. The overall effect is a sense of depth and technological complexity.

2021 Environmental, Social and Governance Report

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About the Report

This report is the 2021 Environmental, Social and Governance (“**ESG**”) Report issued by Sunny Optical Technology (Group) Company Limited (the “**Company**” or “**Sunny Optical Technology**”), which mainly summarizes the ESG work methods, commitments and strategies of the Company and its subsidiaries (the “**Group**”).

Reporting Period

Unless otherwise stated, the report covers the period from 1 January 2021 to 31 December 2021 (the “**Reporting Period**”).

Definitions

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

Reporting Boundary

The scope of this report covers the Company and its main subsidiaries located in Yuyao City, Zhejiang Province, the People’s Republic of China (the “**PRC**” or “**China**”), namely Zhejiang Sunny Optics Co., Ltd. (“**Sunny Zhejiang Optics**”), Ningbo Sunny Opotech Co., Ltd. (“**Sunny Opotech**”), Ningbo Sunny Automotive Optech Co., Ltd. (“**Sunny Automotive Optech**”) and Yuyao Sunny Optical Intelligence Technology Co., Ltd. (“**Sunny Optical Intelligence (Yuyao)**”) (Note 1, 2, 3). During the Reporting Period, the main operating revenue of the four subsidiaries covered in this report accounted for more than 90.0% of the revenue of the Group.

Compared with the ESG report published by the Company in 2020 (“**2020 ESG Report**”), the coverage of the environmental key performance indicators (“**KPIs**”) in this report has been adjusted (Note 4), and there are no major adjustments in other categories.

Notes



1. The content and the KPIs in the chapter of Practicing Green Development cover the Company and Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao);
2. The content and the KPIs in the chapters of Focusing on Innovation and Excellence, Win-win Cooperation, and Health and Safety First cover the Company and Sunny Zhejiang Optics, Sunny Opotech and Sunny Automotive Optech;
3. The content and the KPIs in the chapters of About Us, ESG Governance, Building a Harmonious Workplace and Sincere Contribution to the Society cover the Company and its subsidiaries; and
4. In order to reflect the implementation of environmental sustainable development management measures in more subsidiaries, we adjusted the coverage of the environmental KPIs in this report and added relevant data of Sunny Optical Intelligence (Yuyao).

Reporting Principles

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

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

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

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

“Consistency”: Unless otherwise stated, this report uses consistent data statistics methods compared with that in the 2020 ESG Report, and no major changes have occurred.

Data Explanation

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

Publication Method

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

Contact Method

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

Chairman's Statement



Ye Liaoning

Chairman and Executive Director

Dear stakeholders:

In 2021, the global economy took on a recovery trend, but huge challenges such as the continued spread of coronavirus disease 2019 (“**COVID-19**”), the surge in global inflationary pressure and the supply chain crisis have caused great negative impacts on the global economy. Meanwhile, the market structure where the Group operates changed rapidly and the industrial competition was fierce. In the face of the intricate and complicated external environment as well as various new challenges, the Group surmounted the challenges and responded positively. All of our main businesses have achieved solid development and further created values for shareholders.

We are deeply convinced that product quality is the core of our long-term development. We pay continuous attention to cutting-edge technologies and market development trends, focus on technological innovations and strive to provide customers with a full spectrum of high-quality products with stable performance, reliable quality, and in line with the development needs of the industry. In 2021, the Group’s three main products, namely handset lens sets, handset camera modules and vehicle lens sets, gained the global No.1 market shares, and their market positions and comprehensive competitiveness were further consolidated and enhanced. In addition, the Group actively deepened its business layout in emerging optical markets and carried out in-depth cooperation with well-known domestic and overseas customers in light detection and ranging (“**LiDAR**”), augmented reality (“**AR**”) / virtual reality (“**VR**”), smart home and other segments.

In 2021, we have also developed a variety of green, energy-saving and efficient products to explore opportunities in clean technology. We strictly complied with the requirements of environmental protection laws and regulations and took environmental responsibility throughout the product life cycle by means of green product design, technological innovation, production and manufacturing reform, environmental protection testing, supply chain environmental protection audit, environmental protection certification, etc. We also plan to support China achieving its goals of carbon peak and carbon neutrality by purchasing green power in the future. Furthermore, we require our suppliers to comply with international laws and regulations, industry standard, and the Group's policy requirements in terms of hazardous substance management, conflict minerals management, human rights management, ethics and integrity, etc., and worked with the Group to build a sustainable and win-win ecosystem.

Meanwhile, the Group consciously undertakes its responsibilities as an enterprise citizen in corporate governance, talent training and public welfare, etc. In 2021, the Group appointed the audit committee of the board of directors of the Company (the "**Audit Committee**") to supervise the ESG governance of the Group on behalf of the board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of the Company and inspection division is responsible for the anti-fraud monitoring of the whole Group, to further improve compliance and internal control measures. In addition, we strive to build a healthy, harmonious and inclusive working environment for employees. In 2021, we improved the Group's training system through employee and supplier empowerment training, visualized talent management and other work. We continued to improve the hardware of the training centre to empower employees' full-stage growth, fully enhance the capabilities of employees and partners and deepen sustainable development of the Group. We also actively devoted ourselves into public welfare and charity, and continuously involved in public welfare activities such as education, poverty alleviation, environmental protection and charity, to contribute to the economic and social development of our region.

The ESG work of the Group has been widely recognized by the society. In 2021, the Group was successively selected as constitutes of the FTSE4Good Index Series, Hang Seng ESG 50 Index, Hang Seng Corporate Sustainability Index, Hang Seng Index ("**HSI**") ESG Screened Index and HSI Low Carbon Index, reflecting the recognition of the capital market for our work in sustainable development. In addition, MSCI Inc. ("**MSCI**") raised the ESG rating of the Group from "BBB" to "A", fully confirming our unremitting efforts in ESG.

Looking forward to 2022, even if the external environment is full of challenges, the Group will continue to give full play to the advantages of global layout, unswervingly implement the "Mingpeijiao" (名配角) strategy, actively plan for a sustainable future, and work with stakeholders to explore sustainable development in response to global challenges.

Ye Liaoning
Chairman and Executive Director
China
May 30, 2022



About Us

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About the Group



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

By the end of 2021, the Group has been included in key indexes such as Hang Seng Index, Hang Seng China Enterprise Index, Hang Seng TECH Index and Hang Seng Corporate Sustainability Index. The Group focuses on the application fields of optoelectronic-related products, such as handsets, digital cameras, vehicle imaging and sensing systems, security surveillance systems, VR/AR and robots, which are combined with optical, electronic, algorithm and mechanical technologies.

Adhering to the vision of 'Be stronger, bigger and go further to become a "Hundred-Year-Old Brand" in the optoelectronic industry', the Group continues to refine our advantageous businesses and develop emerging strategic opportunities. The Group is transforming from an optical products manufacturer to an intelligent optical system solutions provider, vigorously developing new production bases, comprehensively strengthening global industrial deployment, and constantly promoting the construction of intelligent platform and digital transformation of its businesses, to support the sustainable high-quality development of the Group and achieve excellent performance.

Product Introduction

Main Business Areas



Handset Area

- **Handset Lens Sets**

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



Handset Lens Sets

- **Handset Camera Modules**

Lens sets, image sensors, voice core motors and other components are assembled by adopting the chip on board ("COB") packaging technology for handsets to shooting pictures or videos.



Handset Camera Modules

Vehicle Area



- **Vehicle Lens Sets**

They are applied in vehicles for real-time monitoring of the internal and external environment of vehicles, so as to provide safety guarantee to the driving of vehicles. They are mainly composed of multiple glass lenses and plastic lenses or multiple glass lenses.



Vehicle Lens Sets

- **Vehicle Modules**

By assembling the vehicle lens sets, sensor, serdes and other components, it is applied in vehicles for real-time monitoring of the internal and external environment of vehicles, so as to provide safety guarantee for the driving of vehicles.



Vehicle Modules

- **LiDAR Related Optical Products**

The LiDAR can detect objects and roads when driving the vehicle by using the laser beams which have no harm to human eyes, so as to avoid collision. The Group mainly produces transmitting and receiving lens sets components and assemblies, transmitting and receiving modules, polygonal prisms, optical windows and other optical components and products.



LiDAR Lens Sets

Vehicle Area



- **Head-up Display (“HUD”) Related Optical Products**

Through the principle of optical reflection, important driving information such as speed and navigation are projected on a piece of glass to prevent the driver from distracting and ease eye-strain, providing safety guarantee to the driving of vehicles. The Group mainly produces key optical components of HUD, such as freeform lenses and core optical engine.



AR HUD

- **Smart Headlamp Related Optical Products**

Provide different optical solutions for ground projection lamp, including scaled gradient projection (“SGP”) and dynamic ground projection (“DGP”), so as to realize the interaction between intelligent driving vehicle and surrounding environment. The Group mainly produces smart headlamp projecting modules and other key optical components and assemblies.



Smart Headlamp Projecting Modules

VR/AR Area



- **Fresnel Lenses**

The surface of the lens is smooth on one side, and engraved with several concentric circles from small to large on the other-side with its texture designed according to the optical refraction, relative sensitivity and acceptance angle, which enables the lens of VR headsets to be thinner and lighter, which improves the wearing experience.



Fresnel Lenses

- **SLAM Lens Sets and Modules**

Applied in simultaneous location and mapping (“SLAM”) spatial positioning technology, VR devices can rely on vision and sensors to build surrounding environment data in a completely unfamiliar environment and combine SLAM algorithm for scene reconstruction to create a truly immersive experience.



SLAM Lens Sets and Modules

- **AR Waveguides**

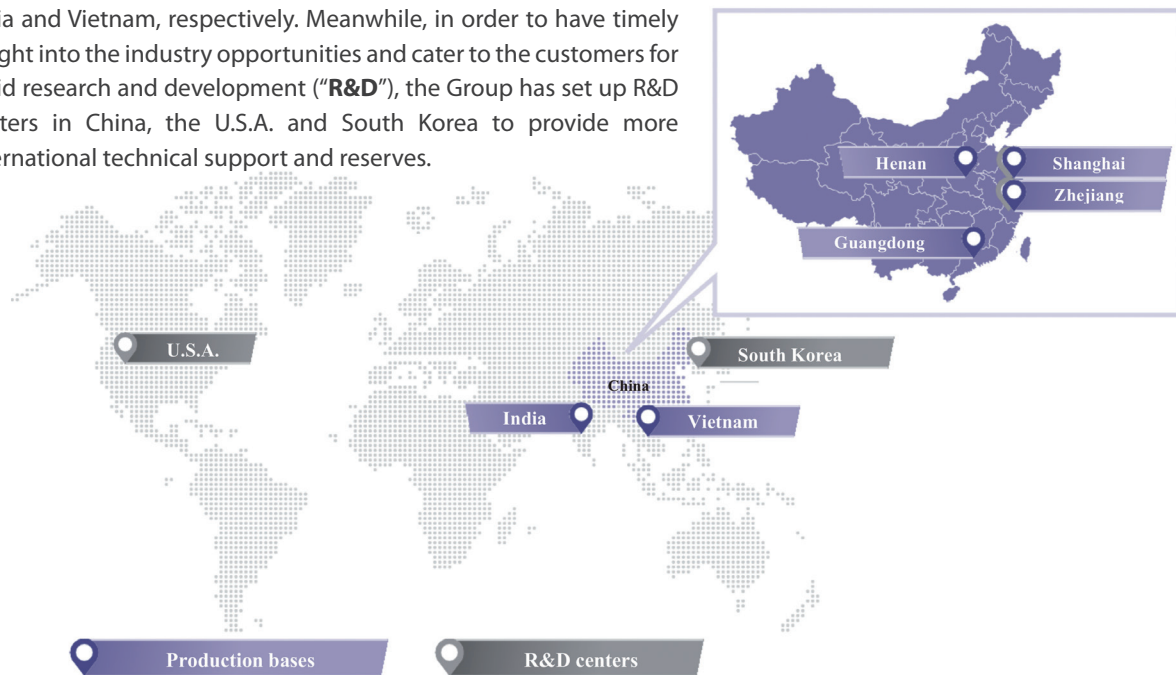
The medium that guides light to propagate in a specific route, which is manufactured by semiconductor micro-nano processing technology. It is the core component of AR smart glasses optical display system. Through AR waveguide, human eyes can see the imaging effect of virtual information combined with the real scene.



AR Waveguides

Global Deployment

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



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



Sunny Zhejiang Optics

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



Sunny Opotech

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



Sunny Automotive Optech

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



Sunny Optical Intelligence (Yuyao)

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

ESG Rating and Selected Indexes

● **August 2020**

Included in Hang Seng Corporate Sustainability Benchmark Index

● **June 2021**

Included in FTSE4Good Index Series

● **August 2021**

Included in Hang Seng ESG 50 Index

● **September 2021**

Included in Hang Seng Corporate Sustainability Index

● **November 2021**

MSCI ESG rating raised from "BBB" to "A"

● **November 2021**

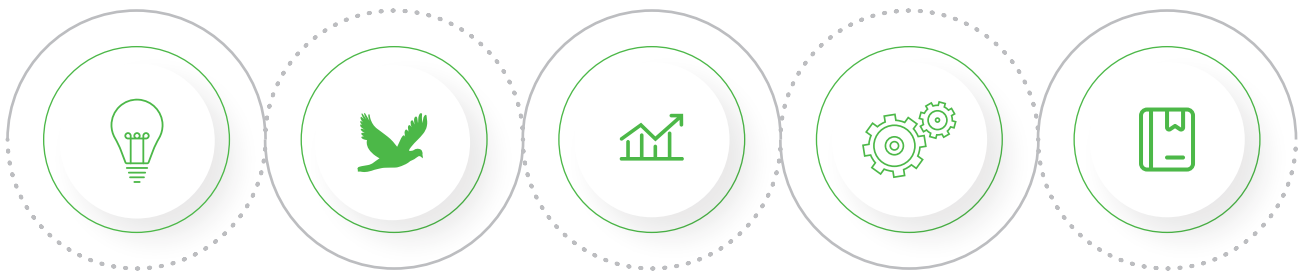
Included in HSI ESG Screened Index

● **November 2021**

Included in HSI Low Carbon Index

Mission and Vision

Core Values



Connotations

- Create career and value together
- Share difficulties and risks together
- Share results and benefits together
- Seek growth and development together

Mission

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

Vision

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

Development strategy

Unswervingly implement the "Mingejiao" (名配角) strategy to build a world-renowned optoelectronic enterprise

Corporate culture system

The system of spiritual culture with "Create Together" as the core

The system of institutional culture with "Prevent Familization" as the core

The system of behavioral culture with "Leaders' Personal Demonstration" as the core

Brand Image



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

In order to ensure that the design and production of various visual identity (“VI”) application projects meet the standards of the VI Manual (《VI手冊》), the Group has developed the Regulations on the Administration of VI Application Projects (《VI應用項目管理規定》). It specifies the management objects and responsibilities, the classification of VI application projects, management requirements and appraisal methods to ensure the standardized implementation of VI application projects. Meanwhile, we implement annual self-assessment on VI projects and make timely rectifications for non-compliant projects. We also further strengthen our employees’ awareness of brand management through training courses such as brand visual communication application and logo (“Logo”) proposal.

Industry Associations

In order to develop together with the industry and achieve win-win cooperation, the Group actively maintains close relationships with industry associations and community.

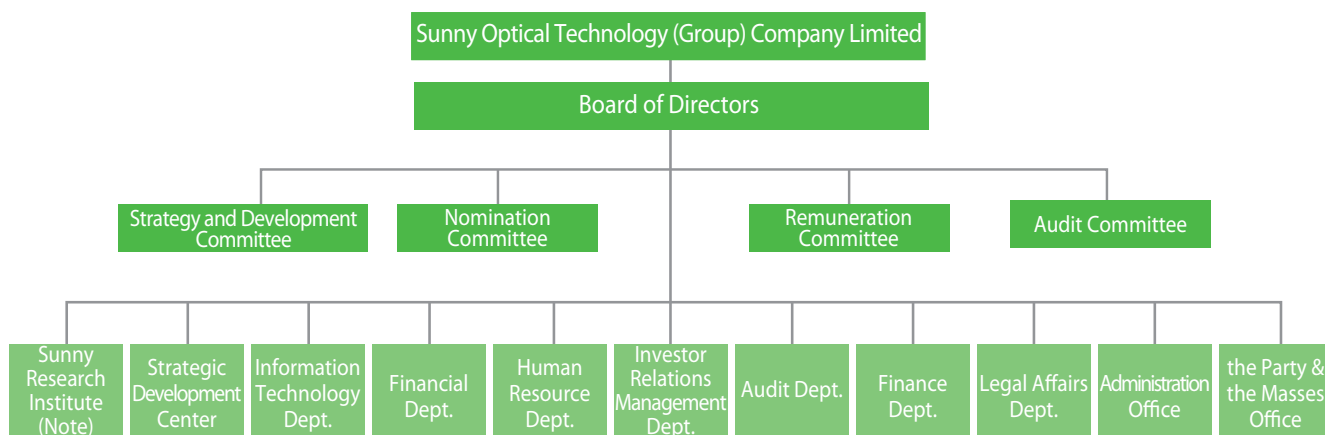
In 2021, we were the association members of the following associations:



Awards and Recognitions

| Award and recognition | Awarded by | Awarded to |
|--|---|--------------------------|
| Corporate Comprehensive Strength | | |
| Hong Kong Outstanding Listed Enterprises Awards 2021 "Best Tech Constituent Stock" | Economic Digest | Sunny Optical Technology |
| Quam IR Awards 2020 "The Most Remarkable Investor Relations Recognition (Hang Seng Index) Category" | China Tonghai IR Co., Ltd. | Sunny Optical Technology |
| "Best Delivery Award" | ZTE Corporation | Sunny Zhejiang Optics |
| "2021 Quality Management Innovation Award of Zhejiang Provincial People's Government" | People's Government of Zhejiang Province | Sunny Zhejiang Optics |
| "2021 Excellent Supplier Award" | Wingtech Technology Co., Ltd. | Sunny Zhejiang Optics |
| "Excellence in Technology Award" | Jiangsu New Vision Automotive Electronics Co., Ltd. | Sunny Automotive Optech |
| "Excellent Supplier Award" | Bosch Group | Sunny Automotive Optech |
| "Best Technological Innovation Award" | ZTE Corporation | Sunny Opotech |
| Labour Management | | |
| "2021 Prize for Outstanding Human Resource Management" | 51job, Inc. | Sunny Optical Technology |
| "Advanced Private Enterprises of National Employment and Social Security" | All-China Federation of Industry and Commerce | Sunny Optical Technology |
| "2021 Most Influential Employer" | Haitou.cc | Sunny Zhejiang Optics |

Standardizing Corporate Governance



Board and Committees Composition

Being accountable to all shareholders, the board of directors of the Company promoting and guiding the Group's business developments and operations in a responsible and effective manner.

