Luxshare Precision Climate Risk and Opportunity Identification and Response Strategy

Climate Risks and Opportunities

Luxshare Precision has placed considerable emphasis on response to climate change, established and made continuous efforts in improving the climate governance structure, and committed to integrating climate governance with the Company's management and business system.

Governance

- Establishing a Task Force on Carbon Neutrality led by the Board of Directors, coordinated by the Sustainable Development Center, and joined by each factory to comprehensively promote climate change-related matters, and ensure that all affairs are implemented in accordance with the plan and relevant goals are achieved.
- The Strategy Committee under the Board of Directors is responsible for the deliberation of the Company's sustainable development-related matters involving climate change, including internal and external stakeholder communication, materiality assessment, risk identification, target and strategy formulation, etc., to ensure the implementation of the Company's sustainable development and climate strategy.

Strategy

- Identifying applicable climate risks and opportunities based on the classification of climate risks and opportunities by the Task Force on Climate-related Financial Disclosures (TCFD), in consideration of Luxshare Precision's business segments.
- Conducting relevant policy review based on the identified results to understand the importance and future development trend of various climate risks and opportunities in the macro environment.
- Assessing the impact of climate change-related risks and opportunities on the Company's business, strategy and financial planning over time and under different scenarios through qualitative climate scenario analysis.

Risk management

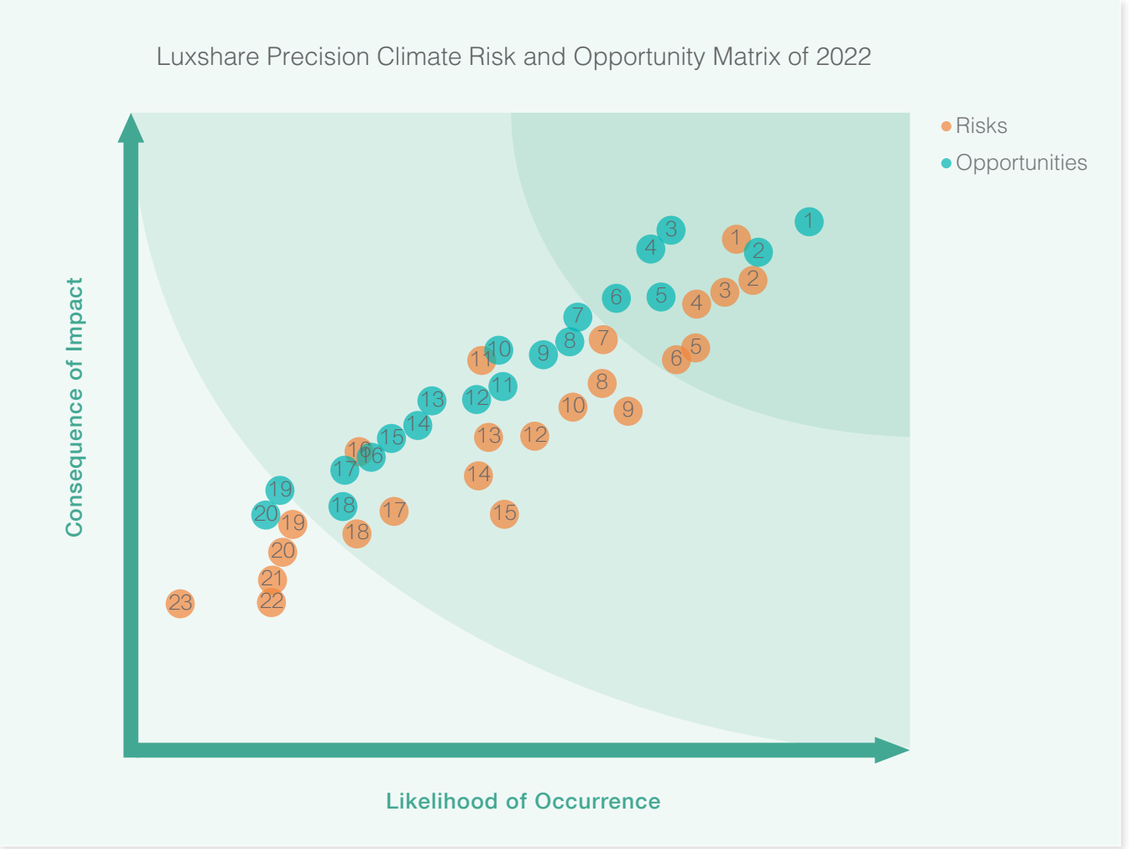
- With identification, selection and assessment of Luxshare Precision's potential climate risks every year, risk management departments devise their countermeasures, which are subject to deliberation of the Strategy Committee under the Board of Directors, who will devevlop additional countermeasures if necessary.
- Categorizing various climate risks according to probability of occurrence and impact, and the management takes countermeasures against risks with high importance and urgency.

