



Loyal Valley Capital

2022

LOYAL VALLEY CAPITAL ESG REPORT

Empowering great companies of tomorrow

www.loyalvalleycapital.com



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I. Message from our Leaders

As our firm continues to scale, we are constantly revisiting our purpose and role within this society, reframing our thought-process and refining our approach in investing, to tackle environmental, social, and governance (ESG) issues that are shaping our world today.

Our mission to “invest in and foster leaders that make the world a better place” has been our imperative from day one, and we are excited to see that the ESG integration into our investment, operations, and exit processes have been solidified over the past two years. Since 2020, we’ve engaged with Environment Resource Management (ERM), a leading global sustainability consultant, working closely to build out a tailored best-in-class ESG policy and process for our firm. We also became an official signatory to the United Nations Principle for Responsible Investment (UN PRI), unifying our vision alongside other leading global investors.

While we strive to drive sustainability and responsible citizenship across our portfolio companies, we understand that to bring change within this world, we’d need to start with change in ourselves. As we’ve started to implement the ESG principles throughout our investment process, we’ve also shared the same values across all 70+ employees at the firm as we believe that an ESG mindset must be embedded in our firm’s corporate culture to see true impact come to fruition across all relationships on our platform. Reflecting on the past 12 months, our firm has made significant progress in such transformation:

40%

of senior leader are women

US\$191m

in investments that
contribute to sustainability¹

¥5.52m

of donations from the LVC Charity
Foundation since establishment

1. as of April 2022

Our ambitions are not only driven by the promises we have made to our clients, but also by the responsibility to bring lasting change to our society. Change is hard and change takes time, but no matter what challenges may lie ahead, we aim to work with our external partners and portfolio companies to ensure that our key ESG initiatives are enacted and executed upon, keeping our promise to be a frontrunner of ESG and responsible investor within China.



Andy Lin
Founding Partner



II. Who we are

Loyal Valley Capital is a thematic, research-oriented private equity firm that has been a partner of choice for China's most promising companies. LVC has left an early mark in leading players such as Bytedance, one of the world's most valuable startup and owner of Tik Tok; Pop Mart, Asia's largest designer collectibles retailer; Junshi Bioscience, the leading developer of PD-1 in China, and many market leaders within the region.

We believe fundamental analysis and proprietary deep thematic research are the essence to our success. We pride ourselves as a trusted influential shareholder relentlessly focused on active value creation and accelerating growth via strategic initiatives through our executive network of business leaders in China.

We currently manage over US\$3.4 billion in assets under management, with a targeted focus within the Advanced Manufacturing, Consumer, and Healthcare sectors on behalf of our global client base.

LVC was founded in 2015 by Andy Lin, the founder of China Universal Asset Management ("CUAM"), one of China's largest asset managers with over US\$152B in AUM as of 2021, known for its industry-leading research and award-winning investment records.

Since our establishment, LVC has been honorably awarded the

- Top 10 Most Influential Private Equity Firms in China
- Top 10 Investor in China's Domestic Brands
- Top 10 Innovative Drug Investor in China
- Top 20 Advanced Mfg. Investor in China by 36kr

and many other renowned awarding institutions across China.



III. Our Firm in Data

US\$3.5_B

assets under mgmt.

92

invested companies

1st Quartile

Performing Fund ¹

71

Employees

2 Offices

Shanghai & Singapore

3 Sector Focus

Consumer / Healthcare / Adv.Mfg.