As at the date of this report released, the Board comprises seven Directors, including three executive Directors, one non-executive Director, and three independent non-executive Directors. In accordance with the articles of association of the Company, at each annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years.

The Board has established four specific committees, namely audit committee, remuneration committee, nomination committee and strategy and development committee. Each committee has adequate resources to carry out its functions and may seek independent professional advice where appropriate. The terms of reference for each committee have been published on the website of the HKEXnews of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.sunnyoptical.com>) for stakeholders to review. The external auditor, Deloitte Touche Tohmatsu, acts as the provider of independent auditing services of the Company.

The remuneration of the Directors are determined by the Board as recommended by the remuneration committee, having regards to the Group's operating results, individual performance and/ or comparable market statistics. Please refer to the 2021 Annual Report of the Company for more details.

Note



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

Board Diversity

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

The composition of the Board is summarized as below:

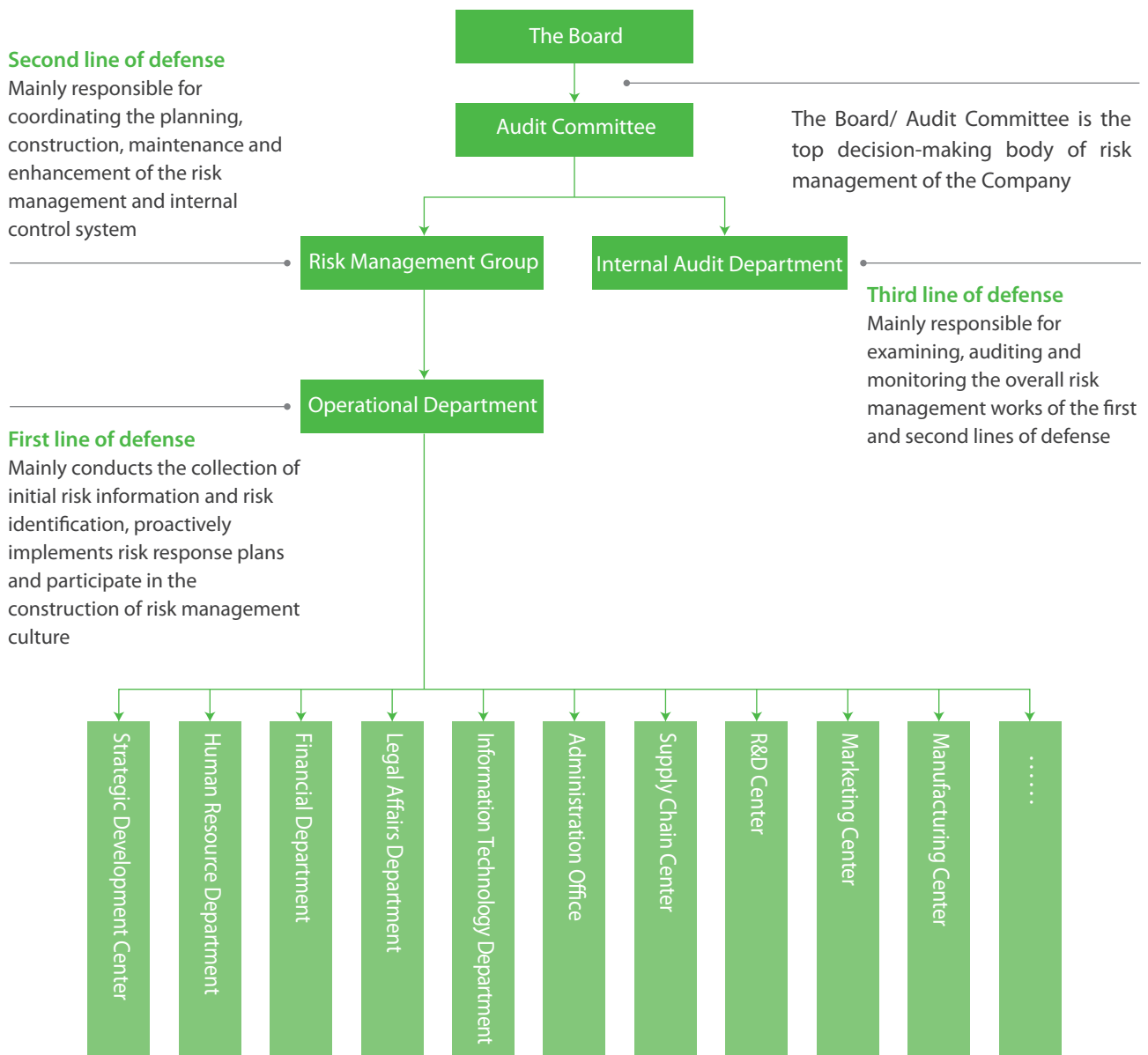
| Name | Ye Liaoning | Sun Yang | Wang Wenjie | Wang Wenjian | Zhang Yuqing | Feng Hua Jun | Shao Yang Dong |
|--------|-------------|----------|-------------|--------------|--------------|--------------|----------------|
| Gender | Male | Male | Male | Male | Male | Male | Male |
| Age | 56 | 49 | 54 | 74 | 74 | 58 | 52 |

Skills/ knowledge/ professional experience

| | | | | | | | |
|--|---|---|---|---|---|---|---|
| Financial management | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Operation management | ✓ | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Capital market | ✓ | ✓ | ✓ | | ✓ | | ✓ |
| Risk management | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Strategic planning | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Board committee leadership experience | ✓ | | | ✓ | ✓ | ✓ | ✓ |
| Optical industry and other related industries experience | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Risk Management

The Group has attached great importance to enterprise risk management (“ERM”) and has established an ERM system. We have formulated the Risk Management Policy (《風險管理制度》) and established a risk management policy framework. Meanwhile, in order to ensure the smooth implementation of a risk management, the detailed daily risk management work has been defined and executed through the Overall Risk Management Procedures (《全面風險管理程序》) and Key Risk Indicators Regulatory Requirements (《關鍵風險指標監管要求》). For work of the Group's risk management, please refer to pages 78 to 99 of 2021 Annual Report (《二零二一年報》).



We have formulated the Measures for Overall Risk Management Performance Appraisal (《全面風險管理績效考核辦法》) and established an overall risk management appraisal group to evaluate and supervise the comprehensive risk management work and promote all employees to engage in risk management work. In 2021, the Group integrated the risk management into business management, and integrated its risk management system with the International Organization for Standardization (“ISO”) quality management system, strategic system and other systems to establish a normalized and dynamic mode of risk management, and guided the business departments to formulate corresponding improvement measures through risk indicators’ early warning, and continuously optimized implementation of risk management.

To promote the empowerment of risk management knowledges and skills to employees at all levels, we developed more than 30 risk management courses in 2021 and completed risk management training for more than 4,000 employees with over 80.0% participation rate of division managers and above. In addition, the Group shared risk management-related knowledge through the “Sunny Family” WeChat official account and “Sunny Journal” internal journal for publicity to all employees. The relevant cases and research papers of the Group’s risk management development experience won awards such as the Excellent Research Paper Award of Zhejiang Institute of Internal Audit and the second prize of Excellent Research Paper of Ningbo Institute of Internal Audit, and were included in the book Financial Transformation and Value Creation Based on Management Accounting Practice from Leading Enterprise in Ningbo (《基於管理會計的財務轉型與價值創造——來自寧波領先企業的實踐》) published by China Financial and Economic Publishing House.



Risk Management Training

Practicing Business Ethics

The Group always adheres to the principle of integrity and has zero tolerance for any form of bribery, corruption, extortion, fraud, embezzlement and money laundering in all business activities. We formulate the overall anti-fraud goal of "do not dare to corrupt" in objective behaviours, "cannot corrupt" in system and process and "do not attempt to corrupt" in subjective consciousness, and establish a clean management system to prevent corruption.

We abide by the laws and regulations related to business ethics in the countries and regions we operate, such as the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and the Basic Norms on Internal Control of Enterprises (《企業內部控制基本規範》). We have established a business ethics management team directly led by the Chairman to continuously supervise and evaluate the business ethical works. The audit department of the Group (the "Audit Department") is responsible for auditing the compliance of connected transactions and the declarations in relation to the related persons in all businesses of previous year and report the audit results to the Audit Committee annually. We also appoint an external auditor to review the Group's continuing connected transactions. The Group's enterprise cultural group is responsible for building a culture of honesty and integrity, and supervising and evaluating the cadres by formulating a negative list of the value of cadres. In 2020, we set up an inspection division under the Audit Department to be responsible for the publicity of anti-fraud and integrity among the Group, and take the initiative to investigate various kinds of fraudulent practices undermining the interests of the Group. During the Reporting Period, the inspection division has identified more than 1,000 hidden risks, conducted an in-depth investigation of ten high-risk areas, and completed all related rectification.

The Group has adopted the Anti-Malpractice Policy (《反舞弊制度》) to prevent and control various corruption and fraud incidents such as commercial bribery, commercial benefit transmission and financial embezzlement. In 2021, the Group optimized the complaint investigation mechanism for complaints and reports, specifying that relevant staff should accept new reports within 24 hours, and verify and deal with the reported information as soon as possible. At the same time, the Group has formulated the Administrative Measures for Rewards and Punishment of Employees (《員工獎懲管理辦法》) to standardize the reward and punishment processes and urge employees to comply with the Company's management regulations and business ethics. For connected transactions, the Group has formulated the Connected Transaction Procedures (《關連方交易流程》), in which the appointment of cadres with management titles of associate department manager and above, and those key sensitive positions shall make related party declarations and be audited. Key personnel in sensitive positions are also required to sign an Integrity Guarantee (《廉潔從業承諾書》), conduct integrity reports and rotate regularly to strengthen internal control. Suppliers shall also sign the Undertaking for Operating with Integrity (《誠信經營承諾書》) and declare their related parties.

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



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



Telephone

+86-574-62550607



E-mail

Audit Department
audit@sunnyoptical.com

Audit Committee
auditcommittee@sunnyoptical.com



Communication address

No. 27-29, Shunke Road, Yuyao,
Ningbo, Zhejiang Province, China
Audit Department, Postal code:
315400



Network platforms

"Integrity Sunny"
WeChat official account
"Sunny Family"
WeChat official account

Whistleblowing Instructions and Rewards and Protection Measures

The Group has formulated the Whistleblowing Instructions and Rewards and Protection Measures (《舉報須知和獎勵、保護辦法》) to clarify the whistleblowing rewards and protection policies. We have established strict confidentiality measures and procedures. The information of the whistleblowers, especially the information related to personal data privacy and the information they provided will be kept confidential. The Group will make every effort to protect the personal safety and property safety of the whistleblowers, and take various protection measures based on the whistleblowers' opinions. For any criminal and illegal activities, the Group will assist the whistleblowers to investigate the legal responsibility of the corresponding persons.

Business Ethics Audits

The audit of business ethics is carried out in accordance with the annual policy and covers all subsidiaries. The audit projects include routine audit projects (related party declarations, related party compliance audit, suppliers' related party declarations and procurement business projects) and temporary projects. In 2021, the completion rate of business ethics audit was 100.0%. In 2022, we will further strengthen the investigation of high-risk areas on business ethics.



The Group includes the introduction of the Anti-Malpractice Policy (《反舞弊制度》) in the orientation training of new employees, and publishes related courses and articles irregularly through the cyber academy, Tik-Tok, WeChat official account and integrity speeches. In addition, we conduct integrity publicity through the bulletin board, internal journals, WeChat official account, and integrity speeches.

In 2021,
we conducted a total of **39** online and offline anti-fraud and anti-corruption trainings

including **25** offline sessions, with a total of nearly **2,000** participants

covering all the Directors, all functional departments of the Group, all management cadres and above the section head level, and employees occupying sensitive positions, with a total coverage of **100.0%**

In August 2021, the Audit Department organized the anti-fraud training series covering all subsidiaries. The trainings helped the directors and employees understand the urgency and importance of anti-fraud and anti-corruption through three aspects, including anti-fraud and anti-corruption overview, interpretation of the Anti-Malpractice Policy (《反舞弊制度》), and anti-fraud construction, which further improved employees' capability of anti-fraud and anti-corruption prevention and control and helped to create a clean and upright cultural environment.



A hand is shown from the bottom right, holding a complex, glowing blue structure of interconnected cubes. The background is a dark blue gradient. A semi-transparent green rectangular area is overlaid on the left side of the image, containing the title and table of contents. The title 'ESG Governance' is in large white font. Below it, four items are listed in white font, each followed by a page number: 'ESG Strategy 24', 'ESG Management Structure 25', 'Communication with Stakeholders 27', and 'Materiality Assessment 28'.

ESG Governance

ESG Strategy 24

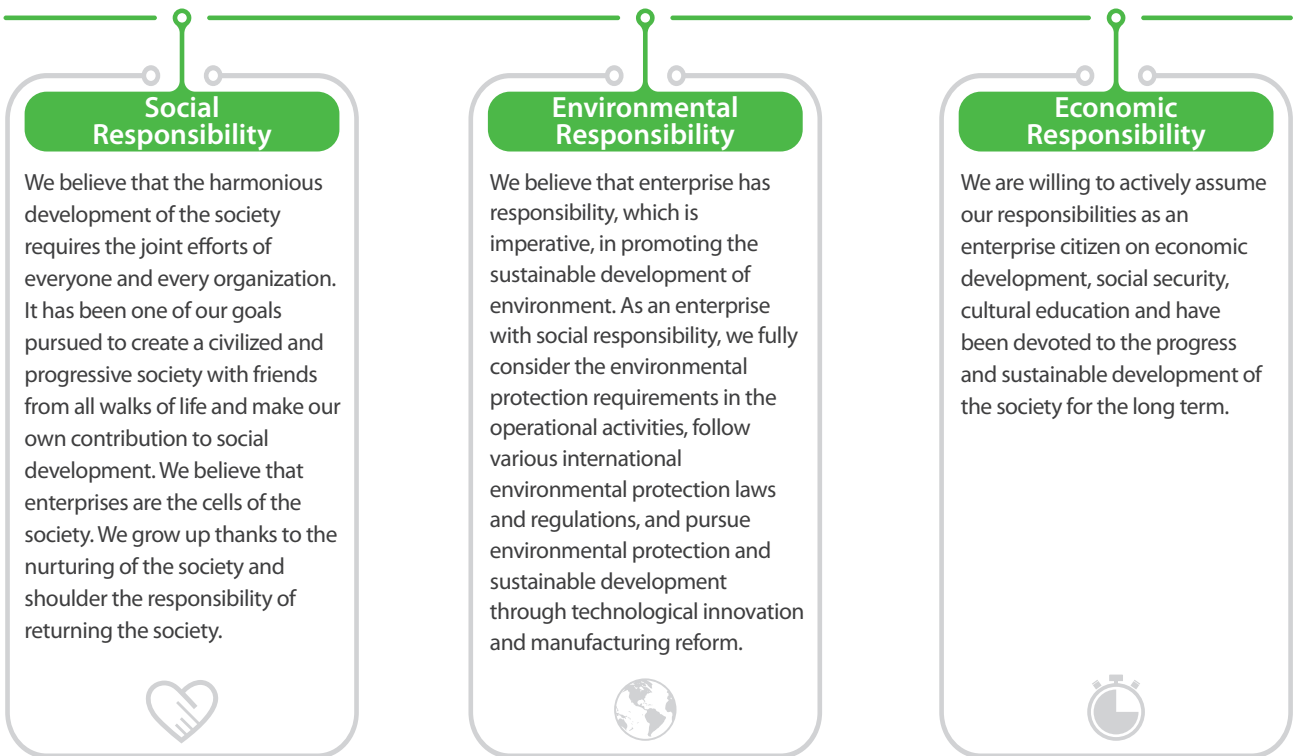
ESG Management Structure 25

Communication with
Stakeholders 27

Materiality Assessment 28

ESG Strategy

The Group adheres to the core value of “Create Together”, and is committed to balance environmental and social impacts and social impacts with business development. The Group has developed more comprehensive ESG disclosure channels, and the Group’s sustainable development capability has been further enhanced by formulating a series of specific sustainable development targets, establishing a sustainable development management framework and building corresponding evaluation indicators.



Major Targets



Environmental Targets

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



Social Targets

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

ESG Management Structure

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

The Board takes overall responsibility for the ESG management system and information disclosure, ensures the Group to establish appropriate and effective ESG risk management and internal control system, supervises and manages ESG related targets and work progress, and approves the disclosure in the ESG report. In 2021, the Board authorized the Audit Committee to supervise the ESG management of the Group on behalf of the Board. The responsibilities of the Audit Committee include:



Reviewing and recommending on the ESG strategies and policies of the Group;

Monitoring and annually reviewing the implementation of ESG strategies and policies;

Reviewing the external communications policy of the Group and monitoring its implementation;

Reviewing the Group's annual ESG report and making recommendations to the Board in relation to the approval on the ESG Report;

Reviewing and examining annually the effectiveness of the Audit Committee in the discharge of its duties of overseeing the ESG-related matters of the Group and the terms of reference and to make recommendations to the Board any changes it considers necessary;

Reporting the above matters to the Board; and

Considering other matters specified or appointed by the Board from time to time.

The Group's ESG management and promotion team composes the management personnel of the Company's Legal Affairs Department, Audit Department, Administration Office, Financial Department, Human Resource Department, The Party & the Masses Office, Information Technology Department, Strategic Development Center, Investor Relations Management Department and relevant departments of subsidiaries. It is responsible for communicating with stakeholders, identifying ESG risks the Group is facing, formulating ESG management system, targets and working plan, promoting the establishment and optimization of the ESG management system, collecting ESG information, preparing the annual ESG report and disclosing the ESG-related information through multiple channels.

The ESG management structure of the Group is as follows:



Board Statement

The Group has established ESG management structure, and the Board takes the overall responsibility for ESG management. To assess the importance of various ESG issues, we carried out materiality assessment, identified material ESG issues and carried out targeted management. Please refer to the chapter of Materiality Assessment for details. Under the supervision of the Board, the Group has formulated ESG-related targets and it will adhere to the concept of sustainable development in the future, strive to achieve corresponding targets and actively fulfil environmental and social responsibilities.