Metrics and targets

- We intend to complete the development of carbon reduction targets in line with the Science Based Targets initiative (SBTi) 1.5°C pathway in 2023, and commit to achieving carbon neutrality by no later than 2050.
- Setting clean energy transformation targets and aiming to achieve 50% clean energy use by 2025.

Specific practices and performance related to addressing climate change are detailed in the 2022 Luxshare Precision Sustainability Report.

We actively identify climate risks and opportunities and develop strategies and actions to address climate change, responding to stakeholders' increasing concern about business continuity and sustainability under climate change scenarios. In accordance with the TCFD recommendations, we organized key units highly related to climate risks and opportunities to evaluate potential risks and opportunities from upstream, downstream and our own operations during the Reporting Period.



Climate Risk and Opportunity List

Luxshare Precision Climate Risk List

Importance of Risk	No.	Risk Type		Risks
High	1	Transition risk	Market risk	Increased cost of raw materials
	2	Transition risk	Technology risk	Transition to lower emissions technology
	3	Transition risk	Reputation risk	Increased stakeholder concern or negative stakeholder feedback
	4	Transition risk	Market risk	Changing customer behavior
	5	Physical risk	Acute risk	Heavy precipitation
	6	Transition risk	Policy and regulatory risk	Carbon pricing mechanism
Medium	7	Physical risk	Acute risk	Typhoon
	8	Transition risk	Policy and regulatory risk	Enhanced emissions-reporting obligations
	9	Physical risk	Acute risk	Heat waves/extremely hot weather
	10	Transition risk	Reputation risk	Shifts in consumer preferences
	11	Transition risk	Reputation risk	Industrial stigma
	12	Transition risk	Technology risk	Substitution of existing products and services with lower emissions options
	13	Transition risk	Technology risk	Unsuccessful investment in new technologies
	14	Transition risk	Market risk	Uncertainty in market signals
	15	Transition risk	Policy and regulatory risk	Mandates and regulation of existing products and services
	16	Transition risk	Legal risk	Exposure to litigation
	17	Physical risk	Chronic risk	Rising temperatures
	18	Physical risk	Acute risk	Drought
Ordinary	19	Physical risk	Acute risk	Flood
	20	Physical risk	Chronic risk	Shortage of water resources
	21	Physical risk	Acute risk	Cold snap/frost
	22	Physical risk	Chronic risk	Rising sea levels
	23	Physical risk	Chronic risk	Soil degradation/desertification

Luxshare Precision Climate Opportunity List

Importance of Opportunity	No.	Opportunity Type	Opportunities
High	1	Markets	Use of public-sector incentives
	2	Products and services	Diversification of business activities
	3	Resource efficiency	Production and distribution processes
	4	Resource efficiency	Recycling technologies
	5	Resource efficiency	Water usage and consumption
	6	Energy source	Lower-emission sources of energy
Medium	7	Energy source	New technologies
	8	Markets	Access to new markets
	9	Resilience	Resource substitutes/diversification
	10	Resilience	Participation in renewable energy programs and adoption of energy-efficiency measures
	11	Resource efficiency	Buildings
	12	Products and services	R&D and innovation
	13	Energy source	Carbon market
	14	Resource efficiency	Modes of transport
	15	Products and services	Shifts in consumer preferences
	16	Energy source	Energy security and shift toward decentralized energy generation
	17	Products and services	Development and/or expansion of low emission goods and services
	18	Energy source	Supportive policy incentives
Ordinary	19	Markets	Access to new assets and locations needing insurance coverage
	20	Products and services	Climate adaptation and insurance risk solutions