1. Preqin 2022 Greater China Report

IV. Our ESG Roadmap

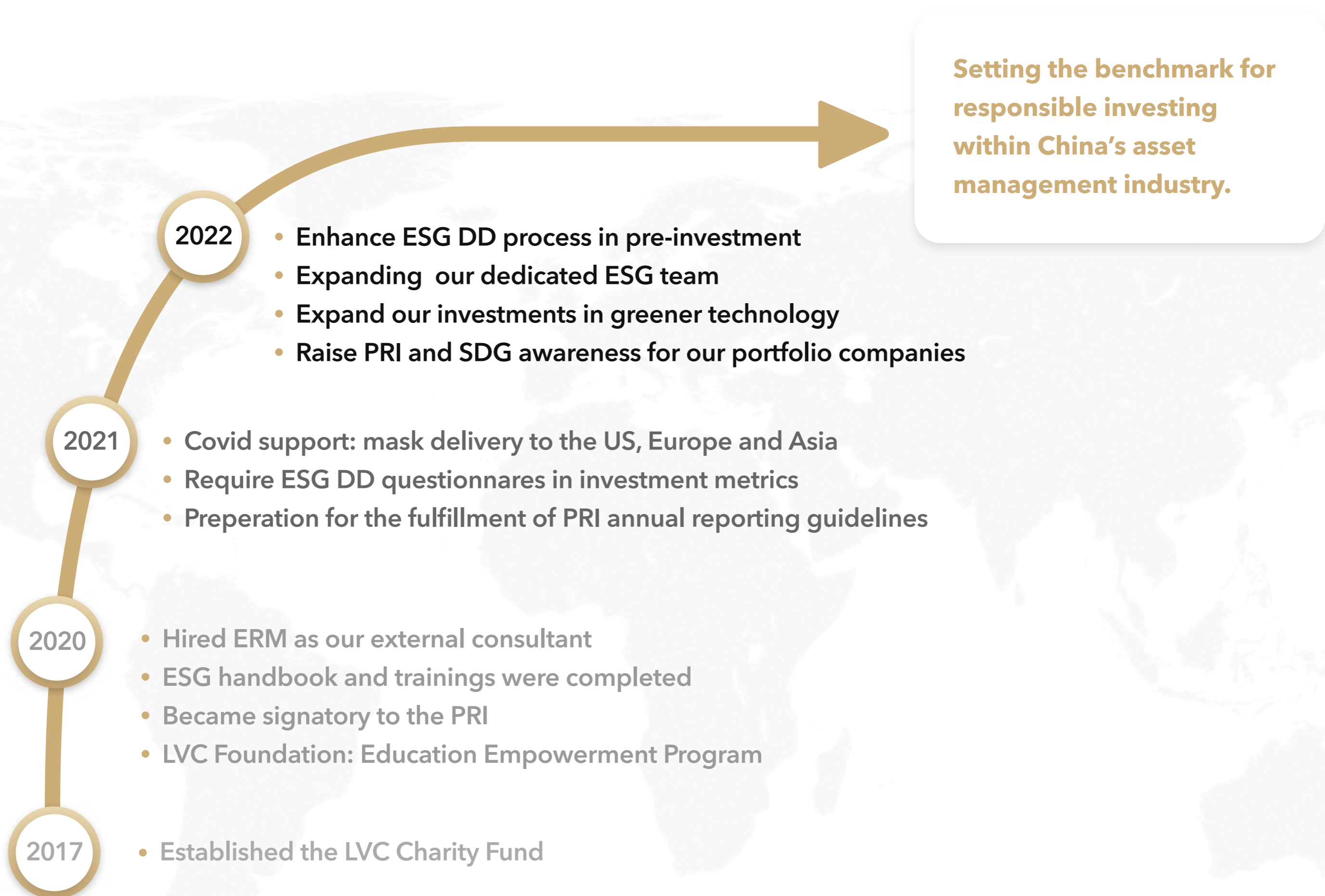
We had spent the past two years laying the groundwork for future ESG implementation and compliance by engaging with ERM and becoming an official signatory to the PRI. We aim to become a leading private equity institution in China for responsible citizenship.

Our aspirations can be traced back before the turn of this decade. In 2017, LVC established the LVC Charity Foundation with an inaugural size of RMB 9.6 million (US\$ 1.5 million), dedicated to improving the lives of those in need and leaving a positive influence on our society.

During the height of the pandemic, the LVC Charity Foundation purchased medical supplies and masks for both domestic and foreign medical institutions (across the US, Europe, and Asia) as the protection of front-line doctors and nurses was of pivotal importance to our society.

Furthermore, the charity foundation continues to fund our Education Empowerment Program to date, focusing on building educational facilities and modernizing the learning environments for children in underprivileged areas across China.

Looking forward, we remain committed to reinforce our sustainability goals from all aspects, via our maturing internal ESG framework and external channels.



V. ESG Process and Framework

As a responsible investor, LVC is committed to an ESG integration process throughout our investment. Our role extends beyond the identification and assessment of material risks and opportunities during the pre-investment stage, but also contributes to the value creation and long-term growth of portfolio companies, thereby bringing benefits to society.