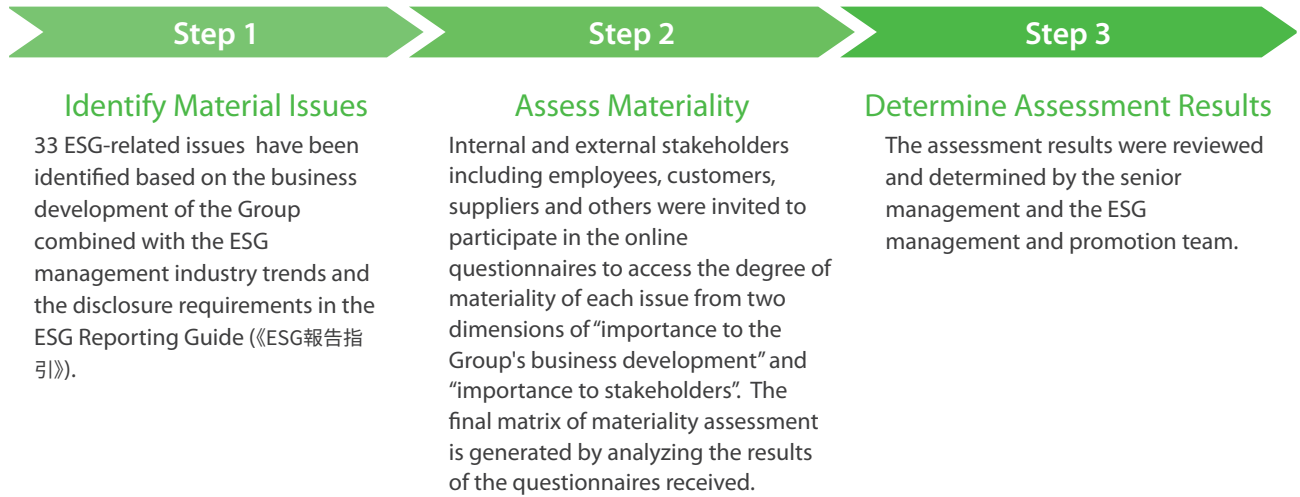
Communication with Stakeholders

Communication with stakeholders is the important foundation for the Group to fulfil its social responsibility. In order to consolidate the relationship between the Group and stakeholders, enhance ESG management level and pursue sustainable development, the Group systematically examines its relations with stakeholders and maintains close communication with shareholders and investors, customers, suppliers, employees and other stakeholders through various channels such as e-mail, telephone, and WeChat official account to understand and respond to the expectations and requests of stakeholders in a timely manner, which promote the common development of the Group and all stakeholders.

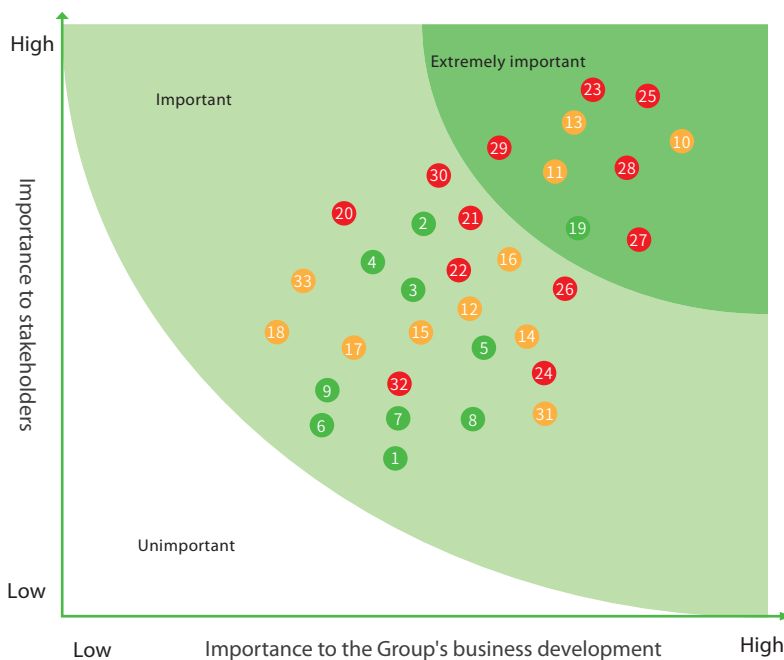
| Stakeholders | Communication methods | Expectations and requests | Our responses |
|----------------------------|--|---|---|
| Shareholders and investors | <ul style="list-style-type: none"> Annual general meetings and extraordinary general meetings Investor presentations Annual reports, interim reports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

Materiality Assessment

The Group conducts materiality assessments in accordance with ESG-related standards and invites internal and external stakeholders to fill in questionnaires, in order to specify the focus of ESG report disclosure and respond to the expectations and requests of stakeholders in a targeted manner. The specific steps for assessment are set out below:



In 2021, the Group reviewed the results of the ESG issues and the materiality assessments, and decided to continue using the 2020 ESG issues assessment results. The specific matrix of ESG materiality assessment is as below:



| | |
|--|------------------------------------|
| 1 Environmental protection investment | 18 Child labour |
| 2 Greenhouse gas | 19 Management of green products |
| 3 Management of water resources | 20 Supply chain management |
| 4 Wastewater disposal | 21 Intellectual property |
| 5 Energy management | 22 Customer privacy |
| 6 Climate change | 23 Product/ service quality |
| 7 Management of waste | 24 Management of conflict minerals |
| 8 Compliance of environmental laws | 25 Product safety |
| 9 Packaging materials | 26 Customer complaint |
| 10 Employee remuneration and welfares | 27 Customer satisfaction |
| 11 Employee trainings and development | 28 Compliant operation |
| 12 Basic principles and rights of employees | 29 Corporate governance structure |
| 13 Occupational health and safety of employees | 30 Business operational impact |
| 14 No discrimination | 31 Community engagement |
| 15 Internal communication mechanism | 32 Anti-malpractice |
| 16 Employee diversity | 33 Public welfare investment |
| 17 Grievance mechanism | |

■ Environmental ■ Social ■ Governance

Focusing on Innovation and Excellence

Promoting R&D Innovation 30

Product Quality Assurance 37

Optimizing Customer Experience 43

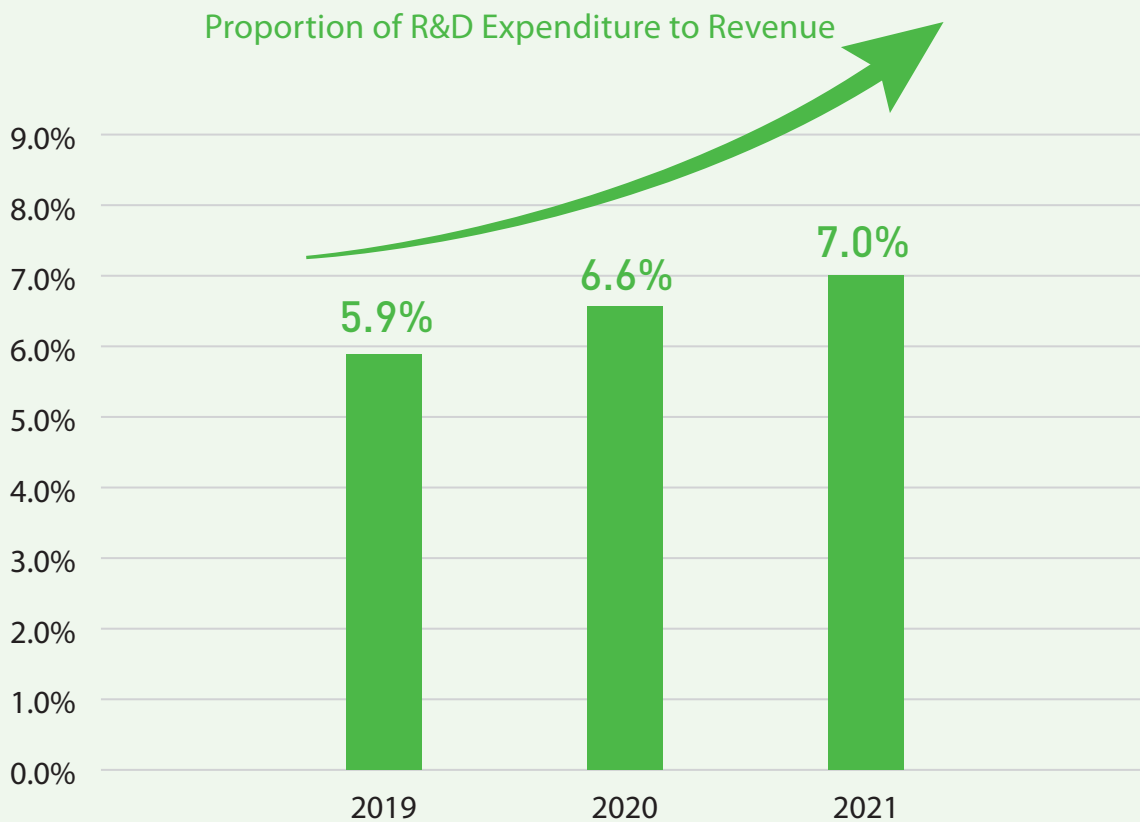


Adhering to the enterprise vision of 'Be stronger, bigger and go further to become a "Hundred-Year-Old Brand" in the optoelectronic industry', the Group continues to optimize the technological innovation strategy and R&D system, and constantly moves toward a new model driven by technology and innovation. In 2021, the Group increased its investments in basic R&D in emerging optical areas, and continued to promote the innovation and breakthrough of core technologies.

Promoting R&D Innovation

Concepts and Achievements

The Group pays close attention continuously to cutting-edge technologies and market demands, strengthens the innovative R&D and business layout of products in handset, vehicle imaging and sensing, VR/AR and other areas, and works with all partners to promote the R&D of new technologies, new products and new markets. For the year ended 31 December 2021, the R&D expenditure of the Group accounted for approximately 7.0% of the Group's revenue, representing an increase of approximately 0.4 percentage point as compared to that of last year.



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



The Level-I R&D organization

is positioned at national enterprise technical centres, national post-doctoral study stations and provincial key enterprise institutes for the research and promotion of cutting-edge technologies in the industry



The Level-II R&D organization

is positioned at the R&D department of each subsidiary for the application of new technologies and product development



The Level-III R&D organization

is positioned at the technical divisions of the manufacturing department of each subsidiary for the improvement of production craft and manufacturing procedures

A high-quality innovative talent team has established by the Group to further improve the Group's R&D capability and build the core competitiveness.

Theme Meeting on "Technological Innovation, R&D System and Talent Construction"

The Group attaches great importance to academic communication and talent construction. In July 2021, teachers from Tsinghua University and Zhejiang University were specially invited to set up a project team to carry out the consultation around the Group's theme on "Technological Innovation, R&D System and Talent Construction". In October 2021, a meeting themed on "Technological Innovation, R&D System and Talent Construction" was held by the Group, in which Mr. Ye Liaoning, the Chairman shared the project results with senior management, relevant personnel from R&D department and engineering department, called on employees to deeply understand the research results and fully absorbed the thought essence, and hoped that the relevant departments would quickly transform the project results into the internal driving force and innovation force of the Group, so as to promote the effective implementation of the Group's technological innovation strategy.



During the year of 2021, the Group continued to achieve breakthroughs in technological innovation. Some R&D results are shown as follows:

| Business areas | Products | R&D achievements |
|--------------------|--------------------------|---|
| Optical Components | Handset lens sets | <ul style="list-style-type: none"> Completed the R&D of various high-specification handset lens sets, mainly including ultra-thin miniaturized head handset lens sets for foldable phones, 200-mega pixel ultra-large image size (1/1.22") handset lens sets, ultra-large image size (1/1.12") handset lens sets with 8 pieces of plastic lens ("8P"), wide-angle handset lens sets with two pieces of freeform lens and the large image size (1/1.5") periscope handset lens sets specially for ultra-high-definition portrait shooting Ultra-wide angle (140° above) handset lens sets, ultra-thin large image size (1/1.5") handset lens sets and new large image size main handset lens sets with glass aspherical lenses have commenced mass production |
| | Vehicle lens sets | <ul style="list-style-type: none"> Completed the R&D of 2-mega and 3-mega pixel advanced driver assistance system ("ADAS") hybrid vehicle lens sets containing multiple plastic lenses Achieved mass production of all-plastic rear-view vehicle lens sets Passed the certification on 8-mega pixel ADAS vehicle lens sets based on several platforms of NVIDIA, Qualcomm and Horizon Robotics, etc. and obtained many platform-based projects, many platform-based projects have commenced mass production First developed the ADAS vehicle lens sets with the automatic defrosting and demisting functions, and applied in level 3 to level 4 platform-based projects from various car manufactures |
| | Other optical components | <ul style="list-style-type: none"> LiDAR: Obtained over 20 designated cooperation projects, in which two projects achieved mass production HUD: Achieved mass production of freeform lenses, and commenced small-batch supply of the core optical engine for holographic AR HUD solutions Smart headlamp: Commenced small-batch supply of the core lens sets for various 0.01-mega pixel projecting modules VR: Completed the R&D of the new-generation VR SLAM lens sets, completed the R&D of binocular VR optical modules and commenced mass production of VR eyepieces with two fresnel lenses |

| Business areas | Products | R&D achievements |
|--------------------------------|--------------------------------|---|
| <p>Optoelectronic Products</p> | <p>Handset camera modules</p> | <ul style="list-style-type: none"> Completed the R&D of cost-effective 5X optical zoom periscope handset camera modules and ultra-large image size (1/1.12") handset camera modules Achieved mass production of dual optical image stabilization ("OIS") handset camera modules and new large image size main handset camera modules with glass aspherical lenses |
| | <p>Vehicle modules</p> | <ul style="list-style-type: none"> Completed the R&D of 3-mega pixel panoramic vehicle modules, 3-mega pixel ultra-wide angle vehicle modules for rear-view electronic mirror and super high resolution vehicle modules for car video blog ("Carlog") Achieved mass production of 1.7-mega pixel, 2-mega pixel, 5-mega pixel and 8-mega pixel sensing vehicle modules for external environment, 2-mega pixel occupancy monitoring vehicle modules, 1.3-mega pixel and 2-mega pixel driver monitoring vehicle modules, etc. Obtained more than 10 designated customers for 8-mega pixel vehicle modules applied to the platforms of Horizon Robotics, Mobileye and NVIDIA, among which 8-mega pixel vehicle modules applied to Horizon Robotics and Mobileye have commenced mass production |
| | <p>Robotic vision business</p> | <ul style="list-style-type: none"> Dual-camera and structured light modules in the application scenario of smart door locks with facial recognition has been recognized by customers The solutions for visual systems of service robots with the SLAM and the visual navigation technology as the core have commenced application in the clients Visual artificial intelligence ("AI") chips were taped-out |

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



Design Stage

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



Material Selection

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



Manufacturing Stage

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

The clean technology projects launched by the Group in 2021 and the corresponding achievements are shown as follows:

| Company name | Clean technology projects | Specific measures | Achievements |
|-------------------------|--|---|--|
| Sunny Automotive Optech | Heat dissipation lamp bead on projection display | By combining with clients' heat dissipation system, the cooling fan for lamp bead is removed, and only the finned radiator is retained, which can reduce the material consumption while not increases the energy consumption of the clients' heat dissipation | Based on the annual shipment volume of 10,000 units of a single product model, 16,000.0 kWh of electricity can be saved for our clients every year, so as to achieve the purpose of energy saving and emission reduction |
| | Laser heat sink | By applying environmental aluminum alloy materials for production and by reasonably setting the fins of heat sink and their spacing, the heat sink can meet the heat dissipation demand of the laser as well as reduce the material consumption | The materials of the heat sink meet the green material requirements. The temperature of the laser decreases from 80.0°C to about 60.0°C after the redesign of the heat sink structure, thereby reducing material waste and prolonging the life span of the laser |
| Sunny Optech | Low voltage chip | By selecting chips with lower supply voltage while formulating camera module solutions in order to reduce the power consumption of the modules | Under the condition of constant power supply current, the power consumption of products using this chip can be reduced by about 20.0%, thus achieving the purpose of energy saving and emission reduction |
| | Graphene gimbal back cover | The graphene is pasted on the back of the module to increase the heat dissipation capability of the module and reduce the energy consumption required for heat dissipation | The maximum temperature during chip operation decreases from 63.3°C to 58.7°C, thereby achieving the purpose of energy saving and emission reduction |

Protection of Intellectual Property Rights

Strengthening the refined management of intellectual property rights (“IPR”) and controlling potential IPR risks are the basis for cultivating core competitiveness. Strictly abiding by the Patent Law of the PRC (《中華人民共和國專利法》), the Rules for the Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》), the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and other laws and regulations, the Group has formulated the Patent and Technical Secret Management Policy (《專利及技術秘密管理制度》), the Trademark Management Measures (《商標管理辦法》) and the Management Policy on Software Copyright (《軟件著作權管理制度》) to reduce the potential risks of IPR infringement during the operation of the Group. In addition, the Group has issued the Intellectual Property Risk Management Policy (《知識產權風險管理制度》) in 2021 and carried out key operations in Sunny Opotech and Sunny Automotive Optech to strengthen the standardized management of IPR risks.

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

We also introduced the IPR management platform and database to improve the efficiency of approval process, maturity monitoring, data summarizing and maintenance. In 2021, in addition to the introduction of the domestic legal case information retrieval platform, the Group introduced foreign affairs legal information retrieval platform for early warning of foreign affairs, as well as research on IPR laws and regulations and key cases. During the Reporting Period, the Group did not involve in any cases on IPR infringement.



Sunny Opotech and Sunny Zhejiang Optics, have passed the Standards for the Management of Corporate Intellectual Property Rights (《企業知識產權管理規範》) GB/T29490 certification.

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

During the Reporting Period, a total of **2,826** person-time of the Group were awarded incentives on patents/ technical secrets.

As at 31 December, 2021, the Group had **2,971** authorized patents in total.



The IPR related trainings were actively conducted by the Group to better arouse the awareness in IPR protection, strengthen IPR risk prevention and improve the working system of IPR talents. In 2021, we continually optimized the IPR training system and developed targeted training courses for patent management personnel, IPR process management personnel and R&D engineering personnel, etc. Meanwhile, we enhanced the atmosphere of IPR protection and encouraged knowledge innovation through characteristic activities such as IPR Day.

IPR Day Activity

In 2021, the Group launched the activities of IPR Day combining both online and offline forms. The contents such as interpretation on patent and technical secrets, IPR awareness misconceptions were shared through the “Sunny Family” WeChat official account. Meanwhile, we invited internal and external experts to conduct relevant trainings on the impact of new IPR policies on enterprise development and patent litigation cases in the field of optoelectronics, striving to create a secure environment for independent innovations.