Address important climate change risks

Risk 01 Increased cost of raw materials

Type
Market risk in transition risk

Description
Changes in policies and regulations by climate change lead to complex changes in the procurement, manufacturing, transportation, and overall supply chain of raw materials

Stakeholders
Supply chain

Possible pathway and means of impact

- The low-carbon transformation cost of the supply chain may be partly passed on to raw material prices, increasing production costs
- When the initial development of green technology can not catch up with the pace of policy transformation, the use of biodegradable and recyclable raw materials could increase procurement and operating costs
- In the long run, the supply, demand and price of raw materials will be adjusted, making it difficult to control the production cost budget

Measures in response to risks

- Screening alternative suppliers to reasonably control procurement costs
- Directing suppliers to develop in energy conservation and emission reduction through publicity, survey and others
- Establishing a low-carbon monitoring mechanism for upstream raw materials
- Accelerating green transformation and introducing new technologies and materials

Risk 02 Transition to lower emissions technology

Type
Technology risk in transition risk

Description
In order to reduce the energy consumption in the product production process, energy-saving transformation, process optimization and other improvements are implemented

Stakeholders
Customers

Possible pathway and means of impact

- More energy-saving devices and production technology are adopted, increasing capital investment
- The effect of newly invested production process/devices may not be as expected, resulting in the failure of meeting the product quality standard

Measures in response to risks

- Establishing an energy conservation and consumption reduction management team to set up energy conservation and consumption reduction targets
- Boosting the development of clean technology products such as new energy vehicles and photovoltaic inverters, and increasing the proportion of low-energy products
- Building up a product environmental footprint management mechanism
- Collaborating with customers on Energy Efficiency Program (EEP)

Risk 03 Increased stakeholder concern or negative stakeholder feedback

Type
Reputation risk in transition risk

Description
It is necessary to respond to inquiries from different stakeholders about the Company's response to climate change in its production and operations

Stakeholders
Investors
Customers

Possible pathway and means of impact

- The insufficient response to the concerns of all stakeholders or undesired climate risk management may affect the public's overall evaluation of the Company, which may affect the Company's market competitiveness in the long term
- Increasing management costs, and priority options for suppliers who adopt environmental protection and carbon materials may increase procurement costs
- Increasing investment in green/sustainable supply chain

Measures in response to risks

- Setting up a specialized sustainable development center to deal with issues related to sustainability and climate change, actively communicate with various stakeholders, and enhance the Company's reputation
- Disclosing policies and information related to climate change to ensure that all stakeholders accessing to relevant information, supervising and evaluating the Company's performance

Address important climate change risks (Continued)

Risk 04 Changing customer behavior

Type
Market risk in transition risk

Description
Customers are more concerned about the actual impact of climate change and prefer greener and more energy-efficient products

Stakeholders
Customers

Possible pathway and means of impact

- Product R&D costs rises due to more customers' preference shift to green products
- More customers who are influenced by their consumers' attention to environmental issues request the Company to give priority to the management of ecological impact, environmental protection and green operation
- Increasing product sales risk

Measures in response to risks

- Boosting the development of clean technology products such as new energy vehicles and photovoltaic inverters, and increasing the proportion of low-energy products
- Advocating the use of clean energy, such as building rooftop photovoltaics, purchasing green electricity and green certificates, etc
- Accelerating green transformation and introducing new technologies and materials
- Establishing a low-carbon monitoring mechanism for upstream raw materials

Risk 05 Heavy precipitation

Type
Acute risk in Physical risk

Description
The increase in the number of days of heavy precipitation and the increase in maximum precipitation during the year lead to a rapid rise in water bodies, threatening the safety of low-lying areas along rivers, lakes and coastal areas, and it is difficult for the drainage facilities and permeable areas of buildings/roads to effectively delay the runoff time, resulting in serious waterlogging