Pre-investment

ESG considerations constitute an important part of our investment decisions. We seek to identify significant risks and opportunities with the ESG lens when we approach and evaluate investments.

Our Exclusion Criteria serve as the gatekeeper to our investment value, listing the types of companies we would avoid or scrutinize carefully as responsible investors. ESG screening and due diligence are conducted by our investment team based on desktop research, document review, and engagement with target companies. Third-party advisor may be commissioned where appropriate to conduct a deep-dive analysis of target companies regarding material ESG topics.

Post-Investment

We keep monitoring the ESG performances of portfolio companies during ownership. We use the annual ESG Questionnaire to gather ESG data and information that allow us to track portfolio company progress and evaluate the effectiveness of ESG management.

Exit

The impact of ESG on investment values is becoming more evident. Our continuous ESG focus on portfolio companies leads us to communicate their ESG characteristics and competencies at exit to enhance valuation.

VI. Portfolio Highlights



ECNAUS
ECNU AFFILIATED
BILINGUAL SCHOOL



● ECNAUS Affiliated Bilingual School

Loyal Valley had long been hoping to tap into the non-profit education sector, providing support to underprivileged children within the rural areas of China as only 0.3% of rural student's make it to China's best universities. With the investment of ECNAUS back in 2017, the opportunity to make an impact finally presented itself. At the end of 2017, ECNAUS, along with LVC, established the **Taiyuan Loyal Valley Shezu Ethnic School**. By leveraging our internal resources, LVC has provided several benefits, including but not limited to:

- A well-decorated library
- Facility digitalization
- Teacher training opportunities in ECNAUS
- Well-programmed summer camps for students



Andy & Mrs. Gong (Headmaster of ECNAUS) at the establishing ceremony of the school

With the continued efforts over the last 5 years, the school was ranked as the 'Advanced Teaching Unit in the Yanshan County' in 2020, with eight and fourth grade students ranking 1st and 2nd within the county (ranked by scoring test).



Andy & Mrs. Gong & all guests



Andy Speaking at the Opening Ceremony



Roy Xie & Chengbin Li at the Ceremony

Our footprint didn't simply stop there. In June 2021, with the help of ECNAUS, LVC established **Loyal Valley Bilingual Kindergarten** in Yanshan county, another non-profit project following the 2017 initiative. With a goal of bringing best educational experiences for the children in the county, the facilities follow international standard, and a variety of extra-curriculum classes are offered, such as basketball, dancing, and drums. Moreover, Mrs. Gong, Headmaster of ECNAUS, was appointed the Honorary Principal, aiming to create the finest kindergarten in the area, for not only its students, but also to all employees within the campus.

VII. Portfolio Highlights

EVE 亿纬锂能

● **EVE**



In 2019, Loyal Valley invested into EVE, a leading lithium battery manufacturing company specializing in the development of primary lithium batteries used in electronic products, and lithium-ion secondary batteries used in consumer electronics, electronic vehicles and energy storage. EVE is a leader within this space, as well as a key driver of socially responsible initiatives within this industry. EVE has established EHS (Environment, Health and Safety) management systems to clarify EHS responsibilities, ensuring safe operations, satisfying customer requirements, while achieving the goal of “Carbon Emission Peak and Carbon Neutrality”.

67%

reduction in NOx emissions in 2021

3rd Year

of consecutive awards for building “National Green Factories”