Product Quality Assurance

Product Management System



Quality Principal

Think before We Leap, Strive for Excellence

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



Sunny Automotive Optech: Certificate Quality Management System in Automotive Industry



Sunny Opotech: Certificate of ESD Management System



Sunny Zhejiang Optics: Certificate of HSPM

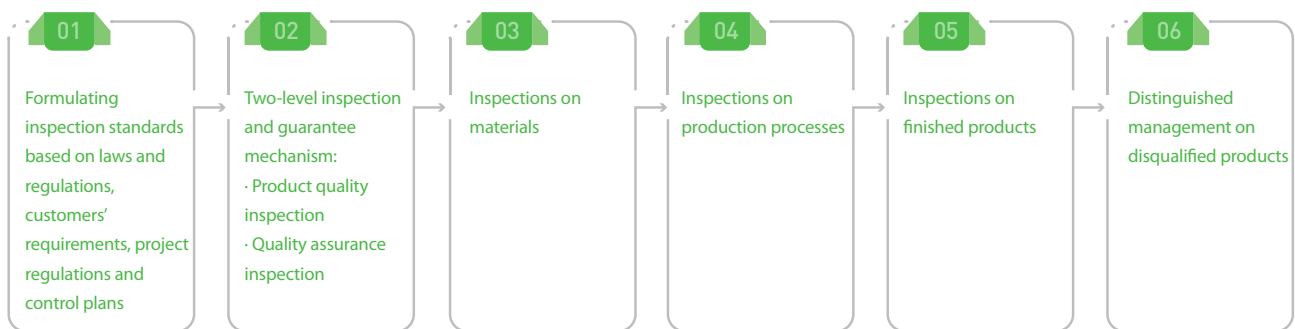


Sunny Zhejiang Optics: Certificate of Quality Management System

Improving Product Quality

Adhering to the business philosophy of “Continuous Improvement”, the Group strives to gain a deep understanding of customers’ demands and formulates a clear quality management strategy to continuously enhance the competitiveness of our products. We carry out the life-cycle quality control over products from different aspects such as product design, component recognition, mass production recognition, incoming materials, manufacturing and shipment. The Group has formulated a series of quality management policies, including the Procedures on Product Quality Control (《產品質量控制程序》), the Procedures on Production Management and Control (《生產管理控制程序》), the Procedures on Monitoring the Purchase and Delivery of Products and Measurement Control (《進出貨產品監視和測量控制程序》), the Standards on Abnormal Management (《異常管理標準》) and the Procedures on Control of Disqualified Products (《不合格品控制程序》) in accordance with the quality related laws and regulations. To fulfil the commitment towards compliance, we regularly identify the updates of laws and regulations and update internal standards in a timely manner. In 2021, Sunny Automotive Optech formulated Regulations on the Administration of Development and Introduction of Three New Technologies (《三新技術開發導入管理規定》), which standardized the development and introduction management process of new materials, new processes and new techniques, so as to reduce risks and improve product competitiveness.

Production Management Flow Chart



We conduct reliability verification of products at different stages to ensure product quality and meet customers’ demands. We have an environmental laboratory, a mechanics laboratory, a salt atmosphere laboratory, a chemical laboratory, an ESD laboratory, a cleanliness laboratory, etc., all of which have obtained the approval of China National Accreditation Service for Conformity Assessment (“**CNAS**”) and obtained the certificate of the ISO/IEC17025:2005-5-15 General Requirements on Detection and Calibration on Laboratory Capabilities (《檢測和校準實驗室能力的通用要求》). In order to ensure the accuracy of the experimental results, product properties are tested by using professional testing and analysis equipment and products which cannot be tested in the Group’s laboratories under special requirements will be tested by cooperating with third-party laboratories.

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

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

Capability-building Training

In August 2021, Sunny Automotive Optech organized an internal capability-building training project, focusing on the themes of measurement system analysis (“MSA”), practical application of eight disciplines (“8D”) and advanced product quality planning (“APQP”), etc., to provide employees with methods to comprehensively solve the problems and enhance the quality management level.



Quality Month Activities

In September 2021, Sunny Opotech launched Quality Month activities to create a quality-first atmosphere and promote the implementation of quality culture through plant tour activities, on-site quality audits, quality appraisal and other activities.



Quality System Training

In September 2021, Sunny Zhejiang Optics organized a training related to ISO 9001 quality management system for personnel of departments related to quality management, so as to enhance the overall quality management level.

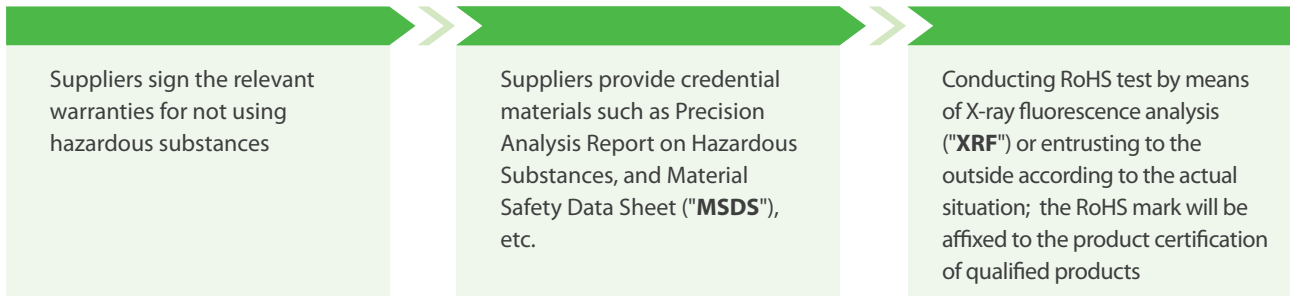


Management of Hazardous Substances

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

We have set the HSF management targets, established the comprehensive hazardous substance control processes, and publicly disclosed the Chemical Management Statement (《化學品管理聲明》) on the Company’s website. The Group has identified 100.0% of the chemicals used and classified chemicals into categories such as forbidden immediately, forbidden in stages and recommended as inappropriate substances. In addition, the Group takes the initiative to manage chemicals and reduce the use of certain chemicals in advance. During the year of 2021, Sunny Automotive Optech completed the design proposal of using lead-free brass to replace brass and also developed cadmium-free black glass to replace optical black glass to reduce relevant environmental pollution. To cultivate the sustainable development ability of suppliers, we provide suppliers with green substance training at least once a year, highlighting green substance management policies, customer requirements and the implementation requirements of latest laws and regulations.

| Company | HSF management targets | Completion of targets in 2021 |
|-------------------------|---|-------------------------------|
| Sunny Optech | <ul style="list-style-type: none"> • 100.0% completion rate for HSF order reviews • 100.0% completion rate for raw material HSF sample inspection • Zero pollution incident in manufacturing process • 100.0% qualification rate of reverse verification • 100.0% pass rate for finished product HSF sample inspection • Zero complaint from customers related to HSF | Achieved |
| Sunny Zhejiang Optics | <ul style="list-style-type: none"> • 100.0% products of conforming to the HSF requirements proposed by customers • Zero HSF non-conformity incident | Achieved |
| Sunny Automotive Optech | <ul style="list-style-type: none"> • Conduct new supplier introduction audits according to the Guideline on HSF Risk Appraisal for Suppliers (《供應商HSF風險評估指南》) and achieve a 100.0% new supplier induction compliance rate | Achieved |



HSF Management Process

Sunny Opotech

All materials meet the requirements of RoHS and REACH. Sunny Opotech has formulated the Substance Standards on Environmental Management of Products (《產品環境管理物質標準》) to conduct effective management on environmental management substances, and prepared the hazardous substance reduction plan to control the consumption of 167 chemical substances such as lead, cadmium and mercury. Meanwhile, Sunny Opotech has RoHS specialists to deal with HSF related customer complaints. If HSF unqualified products were found, they shall be recalled or destroyed within 48 hours to prevent the spread of toxic and hazardous substances.

Sunny Zhejiang Optics

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

Sunny Automotive Optech

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

Product Recall Mechanism

The Group adopted a product recall mechanism, particularly the subsidiary of the company, namely Sunny Opotech. Under the circumstance when HSF non-conformity product has been shipped out, the related department shall trigger the recall mechanism according to the Procedures on Product Recall Mechanism (《HSF產品召回控制程序》) to identify and confirm whether it is under the recall situation. After the confirmation of recall situation, the Quality Assurance Department shall submit the Product Recall Notification (《產品召回通知單》) and publish notification to conduct recall and isolation treatment, meanwhile, analyze the causes, formulate improvement and preventive measures.

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

Note



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

Information Security Management

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

The Group has classified information assets into different levels and implemented corresponding protection measures. Meanwhile, we restrict and guide the behaviours with leakage through the Information Technology Management Policy (《信息技術管理制度》) and the Manual of Employees' Information Security (《員工信息安全手冊》) to effectively enhance the confidential awareness of employees. The Group has also formulated the Administrative Procedures on the Disposal of Information Security Incidents (《信息安全事件處置管理程序》) and the Emergency Plan on Emergencies (Information Security Incidents) (《突發事件應急預案(信息安全事件)》) to reduce the negative impact due to improper handling of information security incidents. Internal employees can directly report information security problems through the information security interface station in the internal system; and customers can raise complaints on information security through telephone, e-mail and other means.

We have established the Commercial Secrets Management Committee led by the CEO responsible for reviewing the commercial secrets management policies and strategies of the Group, the annual planning on commercial secrets, the management system and normative documents, etc. At the same time, the Group has formulated the Commercial Secrets Management Policy (《商業秘密管理制度》) to manage secret-related information, secret-related subjects, office areas as well as systems network, etc., and set out punishment and incentive measures. The signing rate of the Non-Competition Agreement (《競業禁止協議書》) of the Group has reached 100.0%. To further strengthen the Group's commercial secrets and information security management system and ensure the effective coordination of classified management of confidentiality-related positions and information security control means of each subsidiary, the Group introduced the Administrative Measures of Confidentiality-related Posts Classification (《崗位涉密分級管理辦法》) in 2021, and divided positions into three levels to implement a classified management according to the classified level of the information.



The Group has completed the planning on the three-level (company, department and position levels) training system, and regularly provided information security trainings by various means. In 2021, we organized **two** trainings on commercial secret lecturers and completed the development of **fourteen** department-level and **seven** corporate-level commercial secret coursewares. In addition, we carried out online testing of information security capability throughout the Group and organized special training activities at the subsidiary level. For example, Sunny Optronic formulated information security posters on different themes every month to conduct daily publicity for all employees, and invited key personnel and information security operation and maintenance personnel of each department to participate in offline training every quarter. In November 2021, Sunny Optronic timely shared its excellent cases and experience in information security management at the Group's information security management sharing session, such as system construction, physical security, personnel security and network security, so as to help other subsidiaries jointly improve their security management business ability.

Optimizing Customer Experience

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

Sunny Zhejiang Optics has formulated the Customer Complaint Management Standards (《顧客投訴管理標準》) and divided the complaints into serious complaints and general complaints according to their seriousness.

In 2021, Sunny Automotive Optech updated the Procedures on Handling of Customer Complaints and Feedbacks (《顧客投訴及反饋處理程序》), dividing customer complaints and feedbacks into three categories according to seriousness, namely general quality incidents, medium quality incidents and serious quality incidents, and specifying the responsibilities and handling requirements of each department. Sunny Automotive Optech has also set up a quality issue evaluation team to provide a platform for rapid handling of customer complaints / feedback problems, effectively guiding the direction of risk prevention and verification, achieving the purpose of reducing risks and problem handling time.

Customer Complaint Management Standards

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

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

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

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

Procedures on Handling of Customer Complaints and Feedbacks

During the Reporting Period, the subsidiaries of the Group, namely Sunny Zhejiang Optics, Sunny Optech and Sunny Automotive Optech

received a total of **1,029** customer complaints,

and all complaints have been **100.0%** properly resolved.

Note

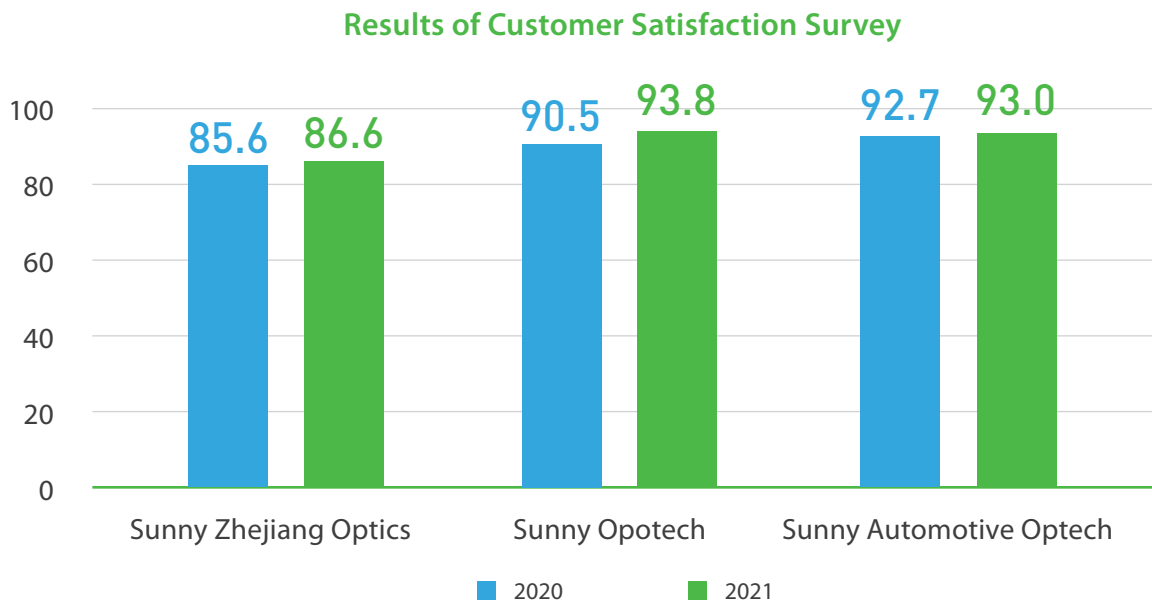


The "2485 Principle":

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

To improve the matching of products with customer needs, the Group organizes the customer satisfaction survey every year to understand customers' satisfaction on the Group's product quality, service, price, technology, etc., and then carries out an internal systematic improvement according to the survey results to enhance customer satisfaction. Sunny Opotech has established the Operational Regulations on Customer Satisfaction Surveys (《顧客滿意度調查作業規範》) and regularly distributes questionnaires to key customers. In response to the customer's opinions, Sunny Opotech convenes relevant responsible departments to analyse the causes, take corresponding corrective and preventive measures, and timely follow up the progress of problem solving and form a complete cycle in according with the Control Procedures for Corrective and Preventive Measures (《糾正和預防措施控制程序》). During the year of 2021, the three subsidiaries continued to conduct customer satisfaction surveys. The specific satisfaction surveys of 2020 and 2021 are shown (total score was 100) in the figure below:

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



Customer Information Protection

The Group takes privacy issues very seriously and protects the data information and privacy of its customers, business partners and employees to the utmost. The Group has complied with relevant laws and regulations in relation to customer information protection.



Win-win Cooperation

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Supplier Communication 50

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

Supply Chain Management System

We give priority to suppliers with excellent sustainable development performance in order to prevent or minimise potential environmental and social risks in the Group's supply chain. In addition to complying with the requirements of corresponding laws and regulations, the Group's suppliers are required to comply with the Group's Code of Conduct for corporate social responsibilities ("CSR") and convey our concept of sustainable development to upstream suppliers. To identify the environmental and social risks along the supply chain, the Group's subsidiaries have established a complete organizational framework of supply chain management, responsible for resource development, supplier performance appraisal, supplier sustainable development ability evaluation, supplier qualification approval and other related work. In combination with QC 080000 system standard and relevant requirements of customers, we have formulated a number of supplier management policies such as the Procedures for Management Control of Suppliers (《供應商管理控制程序》), the Code of Managing Suppliers (《供應商管理規範》) and the Control Procedures on Development and Appraisal of Suppliers (《供應商開發和評價控制程序》), etc., so as to establish comprehensive management regulations and operation processes such as supplier introduction, routine management, audit and evaluation, and removal.

To identify environmental and social risks along the supply chain, each subsidiary of the Group conducts a hierarchical management on suppliers according to the importance or the risk level of materials. Sunny Automotive Optech has formulated the supplier supervision plan according to the Rules for Annual Audit of Suppliers (《供應商年度審核規劃》), and conducts annual audit on the suppliers providing direct components of the products. The audit covers the quality management system, RoHS management standards and other relevant contents, requiring suppliers that failed to meet the provisions to complete the improvement work within three months according to the Supplier's Deficiency Improvement Schedule (《供應商缺失改進計劃表》). The Group has also developed a supplier removal mechanism. Suppliers will be removed from the list if they have serious quality problems or the materials used failing to meet the latest environmental protection requirements with no effective improvement measures.

The procedures for the management of suppliers of the Group are as follows:



Supplier CSR Management

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

During the stage of the supplier engagement stage, the Group inspects the environmental and social risks, green partner ("GP") environmental management system and other aspects of suppliers, and carries out CSR promotion work for suppliers to promote environmentally preferable products. Suppliers are encouraged to select products or materials that are environmentally preferable and required to sign various letters of undertaking to ensure the compliance with the relevant CSR requirements of the Group:

The Agreement on Social Responsibilities (《社會責任協議》)

Raises requirements on suppliers on the aspects of labours' interests, environmental protection, occupational health and safety, business ethics and other aspects.

The Environmental/ Safety Requirement Notification (《環境/安全要求告知書》)

Requires suppliers to meet the requirements of relevant laws and regulations on environment/ occupational health and safety, and ensure the emissions, wastes and noises involved in the production, activities and transportation process meet relevant standards.

The Undertaking for Operating with Integrity (《誠信經營承諾書》)

Forbids commercial bribery, corruption, fraud and other improper behaviors to safeguard the legitimate interests of both parties.

Declaration of Non-use of Environmental Substances (《不使用環境物質證明書》)

Requires suppliers to provide materials meeting the requirements of the Administration of Green Substance and Technology (《綠色物質技術管理規定》) (SY-PB-54), and requires suppliers, in case of any changes in the use of materials or manufacturers, to submit written applications for approval before such changes are allowed.