Stakeholders
Customers Employees

Possible pathway and means of impact

- Increasing risk of production downtime/delays
- Increasing the cost of factory architectural design and building materials
- Increasing safety risks for customers, employees and the public
- Increasing the risk of flooding of assets located in low-lying areas
- Increasing the cost of repairing or replacing damaged or destroyed assets
- Impairment of the value of existing factories and buildings
- Increasing insurance expense on the asset
- Disruption of normal business activities may involve breach of contract, compensation and legal liabilities

Measures in response to risks

- The location of the factories should not be in areas with high incidence of heavy precipitation
- Adding drainage facilities and pumps in flood-prone areas
- Cleaning storm sewer regularly, separating rainwater and sewage, and smoothing the drainage
- Establishing an emergency organizational structure and an emergency rescue team, and clarifying the responsibilities of relevant departments
- Formulating emergency response plans, organizing regular emergency drills, and preparing sufficient emergency supplies
- keeping close eye on the weather forecast, activating the emergency plan after receiving the warning, carrying out emergency measures according to the warning level, and reinforcing the facilities that may be affected in advance
- Arranging property insurance for the Company's properties

Risk 06 Carbon pricing mechanism

Type
Policy and regulatory risk in transition risk

Description
Charging carbon emitters to transfer the damage caused by emissions (i.e. external costs to the environment and society) to emitters, prompting emitters to change their business activities, thereby reducing emissions, is mainly operated by carbon trading and carbon tax

Stakeholders
Government and regulatory bodies
Supply chain

Possible pathway and means of impact

- The government may announce an increase in carbon pricing, tightening carbon market quotas or imposing a carbon tax
- The upstream supply chain of the manufacturing industry must optimize carbon emission management to comply with government regulations
- The relevant costs may be passed on to material and energy costs, increasing operating costs in the manufacturing industry

Measures in response to risks

- Monitoring the policy changes in each region and making adjustment according to the actual situation and customer needs
- Promoting the use of clean energy such as rooftop photovoltaics and purchasing green power to replace traditional fossil energy and accelerating the transformation of energy structure
- Formulating energy saving and consumption reduction targets, promoting energy saving and emission reduction, and raising energy efficiency from the management and technical levels
- Speeding up the construction of energy management system and developing the green manufacturing system

Address important climate change opportunities

Opportunity 01 Use of public-sector incentives

Type
Markets

Description
Responding to the government's energy conservation and emission reduction factories by participating in infrastructure construction in key new areas and establishing green factories, so as to obtain relevant subsidies or incentives

Stakeholders
Government and regulatory bodies

Possible pathway and means of occurrence

- Participating in the construction of new infrastructure in key areas, such as AI, charging piles, photovoltaic power plants, etc., to support the development of the industrial chain and obtain preferential policies
- Developing new energy projects in the park and promoting the complementary and efficient use of multiple energy

Measures in response to opportunities

- Appointing a government subsidy commissioner to regularly evaluate and report the government's policy incentives on energy
- Introducing policy incentives according to implementation possibilities and benefits
- Applying for provincial, municipal and national green factories and near-zero carbon factories

Opportunity 02 Diversification of business activities

Type
Products and services

Description
Expanding business to achieve diversified business activity portfolio, accelerating the integration of industrialization and informatization

Stakeholders
Customers

Possible pathway and means of occurrence

- Constructing complete new digital infrastructure, and promoting the integrated application of a new generation of information technology in all factors, the whole industrial chain and the whole value chain of the manufacturing industry
- Initiating new technological innovation, new product incubation, new model application, new business format expansion and new industry rise

Measures in response to opportunities

- Introducing the integration management system of industrialization and informatization, and carrying out relevant certification
- Formulating the *Business Continuity Operation Plan (BCP) Management Procedure* and establishing a benchmark enterprise for the integration of industrialization and informatization
- While monitoring the market dynamics and following the development trend of the industry, The Company's management reviews its own development status through industry research and internal seminars, deeply analyzing the Company's business/capability boundaries, strengthening the "Three Five-year" strategic deployment, and exploring the diversified and innovative development of the enterprise