930,000

equivalent of trees planted base on CO2 emissions

Ensure Safety Operation & Satisfy Customer Requirements

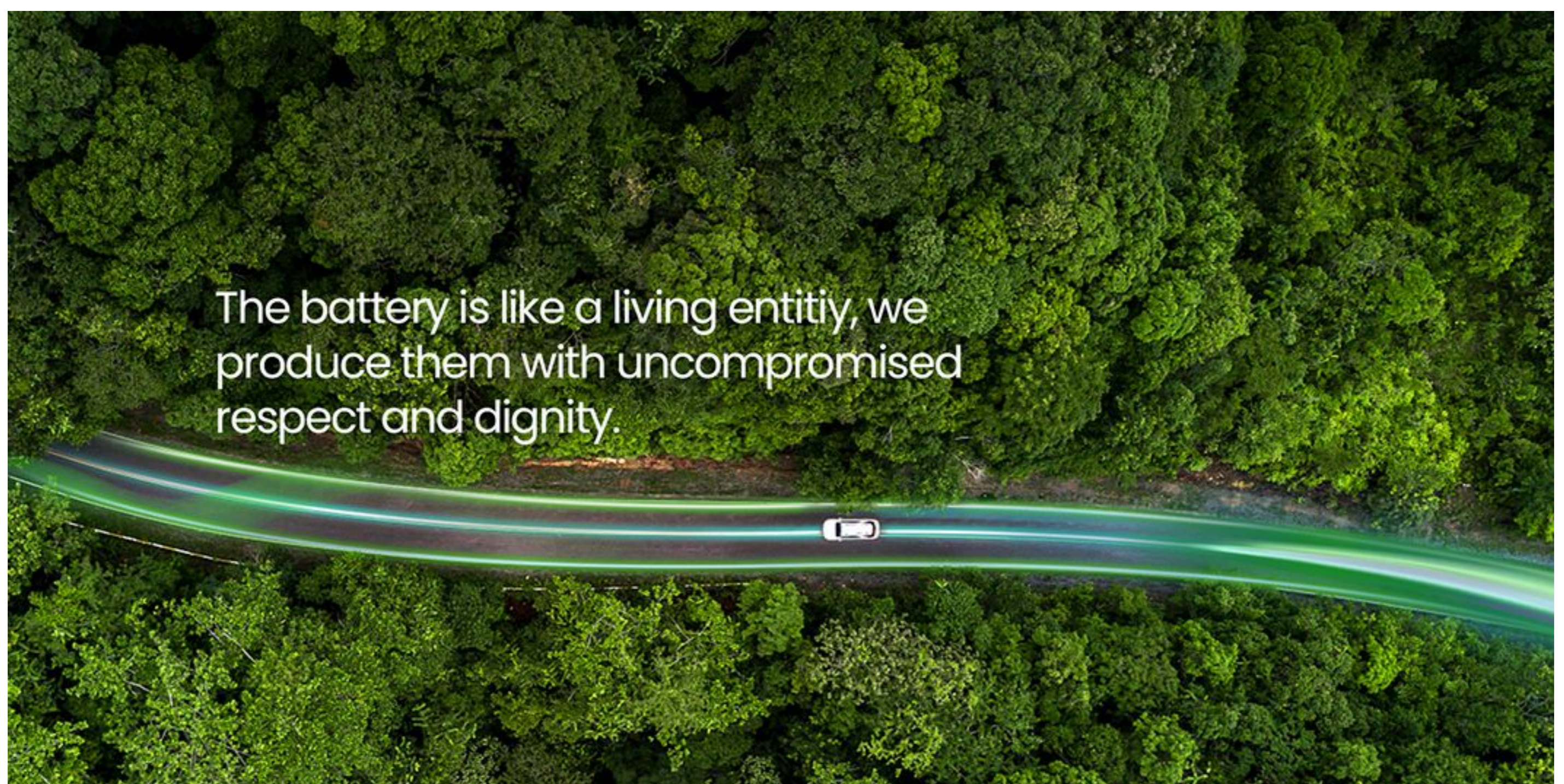
As a responsible corporation, EVE actively engaged with the RMAP (Responsible Mineral Assurance Process) inspection every year.

- Internally, a fully comprehensive supply-chain ODD system is established in 2019 to ensure the source and use of raw materials meets the OECD guidance and RMAP standard, and trainings are conducted regularly. In 2021, 634 training were scheduled, with an average training time per person of 71.8 hours
- A comprehensive KYS (Know Your Suppliers) system is established to identify High Risk suppliers. In 2021, 1 cobalt supplier was identified as High Risk, but after more in-depth and rigorous Due Diligence, the only reason for the ‘high-risk’ rating was due to the location of Congo.

Green Manufacturing Plant

Adhering to the sustainable development concept, EVE is pursuing to practice green facility concept of sustainable development. In 2021:

- EVE and EVE Power were awarded “National Green Factory” (3rd consecutive year)
- NOx emission concentration decreased from <math><150\text{mg}/\text{m}^3</math> to <math><50\text{ mg}/\text{m}^3</math>
- The 20MW photovoltaic power station: Reduction in CO2 emission is equivalent to planting 930,000 haloxylon trees
- Dedicated technology to dispose waste electrolyte amounted a total of 10 tons.