In addition, the Group annually conducts risk assessments on suppliers. The assessment items mainly include the places where the suppliers are located, the types of products and services provided, the risks on green and environmental products, CSR and business ethics, etc., and pays continuous attention to the qualified suppliers. The Group has also formulated a supplier reward and punishment policy to better regulate the product quality of suppliers. Sunny Zhejiang Optics punishes suppliers with integrity issues, unqualified HSF test, and unqualified evaluation results, etc. To achieve environmental procurement, the Group encourages suppliers to use environmental friendly products or services, such as encouraging suppliers to reduce fillers in packaging materials to reduce wastes as well as requiring suppliers to carry out compliance treatment on chemical effluent during the production processes.

We specified and refined the disclosure scope of KPIs of suppliers and conducted detailed disclosure of the compliance of Class I suppliers (Note 1,2,3). As at 31 December 2021, the number of Class I suppliers of the Group was 803, of which 752 were located in China. All of which have complied with the supplier engagement requirements in the Supply Chain Management System. The KPIs of Class I suppliers are as follows:

| Category | Sunny Zhejiang Optics | Sunny Opotech | Sunny Automotive Optech | Total |
|--|-----------------------|---------------|-------------------------|-------|
| Number of new suppliers during the year | 32 | 140 | 38 | 210 |
| Accumulative number of suppliers signed the CSR-related undertakings | 97 | 616 | 64 | 777 |
| Number of suppliers conducted CSR audits during the year | 97 | 148 | 31 | 276 |
| Number of suppliers conducted on-site CSR audits during the year | 13 | 8 | 31 | 52 |
| Accumulative number of suppliers signed the certificates promising not to use hazardous substances | 112 | 328 | 68 | 508 |
| Number of suppliers conducted on-site audits on hazardous substances during the year | 12 | 8 | 31 | 51 |
| Number of suppliers recognized as having negative environmental and social effects during the year | 0 | 0 | 0 | 0 |
| Number of suppliers recognized as having negative environmental and social effects and agreed to improve after assessment | 0 | 0 | 0 | 0 |
| Accumulative number of suppliers using environmental products and services and achieving management on environmental procurement | 130 | 367 | 62 | 559 |

Notes



1. The Class I suppliers of Sunny Zhejiang Optics refer to the suppliers that provide product components, processing raw materials, packaging materials, hazardous chemicals and chemicals in direct contact with products;
2. The Class I suppliers of Sunny Automotive Optech refer to the suppliers that provide the direct product components; and
3. The Class I suppliers of Sunny Opotech refer to the suppliers that provide the direct product components and using tool suppliers.

Conflict Minerals Management

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

Subsidiaries of the Group have formulated the Regulations on the Administration of Green Substance and Technology (《綠色物質技術管理規定》), the Technical Standards on Environmental Management of Products (《環境管理物質技術標準》), the Substance Standards on Environmental Management of Products (《產品環境管理物質標準》), and the Administrative Measures on the Control of Conflict Minerals (《衝突礦產控制管理辦法》) and other policies. In addition, Sunny Opotech has also formulated the Management Measures for Mineral Control Related to Social Responsibility (《社會責任相關礦產控制管理辦法》) and the annual audit plan to manage and conduct on-site audit on suppliers.

Sunny Zhejiang Optics and Sunny Opotech have conducted due diligence of metals involved in the supply chain using conflict minerals questionnaire forms such as the Conflict Minerals Reporting Template (《衝突礦產報告模板》) (“**CMRT**”) and the Extended Minerals Reporting Template (《擴展礦產報告模板》) (“**EMRT**”) developed by the Responsible Minerals Initiative (“**RMI**”). If a supplier is involved in conflict minerals and without a third-party certification, it will be prohibited from supplying goods to the Group. In 2021, Sunny Zhejiang Optics completed the investigation and audit on all incoming product material suppliers and found no nonconformities. Sunny Opotech also completed the relevant audits and confirmed that the smelters involved have been included in the third-party certification lists such as RMI.

As at 31 December 2021, the audit situation of conflict minerals of the Group's Class I suppliers was as follows:

| Category | Sunny Zhejiang Optics | Sunny Opotech | Sunny Automotive Optech | Total |
|---|-----------------------|---------------|-------------------------|--------|
| Proportion of products with traceable raw material sources | 100.0% | 100.0% | 100.0% | 100.0% |
| Accumulative number of suppliers having filled in the conflict minerals reporting template | 89 | 156 | 1 | 246 |
| Accumulative number of suppliers undergoing the audit of conflict minerals | 112 | 156 | 65 | 333 |
| Accumulative number of suppliers involved in conflict minerals with third-party certification | 0 | 108 | 0 | 108 |

Supplier Communication

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

We hold annual supplier exchange conference with core suppliers. In addition to reviewing the cooperation situation of previous year. We also reward outstanding suppliers and propose targets and expectations on the cooperation for the following year. In 2021, Sunny Automotive Optech organized trainings and carried out publicity on conflict minerals, anti-corruption, hazardous substances and other matters at the quarterly technical exchange seminar with key suppliers. Sunny Automotive Optech also conducted satisfaction survey on suppliers that participated in supply this year, and continued improving the supplier management system according to the feedbacks and suggestions from suppliers. Sunny Zhejiang Optics held an annual supplier conference to introduce its development plan to suppliers, and to share and promote Sunny Zhejiang Optics' management experience in environmental protection and resource reuse with suppliers. Sunny Opotech conducted online publicity on performance rules to 115 suppliers, mainly including performance evaluation content, scoring rules, and reward and punishment system.



Sunny Automotive Optech Supplier Exchange Conference

Supplier Empowerment

To enhance the problem-solving capability of suppliers and to consolidate the sustainable development level standard of the Group's supply chain, we offered some of internal courses to suppliers, such as Design For Six Sigma ("DFSS") innovative design series courses. By conducting DFSS advanced application training for suppliers, we can help them change the original design which is depended on the experience and the intuition, and improve the R&D and design quality of suppliers, so as to achieve win-win results.



DFSS Advanced Application Training Camp

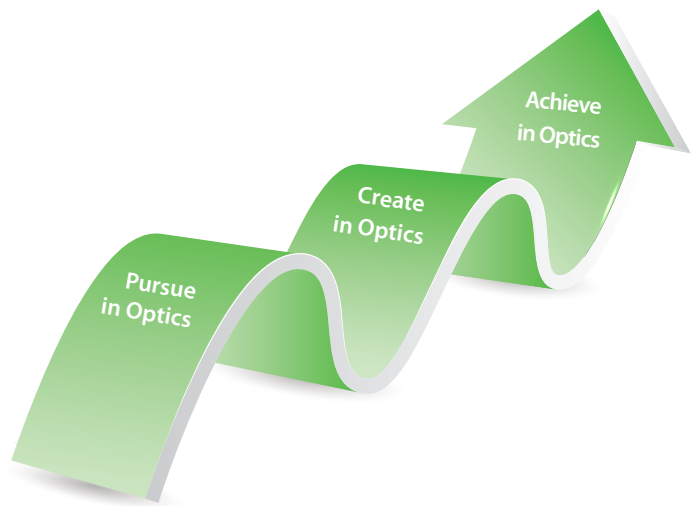
A background image showing several business professionals in light blue shirts and dark ties, clapping their hands. The image is slightly blurred, focusing on the hands in the foreground. A green rounded rectangle is overlaid on the left side of the image, containing the title and table of contents.

Building a Harmonious Workplace

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Build Employer Brand

In 2021, the Group identified the key words of the Employer Value Proposition (“EVP”) as “Professionalism, Innovation, and Development” based on the employer brand value house model, and further refined the Group’s EVP as “Pursue in Optics, Create in Optics and Achieve in Optics”. In the future, we will continue improving the working experience of employees, as well as our reputation in the society to form internal and external synergy and attract more talents to join the Group.



Prize for Outstanding Human Resource Management



In 2021, the Group was awarded the “2021 Prize for Outstanding Human Resource Management” by 51job, Inc., a leading agency of human resource service in China. This is the third time that the Group has won this award, which fully indicates the wide recognition of the Group’s human resource management standards by the external institutions.

National Advanced Private Enterprise in Employment and Social Security

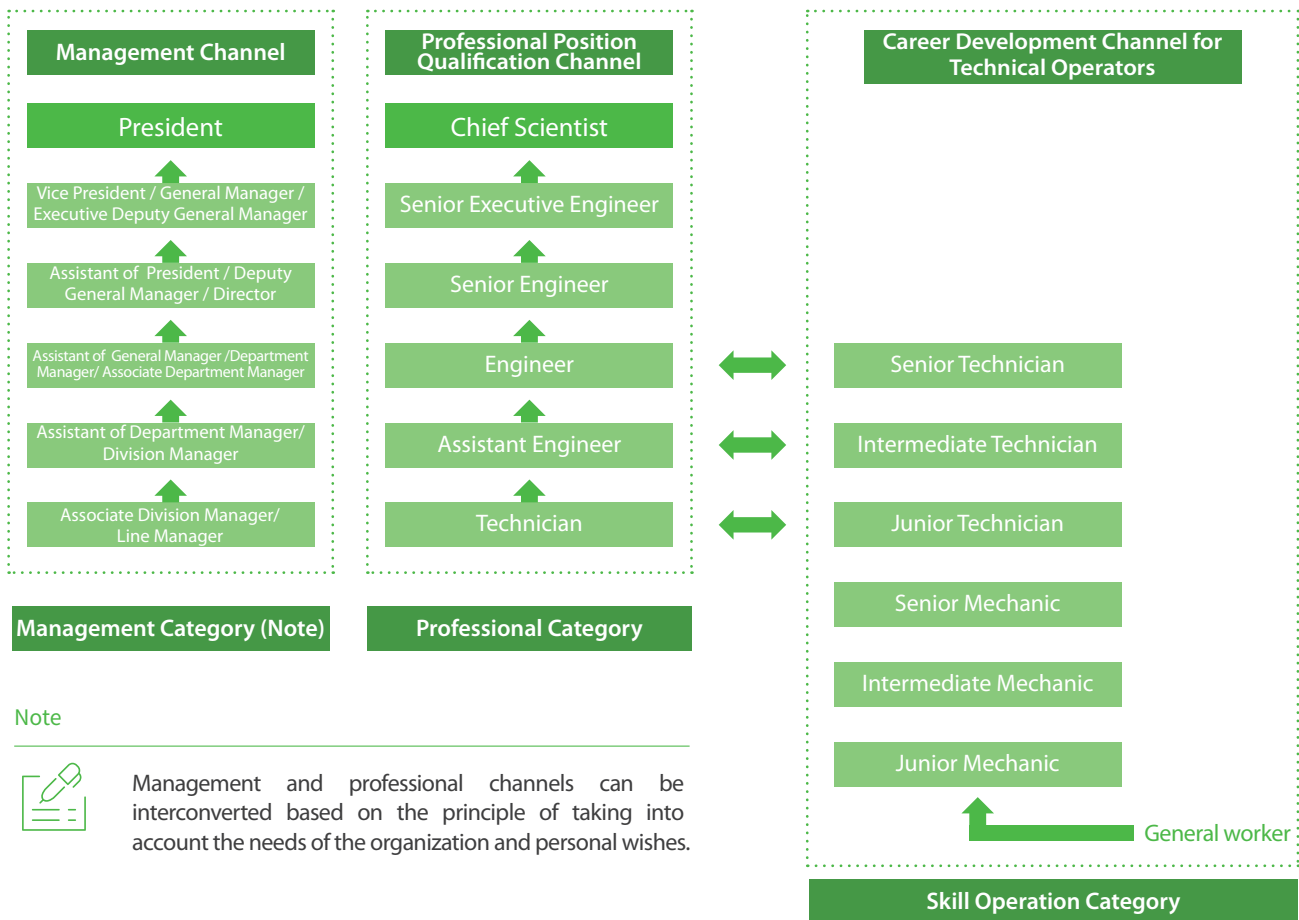
In 2021, the Group won the prize of “National Advanced Private Enterprise in Employment and Social Security” awarded by the All-China Federation of Industry and Commerce, the Ministry of Human Resources and Social Security of the PRC, and the All-China Federation of Trade Unions jointly. The award aims to commend private enterprises for making outstanding contributions to employment and social security. The Group has won the award for two consecutive years.

Talent Development Strategy

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

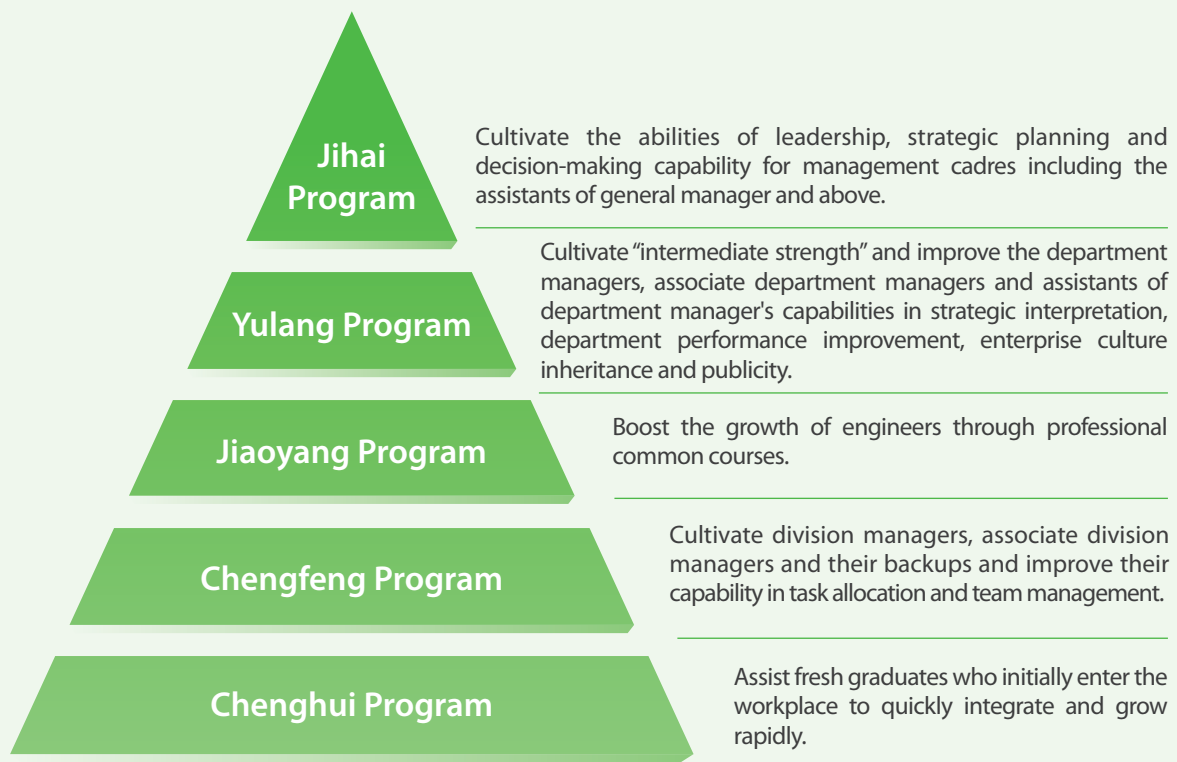


Career Development Channels



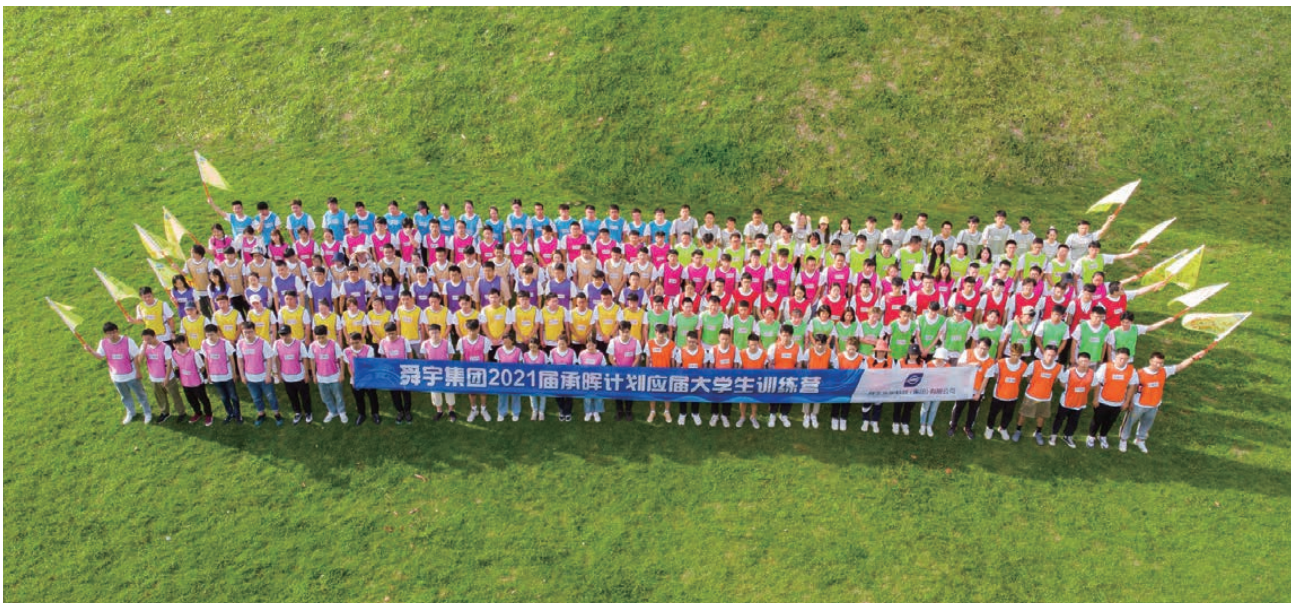
The unique talent development system of the Group ensures the provision of talent team matching the sound business development of the Group. We have formulated a series of documents such as the Management Policy on Training (《培訓管理制度》), the Whitepaper on Employee Learning and Development (《員工學習發展白皮書》) and the Skilled Worker Education and Training Management Standards (《技能工教育培訓管理標準》) to provide employees with various methods for learning and improving.

The Group puts emphasis on the development and training of employees to enhance their knowledge and skills for discharging duties at work. Based on the development needs of different levels, we have established a development and training system which covers all employees with new employee development module, professional and technical personnel development module, and leadership development module as its core to consistently encourage them to keep learning.