Opportunity 03 Production and distribution processes

Type
Resource efficiency

Description
Adopting efficient production equipment and industrial processes, establishing intelligent workshops, optimizing distribution channels and inventory management

Stakeholders
Supply chain

Possible pathway and means of occurrence

- Adopting efficient production equipment and processes to increase capacity and productivity, improving workforce management and planning, and increasing revenue
- By optimizing distribution channels and inventory management to saving resources, reducing operating costs, enhancing supply chain management and ensuring product sales

Measures in response to opportunities

- Building digital factories, independently develop automatic units, automatic transportation robots, robotic arms and other equipment and corresponding online real-time monitoring systems to improve production efficiency
- Continuously optimizing the system structure, personnel organization and production mode through the development and application of advanced digital tools and automated processes, enabling the Company's production system to adapt to the continuous expansion of product lines and everchanging market needs
- Introducing multiple feed modes to reduce inventory pressure and lower operating costs

Address important climate change opportunities (Continued)

Opportunity 04 Recycling technologies

Type
Resource efficiency

Description
Developing a circular economy with efficient utilization and recycling of resources as the core, the principle of reduction, reuse and recycling, and low consumption, low emissions and high efficiency as the basic characteristics, and realizing the recycling of “resources - products - renewable resources”

Stakeholders
Supply chain

Possible pathway and means of occurrence

- Considering consumables reduction in product design, reducing product carbon footprint and raw material procurement costs
- Reducing transportation, warehousing and logistics costs per unit of product by lightweighting product and packaging
- Improving operations and production efficiency through waste recycling, and effectively reducing waste disposal costs
- Expanding business segments and enhancing business diversity and sustainability through the development of remanufacturing technologies and policy opportunities

Measures in response to opportunities

- Refining green product design and reducing material usage at the source
- Advocating material recycling and waste conversion
- Promoting zero waste to landfill
- Recycling and reusing water by establishing a reclaimed water reuse system

Opportunity 05 Water usage and consumption

Type
Resource efficiency

Description
Reducing water consumption and water loss in the production and operation activities of enterprises at the source, and promoting the recycling of water resources

Stakeholders
Employees

Possible pathway and means of occurrence

- Reducing water costs and treatment costs through water-saving technologies
- Mitigating the possible impact of climate change on water withdrawals through water recycling, safeguarding continuing production and operations
- Adopting water conservation measures in accordance with national and local policies to earlier meet possible regulatory requirements

Measures in response to opportunities

- Carrying out water-saving enterprise certification
- Introducing water-saving recycling systems such as reclaimed water reuse, and reducing water consumption and improving water resource utilization through the use of water-saving and water-recycling facilities
- Implementing AWS (The Alliance for Water Stewardship) certification to enhance sustainable water management
- Daily or regular publicity on water conservation in office areas, production areas and living areas

Opportunity 06 Lower-emission sources of energy

Type
Energy source

Description
Expanding the use of low-emission energy sources such as solar, wind, hydro, biomass, and geothermal energy in energy consumption such as production and transportation, and develop clean technology products to reduce greenhouse gas emissions

Stakeholders
Customers

Possible pathway and means of occurrence

- Increasing the demand on Luxshare Precision product by expanding the use of low-emission energy sources throughout the product life cycle, reducing the carbon footprint of products by researching and developing clean technology products, combing with customers’ and end-users’ demand for green products
- Reducing carbon emissions from the source and promoting the clean production by using low-emission energy sources in the production and operation activities of enterprises, saving the input costs of other energy-saving and emission-reducing technologies and projects

Measures in response to opportunities

- Layout of clean technology products such as solar energy, batteries, new energy vehicles, and data center power supplies
- Introduction of air energy and air compressor waste heat recovery
- Promoting the use of clean energy such as rooftop photovoltaics and purchasing green power to replace traditional fossil energy and accelerating the transformation of energy structure
- Formulating energy saving and consumption reduction targets, promoting energy saving and emission reduction, and raising energy efficiency from the management and technical levels
- Speeding up the construction of energy management system and developing the green manufacturing system