Public Welfare

EVE’s public welfare initiatives can be traced back to 2013, when EVCENS launched three shuttle buses to ZhongKai High-Tech Zone, promoting the low-carbon and environmentally friendly travel mode. In 2021, EVE’s actions include:

- 8th LuoJia Forum (Nov. 21, 2021): Mr. Liu JinCheng, Chairman of EVE, donated \$3.12 million to Wuhan University for the Excellent Development Fund of Wuhan University.
- ZhengZhou, Henan Flood (Jul. 24, 2021): EVE set up an emergency communication support team composed of senior technical personnel.
- Donation (Sep. 26, 2021): Donated a Fund (\$3.09 million) to support UESTC’s construction of the School of Materials and Energy.
- Firefighting: Company’s firefighting team supported on three firefighting and rescue operations across Guangzhou and Hubei.

VII. Portfolio Highlights



- **O-Net Technologies**

In 2020, Loyal Valley invested in O-Net, one of the world's largest suppliers of optical communication devices and modules with nearly 20 years of continued expansion. As one of the key high-tech enterprises of the China Torch Program, a program approved by the State Council to guide the development of new/high tech industries in China, O-Net has established a significant presence both domestically and overseas, with offices and plants across Shenzhen (headquarter), Beijing, Hangzhou, Wuhan, Hong Kong, North America and Europe under the brand "O-Net". O-Net Group believes that "Technologies change the world" and remains true to their original aspiration through ESG practices.



O-Net has taken initiatives to improve safety management, maintaining a record of zero work-related injuries, fire accidents and environmental accidents in 2021. O-Net has been strengthening internal business ethics with employee training systems, code of business conduct, compliance management systems, and supervision systems. Meanwhile, O-Net's advanced energy management system has significantly reduced GHG emissions, recognized and awarded by the Shenzhen government with the "Excellent Performance Award on Climate Action". Sustainable procurement practices have been another focus for corporate social responsibility, and have been integrated into O-Net's business agreements signed amongst their suppliers.

100 %

Of hazardous wastes have been disposed scientifically in 2021

198 %

Target energy saving achieved in 2021

82 %

Suppliers signed CSR Agreement



Environmental Protection

O-Net has been conducting continuous environmental initiatives since 2016. In the area of environmental efforts, O-Net established disclosures, decreased and inserted disposal systems to manage energy consumption. To date, O-Net continues to advance various initiatives centered around these efforts.

- **GHG Emissions & CDP:** O-Net quantifies GHG emissions and invites third parties qualified by Shenzhen Government to carry out GHG emission verification on-site. O-Net has been disclosing GHG Emissions in CDP since 2016.
- **Energy Consumption:** O-net has reduced its actual total energy consumption to nearly half of its consumption target set at the beginning of the year. Annual tons of standard coal (TCE) consumed was 5,358.18 compared to the target of 10,603 in 2021, and the yearly consumption as a percentage of target consumption has also been improving significantly from 79% in 2020 to 50% in 2021.
- **Waste management:** In 2021, 144.174 tons of hazardous waste were 100% properly handled by third parties qualified by Shenzhen Government.

Sustainable Procurement

O-Net believes that sustainable procurement can improve the company's financials, and future-proof the organization against a range of challenges that may disrupt supply chains and also decrease its carbon footprint, helping combat climate change. In 2021, O-Net accelerated its pursuit of a more sustainable procurement approach:

- Integrated "Supplier Development & Approval Procedures" and "Purchasing Management Procedure", defining sustainable procurement actions. All suppliers were required to sign the "Corporate Social Responsibility Agreement".
- In 2021, passed the globally recognized AEO advanced certification, in line with the requirements of Chinese customs laws and regulations.
- Incorporated O-Net Conflict Minerals Policy, and further described O-Net's commitment and requirements towards socially and environmentally responsible sourcing of conflict minerals in products.

Ensure employee rights & enhancing inclusion

O-Net regards employees' labor & human rights as a matter of the utmost importance. As such, the company supports and respects the equality and safety of its employees.

The number of female employees as of the end of 2021 stood at 1,592, which accounted for 32% of all employees. Employees with minority ethnicities represented 13%.



Loyal Valley Capital