Development and Training System

In addition, the Group further promoted the establishment of a development and training system so as to satisfy the learning and development needs of employees, realize the formalized and scientific management of internal lecturers, and promote the accumulation, sharing and dissemination of internal knowledge. We have formulated the Internal Lecturer Management Measures (《內部講師管理辦法》), the Tutor Management Measures (《導師管理辦法》) and other policies. We provide the lecturers with extra pays beyond their own salaries to motivate the experienced managers and experts to become internal lecturers. As at 31 December 2021, the Group had a total of 1,201 internal lecturers to conduct the sharings of targeted professional experience with employees at different positions. Since the launch of the Famous Lecturer and Popular Course Project in July 2021, a total of 19 lecturers from 8 subsidiaries have given lectures, and more than 3,000 employees have participated, with a satisfaction rate over 97.0%.



Chenghui Program



Yulang Program



Chengfeng Program



Development Program for Current Cadres

The Group holds commendation meetings after the completion of trainings to commend outstanding trainees and internal lecturers for their active participation and outstanding performance, so as to motivate their future work.



Outstanding Individual Award of Yulang Program



Popular Lecturer Award of Chenghui Program



Excellent Team Award of Chengfeng Program



Excellent Learning Organization of the Cyber Academy

Special Theme: Training Progress in 2021

- Training Program for Product Management Talent

In May 2021, we held a lecture themed on “Building a Successful Product Management System Oriented to the Market” for some cadres in marketing and R&D positions, and launched a training program to enhance product management capability in September 2021. Through these trainings, the Group helped more than 70 product management key personnel further strengthen their awareness of product management and master the tools and methods of product management.



Product Management Lecture

Special Theme: Improvement on Training System in 2021

- **Talent Management Standardization and Processization**

In 2021, we developed the "Learning Roadmap" to sort out the work contents of key positions and the knowledge they required, clarify the targets of learning and cultivate of new employees and encourage them to study independently through the learning roadmap after training, so as to improve the cultivation efficiency. In 2021, we conducted a pilot program in Chenghui Program, and finally completed 224 learning roadmaps. The coverage rate of Chenghui trainees reached 65.0%.

- **Software and Hardware Improvement**

The Group continued to strengthen the construction of software and hardware to facilitate the talent team establishment and capability enhancement. We invested approximately RMB10,000,000 to build a new training centre, equipped hardware such as professional audio system and camera equipment to improve the environment for recording and editing of course resources which helps to enhance the training effectiveness.

In terms of software, the Group introduced the lean-related common courses to promote the establishment of lean system by explaining the improvement methods and tools of lean and industrial engineering system, which helps the employees to become comprehensive and lean production experts. In addition, the Group continued to strengthen the online learning platform by expanding the coverage of employees and enriching the variety of courses. For the year ended 31 December 2021, the Group had around 12,000 online learning platform accounts and nearly 3,000 general courses covering 10 disciplines. Meanwhile, the Group actively promoted the development and launch of the internal micro-courses. By the end of 2021, the Group had developed a total of 1,525 online micro-courses, and the satisfaction rate of employees with internally developed courses had reached approximately 97.2%.



Characteristic Training Centre

In 2021, the training participation rate of the Group's employees reached 100.0%, with an average of approximately 49.5 hours per person annually.

| Category | | Annual average training hours (per person) | Percentage of trained employees (Note 1) |
|---------------------|------------------------------------|---|--|
| Gender | Male | 49.5 | 61.1% |
| | Female | 49.5 | 38.9% |
| Employment category | Senior management members (Note 2) | 34.6 | 2.5% |
| | Middle management members (Note 3) | 29.7 | 14.7% |
| | Grass-roots employees (Note 4) | 53.5 | 82.8% |

Notes



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

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

3. Middle management members include personnel with management title of division manager and assistant of department manager or with professional technical title of engineer.

4. Grass-roots employees include all personnel other than senior management members and middle management members.

Safeguard Employees' Rights and Interests and Maintain Labour Standards

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

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

The Group prohibits the use of child labour or forced labour, and conducts regular trainings for the management. In the recruitment promotional materials, we clearly require applicants to be over 16 years old, and check the identity information of applicants strictly to prevent mistakenly employing child labour. In case of hiring child labour by mistake, we will immediately terminate the relevant employment contracts, arrange the children to return to their original residence and send them to their parents or other legal guardians. The Group prohibits all forms of forced labour, such as forcing employees to perform a certain duties or force them to work. In 2021, there was no hiring of child labour by mistake or forced labour in the Group.

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

As at 31 December 2021, the Group had a total of 24,664 employees, including full-time employees and interns. Among them, female employees accounted for 17.5% in senior management, and 25.8% in middle management. The breakdown of the employees in different categories is set out below:

| Category | | Employee Number | Proportion |
|---------------|---------------------|-----------------|------------|
| Gender | Male | 15,071 | 61.1% |
| | Female | 9,593 | 38.9% |
| Age group | < 30 | 14,388 | 58.3% |
| | 30-39 | 8,464 | 34.3% |
| | 40-49 | 1,458 | 5.9% |
| | ≥ 50 | 354 | 1.5% |
| Employee type | Full-time employees | 23,149 | 93.9% |
| | Interns | 1,515 | 6.1% |

| Category | | Employee Number | Proportion |
|---------------------|---------------------------|-----------------|------------|
| Employment category | Senior management members | 627 | 2.5% |
| | Middle management members | 3,625 | 14.7% |
| | Grass-roots employees | 20,412 | 82.8% |
| Geographical region | Mainland China | 24,131 | 97.8% |
| | Other regions | 533 | 2.2% |

The Group regulates the resignation procedures in accordance with relevant laws, regulations and labour contracts. The turnover rate of the Group's full-time employees in 2021 is indicated in the table below:

| Category | | Turnover rate of employees (Note) |
|---------------------|----------------|-----------------------------------|
| Gender | Male | 2.7% |
| | Female | 2.5% |
| Age group | < 30 | 3.3% |
| | 30-39 | 1.9% |
| | 40-49 | 1.0% |
| | ≥50 | 0.7% |
| Geographical region | Mainland China | 2.6% |
| | Other regions | 5.2% |

Note



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

Remuneration and Incentive

We adhere to the development concept of “Win-Win and Common Prosperity”, emphasizing that employee benefits should be combined with enterprise development to form a harmonious labour relationship. The Group has formulated the Remuneration Management Policy (《薪酬管理制度》) and Performance Management Policy (《績效管理制度》) and continuously improved the remuneration system based on performance appraisal in order to create a fair and just working environment. Diversified performance appraisal methods such as annual debriefing evaluation, performance appraisal and objective management are implemented for different positions according to position characteristics.

The Group has also formulated systems such as the Administrative Measures on Economic Value Added (EVA) Sharing Prize (《EVA分享獎管理辦法》), the Restricted Share Award Scheme (《限制性股份獎勵計劃》) and the Selection and Incentive Measures on Outstanding Talents (《優秀人才評選與激勵辦法》) to enrich the ways in encouraging, attracting, and retaining talents, so as to promote a more stable, healthy, and sustainable development of the talent team.



Basic Salary

The basic salary of the Group fulfills the minimum salary requirements of local governments and is competitive in the same industry and region. In principle, the salary shall be adjusted once a year according to the salary level of the same industry and the operating conditions of the Group.



Year-end Bonus

The Group distributes the year-end bonus to employees who meet the requirements according to the Remuneration Management Policy (《薪酬管理制度》), and the specific bonus shall be determined according to personal performance and appraisal results, as well as the attendance days and overtime work.



Eva Sharing Prize

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



Prize for Outstanding Talents

Employees under the positions of deputy general managers of each subsidiary can participate in the selection of outstanding talents. The prize are divided into the gold prize, the silver prize, the bronze prize and the progress prize. The selection of outstanding talents is based on the comprehensive consideration on the professional ethics, quality, capability and performance of the candidates in the year. The rewards are distributed in the form of granting the corresponding shares with a fixed amount.



Share Award

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

Since the adoption of the restricted share award scheme to 31 December 2021, a total of 5,411 employees have been awarded shares (Note).

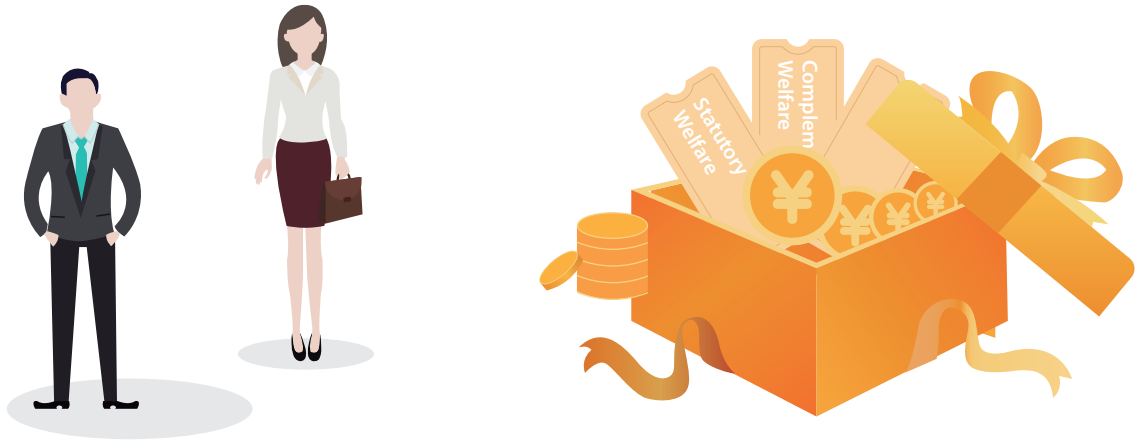
Note



This number includes all personnel who have received share awards.

Safeguard Employees' Benefits and Welfare

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



Statutory Welfare



Social Insurance

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



Housing Provident Fund

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



Holidays

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

Complementary Welfare

Emergency Relief Fund



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

During the Reporting Period, the Foundation provided relief fund to 152 employees, with total relief amount of RMB828,590.0.

Supplementary Insurance



The Group provides commercial insurance such as personal accident insurance for foreign employees, employees working overseas or retained employees after retirement according to the years of employment and relevant insurance regulations, and applies “Medical Insurance of Special and Serious Diseases for Employees in Ningbo City” (寧波市職工特種重病醫療保險) for in-service employees on a voluntary basis according to the requirements of the Ningbo Federation of Trade Unions.

As at 31 December 2021, the Group has arranged insurance under the “Medical Insurance of Special and Serious Diseases for Employees in Ningbo City” (寧波市職工特種重病醫療保險) for 3,229 employees, with a total amount of RMB64,000.0.

Catering and Accommodation



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

Interest-free Housing Loan



The Group has formulated the Management Measures for Employee Housing Loan (《員工購房借款管理辦法》) to offer “interest-free housing loan” for outstanding employees who meet the qualifications for loans so as to reduce the pressure of employees buying their first apartments, help them solve practical problems and enhance their happiness.

During the Reporting Period, a total number of 221 employees were successfully approved for loan qualification with a total amount of RMB47,350,000.0 as housing loans, which was significantly increased as compared to that of 2020.

Health Check



The Group provides free health check to employees regularly. During the year of 2021, the Group upgraded the health check plan of employees, including frequency optimization of health check and medical standards improvement.

Employee Care



The Trade Union of the Group distributes holiday gifts to employees on Chinese traditional holidays such as the Spring Festival, the Dragon Boat Festival and the Mid-Autumn Festival, provides life welfare products for employees in summer and offers birthday gifts to employees on their birthdays.

Employee Activity Funds



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

Other Allowances and Subsidies



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

We have also formulated the Administrative Measures for Preferential Business Partners (《特惠合作商家管理辦法》). In 2021, through the cooperation with 87 high-quality business partners, we obtained more than RMB7,000,000.0 of preferential benefits for employees, including helping employees to purchase 11 apartments and 337 cars, benefiting about 97,500 person-time.

Deepen Employee Care

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



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

Face-to-face Meetings with Senior Management Members
 Employees may make an application to Human Resource Department for face-to-face meetings with the senior management members of the companies

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

Information Platform, Website of the Company and Other Channels
 The website of the Company, "Sunny Journal" internal journal, "Sunny Family" WeChat official account, the annual employee representatives congress, etc.

The Group strictly abides by the Trade Union Law of the PRC (《中華人民共和國工會法》) and has signed collective agreements with employees. We have established the Trade Union with nearly 100.0% of employees participation. We encourage employees to actively participate in the relevant decision-making of the Group, motivate all employees to pay attention to the hotspot, thorny and focal issues during the development process of the Group and pool their wisdoms and efforts to jointly seek solutions.

In addition, the Group has formulated the Emergency Management of Labour Relations and Emergency Response Plan for Sudden Events (《勞動關係應急管理和突發性事件應急處置預案》) to handle emergencies including strike or production efficiency decrease resulting from employees' dissatisfaction with working conditions. We handle labour disputes in accordance with the principles of legality, fairness, timeliness and focusing on mediation to protect the legitimate rights and interests of both employees and the Group and facilitate the harmony and stability of labour relations.

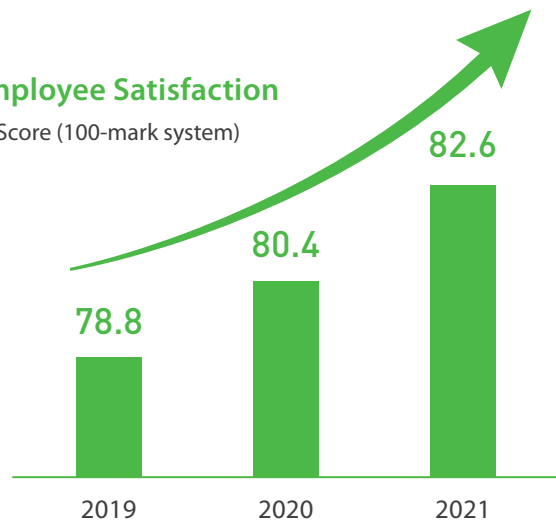
Special Training Activities for Labour Relations Ability Improvement

In August 2021, in order to promote the coordination and handling of labour relations more professional, the Group, along with Ningbo Human Resources and Social Security Bureau, Ningbo Talent Training Centre and other government departments, carried out Yuyao City "Harmonious Journey" Labour Relations Ability Improvement Training Sessions, which was the first enterprise special session in Ningbo. This training session mainly included the interpretation of enterprise employment laws and policies and the improvement of labour relations coordination skills, with a total of 25 class-hour. A total of 105 people of the Group obtained the Ningbo Vocational Skill Training Certificate (《寧波市職業技能培訓合格證書》) issued by Ningbo Human Resource and Social Security Bureau.

To practically understand and fulfill various demands of employees, the Group invites professional third-party agencies to conduct employee satisfaction surveys every year to consistently improve the human resource management of the Group.

Employee Satisfaction

Score (100-mark system)



The Group has established an interest group alliance (“**Alliance**”) and has formulated the Management Measures for the Interest Group Alliance (《興趣小組聯盟管理辦法》) to further standardize the management of employee’s leisure activity groups, enrich their leisure cultural life and promote the construction of corporate culture. The Alliance has carried out a series of activities with unique Company characteristics such as Singles Salon, Fitness Sports Day and “Eagle Cup” Basketball Game, etc.



Ping-Pong Alliance



“Eagle Cup” Basketball Game

In addition, the Group has organized a series of employee care activities such as:

Courtship Care

The Group has established a matchmaking organization led by the Trade Union, the Youth League Committee and the Women's Federation, which helps to broaden the dating platform for single youths, build bridges for single employees, and effectively solve the relationship and marriage issues for the Group's young employees to stabilize and expand the talent team. During the Reporting Period, the matchmaking organization held 4 gatherings, matchmade 99 times in total, and facilitated 53 pairs with dating intentions and 18 pairs with confirmed relationship.



Gatherings Organized by the Matchmaking Organization

Assist the Children of Migrant Employees for School Enrolment

In 2021, in order to express the sincerity for the children of employees, and ensure the smooth school enrolment for the children of migrant employees, the Trade Union of the Group has set up on-site service points for the school enrolment of the children at the Yuyao Chengxi Industrial Base, Yuyao Yangming Industrial Base and Yuyao Lanjiang Industrial Base. For the children of employees who needed help, the Group assisted them in sorting out the enrolment information to ensure that the registration information was filled in correctly. Finally, the Group has assisted 147 children of employees to complete the enrolment, which helped them enter the schools successfully.



Registration Site for Children of Migrant Employees

Mommy Heart-Warming Cabin

In order to provide a private, cozy and exclusive space for lactating female employees and to solve problems such as temporary storage and safety of breast milk, the Group has set up several mommy heart-warming cabins in the production bases. The cabin is equipped with refrigerator, sockets, electric kettle, tables and chairs, medicine box, shelves for maternal and infant knowledge materials and other facilities.





Health and Safety First

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Health and Safety

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



Occupational Safety and Health Policy

Focus on prevention, integrity and law-abiding

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



People-oriented and continuous improvement

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



Environmental friendly and green operation

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



Safety Management Structure



Special Training on Safe Production

In 2021, the Group cordially invited safety accident emergency rescue experts and safe production experts to carry out special training on safe production for the relevant responsible personnel at all levels of the Group and its subsidiaries and in-depth interpretation on the newly revised Work Safety Law of the PRC (《中華人民共和國安全生產法》) in 2021. Through the training, we have further clarified the responsibilities and missions of personnel at all levels responsible for safe production to ensure the smooth development of the Group's management on safe production.



Note



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

Safe Production Management

Safe production targets and achievement



| | |
|-------------------------------------|------------------|
| Zero fatalities | Achieved in 2021 |
| Zero occupational disease | Achieved in 2021 |
| Zero major safe production accident | Achieved in 2021 |

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

The Group has formulated the **Safety Management Policy for Hazardous Operations** (《危險作業安全管理制度》) to strengthen the safety management of various hazardous operations.



Sunny Zhejiang Optics has formulated the **Policy on Investigations and Rectification of Hidden Hazards on Safety Production** (《安全生產事故隱患排查治理制度》) and regularly arranges all departments to identify sources of dangers, classify risk levels and rectify.

Sunny Opotech has formulated the **Policy on Safe Production Trainings** (《安全生產培訓制度》) to standardize the management of internal safe production education and training. In 2021, Sunny Opotech added the trainings and assessment requirements for the Red Cross rescuers. The Red Cross rescuers assigned by each department must work with certificates. Furthermore, the relevant third-party operators are required to sign the **Safe Production Management Agreement** (《安全生產管理協議》) with Sunny Opotech to ensure the safety of construction process.

Various safety trainings were conducted for the purpose of standardizing the safe production processes, preventing and reducing the occurrence of various safety accidents.

“Safe Production Month” Activities

June 2021 was the 20th National Safe Production Month, with the theme of “Implementing Safety Responsibilities and Promoting Safety Development”. The Group issued the Notice on Launching the Activities of “Safe Production Month” in 2021 (《關於開展二零二一年“安全生產月”活動的通知》) to all subsidiaries, requiring them to actively organize various safe production activities, so as to enhance employees’ safety development concept, strengthen the awareness of employees’ red line and emergency consciousness, and further take safety responsibilities.

All subsidiaries actively responded to and created a strong safe production atmosphere through publicizing advanced figures and typical achievements on special bulletin boards, carrying out accident warning education activities, organizing the viewing of safety education videos and safety knowledge quiz. Meanwhile, all subsidiaries conducted special inspection activities, formulated sound rectification plans and measures for existing safety hidden hazards, and clarified the time for rectification and responsible person so as to ensure that the rectification was properly in place.

The Group also helped all employees learn and master the relevant requirements of the Work Safety Law of the PRC, the Group’ safety rules and regulations, safety operating procedures, precautions and other contents through special trainings on safety knowledge. For the relevant personnel and safety management personnel of the subsidiaries, we carried out certificated safety training to comprehensively enhance their awareness of safe production and professional skills in order to guarantee the safe production of the Group.



Training Activity of “Safe Production Month”

Fire Safety Management

The Group recognises that fire is the biggest safety hazard in the operation process. Therefore, the Group has formulated the regulations for fire safety:



Employees would receive a three-level safety training. Fire evacuation drills and fire extinguisher operation exercises are conducted annually.

Monthly safety inspections on the production areas and spot inspections on employees' safety knowledge are carried out.

Fire extinguishers are checked monthly to ensure that the equipment can be used normally.

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

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

Fire Prevention Month

Every November is the national "119" fire prevention publicity month, and the theme of the year 2021's fire prevention publicity month is "Implementing Fire Control Responsibilities and Preventing Fire Safety Risks". To actively respond to the fire prevention publicity work, the Group established a leading group for fire prevention month activities and organized a series of fire prevention publicity activities to implement the Group's fire safety responsibilities.

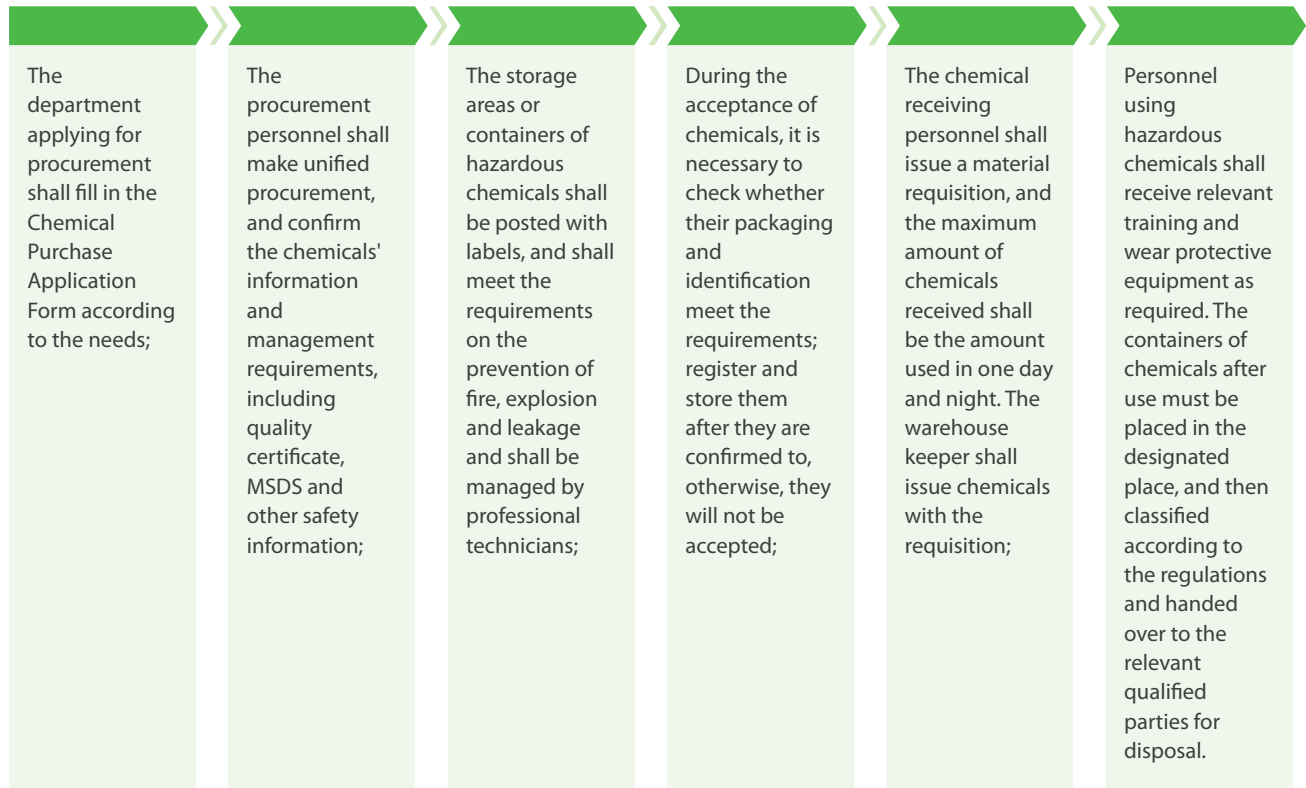
We made full use of publicity channels such as bulletin boards, banners, WeChat official account and video channel to carry out basic fire prevention knowledge. Various training activities such as fire prevention knowledge trainings for all employees and trainings for fire facility operators with certificates were organized to create a working atmosphere with the focus on fire prevention safety. In addition, the Group also carried out a comprehensive investigation of fire hazards, timely analysed and rectified the discovered fire hazards, and organized multiple emergency fire evacuation drills, thus further improving the Group's emergency plan, emergency mechanism and enhancing the fire prevention safety management of the Group.

In addition, all subsidiaries of the Group, in combination with their own activity plans, actively held various characteristic activities such as safety knowledge award-winning quiz, fire prevention skill competition and visiting the fire station to enhance the safety awareness of fire prevention of employees. At the same time, we also donated firefighting equipment and arranged instruction trainings to some employees, in order to provide a strong guarantee for the safety of the living environment of employees.



Fire Emergency Drills

Hazardous Chemicals Management and Control



Hazardous Chemicals Management and Control Process

The Group manages and controls substances with hazardous characteristics or listed in the Catalogue of Hazardous Chemicals (《危險化學品目錄》) of China. Three subsidiaries have formulated relevant regulations on hazardous chemicals management, which will be updated according to the actual business operation and the requirements of relevant laws and regulations. We have clarified the specific responsibilities of each department in each process in order to standardize the procurement, transportation, storage, use, and disposal of chemicals and prevented adverse effects of chemicals on personnel and environment. In 2021, Sunny Automotive Optech updated its Regulations on Chemical Control and Management (《化學品控制管理規定》) to further refine and improve the specific requirements for introduction, procurement, storage, use management and emergency measures of hazardous chemicals.

Sunny Opotech reduced the use of flammable chemicals by replacing materials or optimizing processes:

- In the selection of cleaning liquid, use noncombustible liquid to replace the flammable isopropanol alcohol previously used;
- Changed the alcohol cleaning process to dust-blowing process to reduce the use of flammable ethanol;
- Decreased the concentration of explosive hydrogen peroxide from 20.0% to 7.8% and replaced the hydrogen peroxide involved in fixture cleaning with pure water.

In addition, we formulated the Emergency Plan on Chemical Leakage (《化學品洩漏應急預案》) to enable employees to take the most effective methods to rescue trapped persons and goods, minimize leakage as well as economic losses, and ensure personnel safety in case of oil and hazardous chemicals leakage.

Emergency Drill for Hazardous Chemicals Leakage Accident

In November 2021, Sunny Zhejiang Optics organized all employees of the manufacturing center and engineering center to carry out an emergency drill for hazardous chemicals leakage accident. The drill simulated the circumstance of ethanol leakage causing an alarm from the combustible gas detection system. The management personnel of hazardous chemicals warehouse and each emergency team were required to carry out emergency rescue and rescue the wounded personnel. After evaluation, the effect of the drill reached the expected goal.



Besides, the Group formulated and issued the Procedures on Emergency Preparation, Response and Control (《應急準備和響應控制程序》) to determine potential environmental, occupational health and safety incidents, accidents and emergencies, standardize the emergency management of safe production accidents, implement emergency response quickly, effectively and orderly, in order to minimize casualties and property losses.

Occupational Disease Prevention

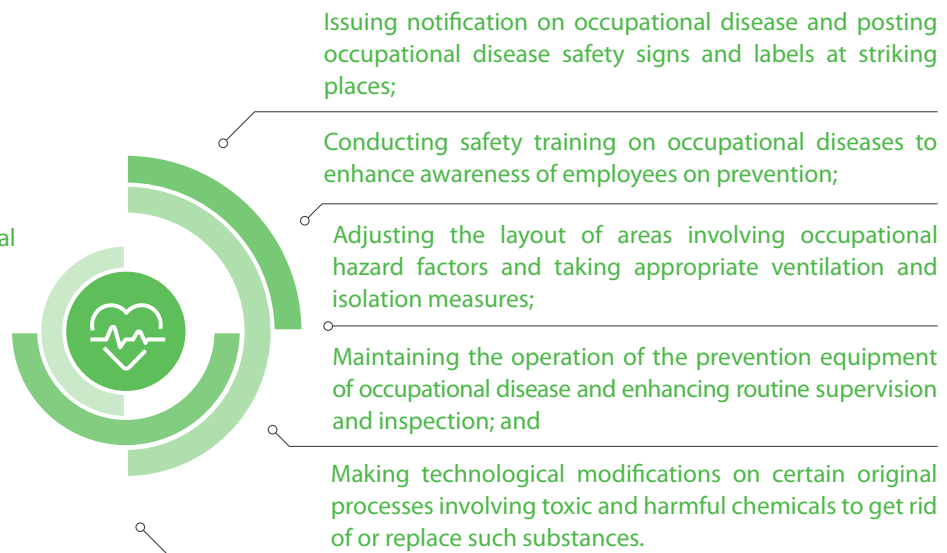


The Group commits to

- Providing a healthy and safe working environment for employees and distributing protection equipment and supplies, such as dust masks and protective gloves, as per requirements.
- Conducting annual occupational health examination for employees who work at positions that are exposed to occupational disease hazards according to the requirements of relevant national regulations on the prevention and control of occupational diseases.

Through on-site investigation and identification, the occupational hazard factors involved in the workplace of the Group are mainly noise and chemicals. Therefore, we have formulated the Management of Occupational Health Monitoring Policy (《職業健康監護管理制度》) which specifies the work of the occupational health management of the Group from diagnosis and management of occupational diseases, reporting of occupational diseases and alarming and notification of hazards of occupational diseases, in order to prevent occupational diseases to the largest extent. Among them, the Group conducts health examination for new employees, on-the-job and off-the-job employees involved in the operation of occupational hazard factors and special operators with special health requirements. The Group has established the list of annual health checkup results and employees' occupational disease health records for workers exposed to toxic and hazardous chemicals and entrusted professional agencies to regularly detect and evaluate occupational disease hazard factors in the workplaces of three subsidiaries. We also supervise employees of relevant positions in implementing protective measures. In 2021, both the noise intensity and chemicals concentration exposed to the positions involving occupational hazard factors of the Group have met the requirements.

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



Implementing Assessment and Inspection



The safe production management division of the Group conduct two wide-range safety inspections on all subsidiaries each year and conduct monthly inspections, inspections before the holidays and various special inspections. The inspections cover fire safety, hazardous chemicals safety, safety protection, equipment safety and electric safety, etc. Inspectors give feedbacks on the inspection results to relevant employees of each subsidiary and propose rectification requirements and deadlines. The inspection results will be included in performance assessment. During the Reporting Period, we have identified a total of 1,028 hidden hazards and have proposed targeted rectification plans and urged them to rectify. All of the hidden hazards had been rectified.

During the Reporting Period, the Group had a total of approximately 1,683.0 working days lost due to work-related injuries. The number of work-related fatalities in recent three years is as follows:

| | 2021 | 2020 | 2019 |
|---------------------------------------|------|--------|--------|
| Number of work-related fatalities | 0 | 2 | 1 |
| Rate of work-related fatalities(Note) | 0 | 0.008% | 0.005% |

Note



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



Practicing Green Development

Environmental Management System 80

Responding to Climate Change 81

Priority to Energy Saving and Carbon
Emission Reduction 82

Innovation in Water Saving and
Waste Reduction 85

Environmental Management System



Environmental principles

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

The Group strictly abides by the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》) and other laws and regulations, actively practices the concept of green development, and earnestly performs its responsibilities of energy saving, emission reduction and environmental protection. We have established a sound environmental management system and institutional processes at all levels to identify and control key environmental risks and minimize the impact of production and operation activities on the environment.



As at 31 December 2021, four subsidiaries namely Sunny Zhejiang Optics, Sunny Opotech, Sunny Automotive Optech and Sunny Optical Intelligence (Yuyao) had obtained [the ISO 14001 Environmental Management System Certification](#)

We set up an environmental management division at the Group level, mainly responsible for improving the environmental and occupational health rules and regulations, determining various pollutant emission indexes according to national emission standards, ensuring the implementation of environmental protection work, minimizing the Group's significant impacts on the environment and natural resources and carrying out environmental protection knowledge publicity. The Group has formulated the Environmental Operation Control Procedure (《環境運行控制程序》), the Product Environmental Management Material Standards (《產品環境管理物質標準》), the Environmental Performance Monitoring and Measurement Control Procedures (《環境績效監測和測量控制程序》) and other systems to identify and reduce the impact of production and operation activities on the environment. During the Reporting Period, the production and operation of the Group had no significant impact on the environment and natural resources. All major construction projects have been granted the necessary approvals on environmental impact assessment based on requirements. And all offices, operation and factory areas are not located in natural reserves, tourist attractions or other environmentally sensitive areas.

Responding to Climate Change

The Group has paid continuous attention to the trend of global climate change. Considering the risks and opportunities brought by global climate change, the Group plans to purchase green power in the future to actively respond to a series of medium and long-term targets to address climate change, in accordance with the China's commitment to peak its carbon emissions by 2030 and achieve carbon neutrality by 2060. During the Reporting Period, there was no significant climate-related issues which have impacted the Group.

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

- Incorporating the environment, climate and energy management and control into the long-term development strategy of the Company, paying continuous attention to, collecting issues related to the environment and climate, and reporting to the Audit Committee regularly;
- Enhancing waste monitoring, disposal compliance and discharge of waste;
- Increasing the consumption ratio of green energy, developing and promoting suppliers to use green energy;
- Increasing the energy consumption efficiency and enhancing energy management and control capability of each business segment and department; and
- Securing a safe environment for employees.

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

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

Routine management

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

Alarming management

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

Emergency management

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

Subsequent management

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

Sunny Opotech and Sunny Optical Intelligence (Yuyao) have formulated the Typhoon Emergency Plan (《颱風應急預案》) and established an emergency working group for typhoon and flood prevention to be fully responsible for the emergency commanding, organizing, and coordinating work of typhoon disasters. Meanwhile, an evacuation guidance group, emergency repair group and other working groups have been established to be fully responsible for the specific implementation of each work. The emergency measures of the plan cover the handling proposal before, during and after the typhoon, specify the operation requirements of emergency measures to ensure that the fight against typhoon is carried out in an orderly manner. To fight against typhoon "In-fa", Sunny Automotive Optech organized a typhoon drill in July 2021 to simulate the situation of typhoon approaching and accompanied by heavy rainfall, in order to effectively improve employees' awareness of flood prevention and emergency response ability, verified the practical feasibility of the Typhoon Emergency Plan.

Priority to Energy Saving and Carbon Emission Reduction

The Group has formulated the Regulations on the Administration of Energy and Resources (《能源資源管理規定》), which singly makes refinements on the consumption of raw materials, ancillary materials, water, electricity and paper and specifies the duties and responsibilities of the production management department, the procurement department and other departments. Meanwhile, we continuously improve the value traceability system during production and operation to achieve all-round management and control on the procurement, use and recycling of resources and energy.

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

Training on Energy Saving and Consumption Reduction



In August 2021, Sunny Automotive Optech conducted online training on energy saving and consumption reduction for employees. By explaining the definition, importance and measures of energy saving and consumption reduction, we actively seek management method with low energy consumption, delicacy management and green emission reduction, and called on all employees to implement the awareness of energy saving and reduce emissions in their daily work.

Training on Waste Classification



Waste classification is of great significance for promoting waste reduction, waste recycling, harmless treatment and achieving the construction of ecological civilization. During the year of 2021, Sunny Automotive Optech organized all employees to complete training courses on waste classification. Through this training, employees understood the significance of waste classification, mastered the specific methods of waste classification and actively practiced garbage classification in their daily work to contribute to the construction of ecological civilization.

The energy saving and carbon emission reduction projects carried out by the Group in 2021 are as follows:

| Name of the companies | Energy saving and carbon emission reduction projects | Results |
|------------------------------------|---|---|
| Sunny Optical Technology | Installation of solar water heaters | Installed 62 solar heat pumps, which can save around 77.2% of energy compared with the traditional electric heating method |
| Sunny Zhejiang Optics | Introduction of energy-saving equipment | Introduced high-pressure centrifuge at Yuyao Chengxi production base, which can save around 8.1% of energy |
| Sunny Opotech | Energy saving transformation of high-power equipment | Conducted the frequency conversion transformation of two 250kW air compressors, which can save around 6.0% of energy and 1,096,000.0 kWh of electricity every year |
| Sunny Automotive Optech | Energy saving proposal for the start and stop of air-conditioning fan | The workshop adopted 24-hour intermittent control of the start and stop of the heat removal and heating device for the wind cabinets motor, which can save around 346,000.0 kWh of electricity every year |
| | Energy saving proposal for refine setting of air-conditioning unit | Adjusted the output temperature and humidity setpoint of the air-conditioning cabinet in the workshop, which can save around 5,799,000.0 kWh of electricity every year |
| | Optimization of cleaning process | Changed the ultrasonic cleaning process to blowing and wiping process, which can save around 82,000.0 kWh of electricity every year |
| Sunny Optical Intelligence (Yuyao) | Application of insulation materials | Insulation cotton is used for thermal insulation in the clean workshop that require constant temperature and humidity, which can save around 200,000.0 kWh of electricity every year |

The KPIs of the Group's energy consumption and greenhouse gas emissions in 2021 are as follows:

| Category | Unit | 2021 | 2020 | 2019 |
|--|--|------------------|-----------|-----------|
| Total direct energy (Note 1) | MWh | 582.8 | 5,675.0 | 7,016.0 |
| Natural gas (Note 2) | MWh | / | 4,348.4 | 3,151.8 |
| Liquefied petroleum gas (Note 2) | MWh | / | 726.0 | 2,041.7 |
| Diesel oil | MWh | 148.5 | / | 952.1 |
| Gasoline | MWh | 434.3 | 600.6 | 870.4 |
| Total indirect energy | MWh | 540,417.7 | 462,944.8 | 416,995.8 |
| Electricity (Note 2) | MWh | 540,417.7 | 462,944.8 | 416,995.8 |
| Total energy consumption (Note 3) | MWh | 541,000.5 | 468,619.8 | 424,011.8 |
| Energy consumption intensity | MWh/ RMB million revenue | 14.6 | 12.7 | 11.5 |
| Greenhouse gas (Scope one) (Note 4) | tCO ₂ e | 2,594.3 | 3,463.8 | 3,345.6 |
| Natural gas | tCO ₂ e | / | 869.4 | 630.2 |
| Air conditioning coolant | tCO ₂ e | 2,449.3 | 2,286.0 | 1,776.0 |
| Liquefied petroleum gas | tCO ₂ e | / | 161.5 | 480.2 |
| Diesel oil | tCO ₂ e | 38.8 | / | 248.5 |
| Gasoline | tCO ₂ e | 106.2 | 146.9 | 210.7 |
| Greenhouse gas (Scope two) (Note 5) | tCO ₂ e | 380,183.9 | 325,681.7 | 293,356.6 |
| Electricity | tCO ₂ e | 380,183.9 | 325,681.7 | 293,356.6 |
| Total greenhouse gases | tCO ₂ e | 382,778.2 | 329,145.5 | 296,702.2 |
| Greenhouse gas emission intensity | tCO ₂ e / RMB million revenue | 10.3 | 8.9 | 8.0 |

Notes



1. The average low calorific value coefficients of diesel and gasoline used by the Group refer to the Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions by Electronic Equipment Manufacturing Enterprises (《電子設備製造企業溫室氣體排放核算方法與報告指南》) issued by the National Development and Reform Commission in 2015.

2. In 2021, the Group's data on energy consumption no longer includes canteens, such as natural gas, liquefied petroleum gas and electricity are excluded.

3. In 2021, energy consumption increased by approximately 15.4% as compared to 2020 due to the expansion of the Group's scale and the expansion of production and office space.

4. The carbon dioxide emission factors of diesel and gasoline used by the Group refer to Appendix II of the Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions by Electronic Equipment Manufacturing Enterprises (《電子設備製造企業溫室氣體排放核算方法與報告指南》) issued by the National Development and Reform Commission in 2015. The global warming coefficient of air conditioning coolant used by the Group refers to the 2014 Intergovernmental Panel on Climate Change (IPCC) Guidelines for National Greenhouse Gas Inventories (《2014年聯合國政府間氣候變化專門委員會(IPCC)國家溫室氣體清單指南》).

5. The carbon dioxide emission factor of the purchased electricity used by the Group refers to the average carbon dioxide emission factor of the power grids in East China in the 2012 China Regional Grid Average Carbon Dioxide Emission Factor (《2012年中國區域電網平均二氧化碳排放因子》).

Innovation in Water Saving and Waste Reduction

Saving Water

The Group attaches great importance to the consumption and utilization of water resources, and continuously commits itself to the protection of water resources. The Group mainly sources water from municipal water supply and has guarantees on obtaining sufficient water resources. In the process of operation, the Group continuously improves the water resource management measures, pursues the maximization of water use efficiency in the factory areas, gives priority to the use of water-saving equipment, continuously optimizes the production process, improves the recycling rate of water resources and reduces ineffective water use.

During the Reporting period, there was no issue in sourcing water that is fit for purpose of the Group.

The water-saving projects carried out by the Group in 2021 are as follows:

| Name of the subsidiaries | Water-saving projects | Results |
|------------------------------------|----------------------------------|---|
| Sunny Automotive Optech | Optimization of cleaning process | Changed the ultrasonic cleaning process to blowing and wiping process, which can save around 2,000.0 tonnes of water every year |
| Sunny Optical Intelligence (Yuyao) | Recycle of wastewater | Recycled the wastewater produced during the pure water process which can recycle around 9,000.0 tonnes of water every year |

The KPIs of the Group's water consumption in 2021 are as follows:

| Category | Unit | 2021 | 2020 | 2019 |
|--------------------------|------------------------------|-------------|-------------|-------------|
| Water consumption (Note) | tonnes | 2,143,303.0 | 2,127,012.6 | 1,512,331.4 |
| Water intensity | tonnes / RMB million revenue | 57.9 | 57.8 | 40.9 |

Note



In 2021, the Group's data on water consumption in canteens are excluded.

Saving Materials

The Group uses packaging boxes, blister boxes, corrugated paper, vacuum bags, glue and other materials during the section of manufacturing, transportation, and sales of products. To implement the concept of “reducing resource consumption and pollutant emission from the source”, we optimized the production process, reduced the use of packaging materials and used environmental materials as much as possible. Sunny Optical Intelligence (Yuyao) formulated the Procedures on Design and Development Control (《設計和開發控制程序》) to define the principles of reduction, cost and harmlessness in the process of product design. Sunny Automotive Optech formulated the Regulations on the Development and Introduction of Three New Technologies (《三新技術開發導入管理規定》) to advocate the use of green materials and encourage green technology innovation to continuously improve and optimize the production process and materials used in the production, in order to reduce the generation of various wastes from the source.

The material saving projects carried out by the Group in 2021 are as follows:

| Category | Name of the subsidiaries | Materials saving project | Outcome |
|--|--------------------------|--|---|
| Process optimization | Sunny Zhejiang Optics | Runner recycling | Recycled the scrap resin runner produced in the injection moulding production process and made it into a coated bearing for subsequent production. In 2021, scrap runner produced were made into plastic products for reuse through professional agencies with recycling qualification, the reuse rate was 100.0% |
| | | Glue reduction | The consumption of glue was saved by around 96.0 kg by means of hot-melt plastic sealing process |
| | | Spacer reduction | Through the auxiliary support structure design during the assembly process of the lens sets, the consumption of spacer could be reduced, which saved approximately 1.0 kg lead-free brass |
| | Sunny Opotech | Glue reduction | The improvement of active alignment technology was adopted to reduce the glue consumption by 28.7% |
| Packaging optimization | Sunny Zhejiang Optics | Packaging recycling | After the customers receive the lens sets, the hard board packaging was recycled for reuse. In 2021, a total of approximately 61.4 tonnes of hard board packaging were recycled |
| | Sunny Automotive Optech | Replacement with environmental packaging | Replaced the original corrugated boxes with recyclable plastic passing boxes, which saved around 2.9 tonnes of cartons within the year |
| In terms of the blister packaging materials, replaced the non-recyclable black ABS (acrylonitrile butadiene styrene copolymer) plastic with recyclable transparent PET (polyethylene terephthalate) material, which reduced the waste by around 4.7 tonnes within the year | | | |

The KPIs of the Group's packaging materials in 2021 are as follows:

| Category | Unit | 2021 | 2020 | 2019 |
|------------------------------------|--------------------------|---------|---------|---------|
| Consumption of packaging materials | tonnes | 2,632.9 | 2,500.1 | 1,604.2 |
| Packaging material density | kg / RMB million revenue | 71.1 | 67.9 | 43.4 |

Emissions Compliance

The air pollutants produced by the Group are mainly nitrogen oxides, sulphur dioxide and particulate matter. During the year of 2021, the main source of gas pollutants in the Group is vehicles exhaust emissions; and the wastewater generated by the Group mainly comes from domestic water and cleaning and grinding wastewater in production. The solid wastes generated by the Group mainly include non-hazardous waste such as domestic garbage, as well as hazardous waste generated in production such as detergents and organic solvents.

We strictly comply with relevant laws and regulations and local emission standards. Meanwhile, we formulated the Administrative Measures on Waste Gas, Effluent, Noise and Solid Waste (《廢氣、廢液、噪聲及固體廢棄物管理規定》) to clarify the classification, collection, storage, and disposal methods of various wastes, identify the responsible department of environmental protection management, in order to properly dispose emissions generated during operation. In addition, we entrust a qualified third-party agency to test the emissions to ensure that the emissions meet the standards. During the Reporting Period, the Group had no major environmental violations or penalties.

During the year of 2021, to support Zhejiang Province to achieve the goal of the whole city zero-waste, Sunny Opotech established a special team for occupational health, safety and environmental protection ("HSE") management led by the general manager to actively carry out solid waste reduction, energy saving and consumption reduction work in line with the principle of "source reduction, in-factory recycling, green and low carbon". Finally, the 2021 Ningbo City "Zero-Waste City Cell" construction was successfully completed. In addition, Zone A of the Group's Yuyao Chengxi production base achieved the goal of zero direct discharge of sewage in the industrial park by means of separating rainwater and sewage pipe network and sewage recycling, and became a county-level demonstration zone, which contributed our strength to build a "Beautiful City".

We have built a wastewater treatment system in the factory area and obtained the permit to discharge urban wastewater into the municipal government's sewage pipe network to ensure the compliance in discharge of domestic and production wastewater. In addition, the Group has separated rainwater and sewage in the factory area, introduces rainwater into the pipeline and discharges it into the river nearby.

For non-hazardous waste, the recyclable parts will be sold or sub-processes, while the non-recyclable parts will be sent to the sanitation unit regularly for disposal. For hazardous waste, each subsidiary shall clarify the names, sources, characteristics, hazards and treatment measures of various types of hazardous waste, the organization and its responsibilities for accident emergency response, as well as the precautionary measures against the accidents, etc. In addition, we established hazardous waste storage areas to classify wastes and store them according to corresponding requirements, and finally send them to qualified third-party agencies for disposal compliance.

The KPIs of the Group in terms of emission in 2021 are as follows:

| Category | Unit | 2021 | 2020 | 2019 |
|---|-------------------------|---------|----------|----------|
| Sulfur dioxide emissions (Note 1,2) | kg | 1.0 | 1.3 | 446.6 |
| Nitrogen oxides emissions (Note 1,2) | kg | 515.3 | 1,022.8 | 1,902.3 |
| Particulate matter emissions (Note 1,2) | kg | 49.0 | 92.4 | 143.8 |
| Hazardous waste (Note 3) | tonnes | 46.6 | 17.5 | 9.6 |
| Hazardous waste intensity | kg/ RMB million revenue | 1.3 | 0.5 | 0.3 |
| Total non-hazardous waste (Note 2) | tonnes | 8,492.8 | 10,301.3 | 13,085.0 |
| General non-hazardous waste | tonnes | 4,842.1 | 5,090.0 | 6,200.0 |
| Recycled waste | tonnes | 3,650.7 | 3,953.2 | 6,885.0 |
| Kitchen waste (Note 2) | tonnes | / | 1,258.1 | / |
| Non-hazardous waste intensity | kg/ RMB million revenue | 229.3 | 279.8 | 354.0 |

Notes



1. The Group refers to the Vehicle Emission Factor Model Calculation of Hong Kong Environmental Protection Department (《香港環境保護署汽車排放計算模型》) for the emission factors of sulfur dioxide, nitrogen oxides and particulate matter for gasoline and diesel.
2. In 2021, the Group's data in energy consumption no longer includes canteens, such as natural gas consumption and kitchen waste are excluded. Therefore, the emission data of sulfur dioxide, nitrogen oxides, particulate matter and total non-hazardous waste for this year reduced compared to previous years.
3. In 2021, due to the improved requirements of the Group's production process, the use of raw and ancillary material increased. Therefore, hazardous waste generation increased by approximately 166.3% compared with that in 2020.

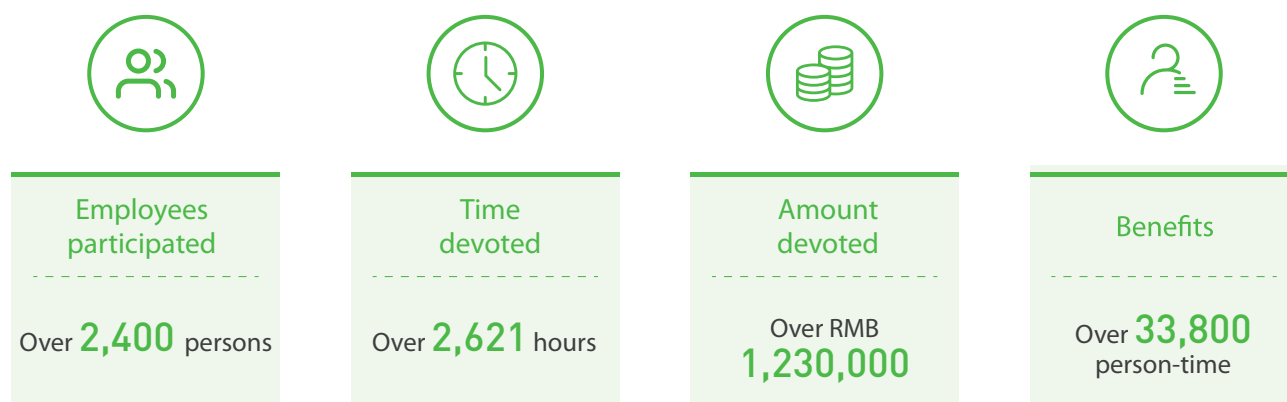
A sunset over a beach with two hands forming a heart shape in the foreground. The sun is low on the horizon, casting a warm glow over the scene. The hands are positioned to create a heart shape, with the sun shining through the center. The background shows a beach with dark rocks in the foreground and a calm sea reflecting the sunset. The sky is filled with soft, colorful clouds.

Sincere Contribution to the Society

Support for Education 91

Public Welfare and Voluntary Service 92

Adhering to the corporate citizenship spirit of “from society and for society”, the Group has been actively devoted in the community investment in the areas of education, poverty alleviation, environmental protection, social charity and other fields to carry out various public welfare undertakings, and encourages employees to give back to society with practical actions. During the year of 2021, the Group’s involvement in public welfare activities is as follows:



Details of donations of the Group in 2021:

| Type of donation | Project | Amount (RMB) |
|---------------------|---|--------------------|
| Support education | Loudi Xiao Xiang Vocational College | 139,600.0 |
| | Xi'an Shaanxi University of Science & Technology Education Development Foundation | 50,000.0 |
| | Zhejiang China Jiliang University Education Foundation | 50,000.0 |
| | Zhejiang University of Technology Education Foundation | 50,000.0 |
| | Zhejiang University Education Foundation | 100,000.0 |
| | Yuyao Charity Federation | 320,000.0 |
| | Harbin University of Science and Technology Education Development Foundation | 50,000.0 |
| | Changchun University of Science and Technology Education Foundation | 150,000.0 |
| Poverty alleviation | Xingji Village, Xingji Town, Pingqiao District, Xinyang City | 10,000.0 |
| | Dongchong Village, Yanghe Town, Pingqiao District, Xinyang City | 10,000.0 |
| | Liangmiao Village, Chashan Township, Pingqiao District, Xinyang City | 10,000.0 |
| | Jinglao Village, Chashan Township, Pingqiao District, Xinyang City | 10,000.0 |
| | Liugang Village, Chashan Township, Pingqiao District, Xinyang City | 10,000.0 |
| | Disabled Persons' Federation of Pingqiao District, Xinyang City | 30,000.0 |
| | Charity Federation of Pingqiao District, Xinyang City | 26,800.0 |
| Total | | 1,016,400.0 |

Support for Education

Adhering to the development philosophy of “support education is synonymous with support the enterprise itself”, we pay continuous attention to education development and talent cultivation, and actively undertake responsibilities of the enterprise in the education. We have established long-term talent partnership with various universities, actively carried out research cooperation and technical exchange activities, jointly constructed employment base and further deepened bilateral cooperation.



Series Activities of Introducing
Science and Technology to Campus

Public Welfare and Voluntary Service



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

In 2021, the Group continued to carry out volunteer activities and organized voluntary caring activities such as services to “fight against the pandemic”, support for needy people, promotion on travel civilization and claim “micro-wishes”.

In addition, the Group organized the 11th voluntary blood donation activity, and a total of **312** employees donated around **98,500.0** millilitres of blood.



Voluntary Blood Donation Activity



Support for Needy People



Promotion on Travel Civilization

The Group is fully aware of the importance of protecting the community environment. During the year of 2021, we conducted a series of public welfare activities for environmental protection, publicized the concept of environmental protection with practical actions, protected the environment with sincerity and joined all sectors in society to build a green homeland together.



Environmental Cleaning Activity of
"Creating a Beautiful Home Together"



Happiness Activity Day of
"Retracing the Ancient Road and Picking up Garbage"

Appendix: Environmental, Social and Governance Reporting Guide Comparison Table

| Aspects and KPIs | Description | Title of chapter |
|---|---|------------------------------|
| <i>A. Environmental</i> | | |
| A1. Emissions | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | Practicing Green Development |
| KPI A1.1 | The types of emissions and respective emissions data. | |
| KPI A1.2 | Direct (Scope 1) and energy direct (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | |
| KPI A1.5 | Description of emission target(s) set, and steps taken to achieve them. | |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | |
| A2. Use of Resources | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water, and other raw materials. | Practicing Green Development |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | |
| KPI A2.3 | Description of energy use efficiency target(s) set, and steps taken to achieve them. | |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set, and steps taken to achieve them. | |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | |
| A3. The Environment and Natural Resources | | |
| General Disclosure | Policies on minimising the issuer's significant impacts on the environment and natural resources. | Practicing Green Development |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | |
| A4. Climate Change | | |
| General Disclosure | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | Practicing Green Development |
| KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | |

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

| Aspects and KPIs | Description | Title of chapter |
|------------------------------------|--|---------------------------------------|
| Operating Practices | | |
| B5. Supply Chain Management | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Win-win Cooperation |
| KPI B5.1 | Number of suppliers by geographical regions. | |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | |
| B6. Product Responsibility | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling, and privacy matters relating to products and services provided and methods of redress. | Focusing on Innovation and Excellence |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | |
| KPI B6.4 | Description of quality assurance process and recall procedures. | |
| KPI B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | |
| B7. Anti-corruption | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud, and money laundering. | About Us |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | |
| KPI B7.3 | Description of anti-corruption training provided to directors and staff. | |
| Community | | |
| B8. Community Investment | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Sincere Contribution to the Society |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | |

Sunny Optical Technology (Group) Company Limited

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