



**SINO-FRENCH**   
**SME FUND II**  
ESG REPORT 2020

## I.

**Foreword** p4

---

## II.

**2020 ESG Impact Highlights** p5

---

## III.

**Our Values** p6

---

## IV.

**Our Commitments** p7

---

## V.

**Sustainability Governance** p7

---

## VI.

**Our Approach** p8

- 6.1. As a Responsible Investor
  - 6.2. As a Partner to our Portfolio Companies
- 

## VII.

**Presentation of the Portfolio Companies** p10

## VIII.

**Portfolio 2020 ESG Performance Results** p15

- 8.1. Corporate Governance
  - 8.2. ESG Governance
  - 8.3. Business Ethics
  - 8.4. Human Resources
  - 8.5. Health & Safety
  - 8.6. Environment
  - 8.7. Operations and Supply Chain
  - 8.8. Community Involvement
- 

## IX.

**Companies in Focus** p26

- 9.1. Aihuishou
  - 9.2. Biöse Industrie
  - 9.3. Le Wagon
- 

## X.

**ESG Measures at Company Level** p27

- 10.1. ESG Metrics at the Management Company Level
  - 10.2. Cathay Foundation
- 

## XI.

**Our Ambition for the Years to Come** p29

---

## XII.

**Appendices** p30

- 12.1. Appendix A - Exclusion List

# I. Foreword

At Cathay Capital, we are committed to a strong set of values which structure the way we do business.

The concept of being useful is central to everything we do, including our approach to responsible investment. This approach is therefore deployed systematically across activities, funds, and asset classes. Our goal is to add value throughout the investment cycle.

We have built a global platform, bringing together entrepreneurs, investors, experts, management teams and leading corporations across continents and cultures, to share knowledge and provide the tools, networks and market access needed to scale while helping our corporate partners to innovate. From making the right introductions to designing the best go-to-market and M&A strategies, the Cathay family supports portfolio companies at every stage of their lifecycle. This includes addressing sustainability issues – both risks and, more importantly, opportunities – key to their business model.

Throughout this report, we use the word **sustainability beyond ESG, to encompass impact. We believe that a responsible investment team must both understand and promote the highest ESG standards and strive to maximise the positive impact that its investee companies can achieve.**

Over the last few years, our teams have increasingly adopted new perspective on financial returns, and have arrived at the pivotal point where impact and ESG have become tangible value creation drivers.

As a direct consequence, **we see tomorrow's greatest companies as not the largest, but the extraordinary that promote sustainable growth and the transformation of economies for a more open and inclusive world.**

But extraordinary companies cannot be built in silos and the transition will take an ecosystem level response across regions, sectors and up and down the value chain. Under this overarching sustainability vision, we have developed responsible investment approaches tailored to each of our two main investment strategies. For Cathay Capital Private Equity's small- and mid-cap

funds, sustainability is a transformation lever through which we work jointly with successful and committed entrepreneurs and management teams to promote resilient, future-ready, and global leaders.

The publication of our first ESG Report in 2017 was a milestone for Cathay Capital. It enabled to unlock insight into how the Fund and our invested companies were performing on Environmental, Social and Governance (ESG) aspects. Since 2017 onwards, we measure our improvement, year on year, and leverage the knowledge of our ESG footprint to pursue efforts and further embed ESG in our activities.

This is why Cathay Capital publishing its fourth ESG report for **Sino-French SME Fund II** – which will not only reaffirm our commitment to responsible investment, in line with our company values, but also allow us to measure the progress we have made on key, material ESG issues.

Among our **Sino-French Small Cap Fund 2020** investments, we are proud to welcome three new companies of our **Sino-French Small Cap Fund** to the scope of this new report, acquired over the course of 2020: Biose Industrie, Le Wagon, FuturMaster and EasyVista.

At Cathay Capital, our hope is that our portfolio companies – whether already involved in the process in 2017, or new to the 2020 this report's scope, will continue to demonstrate progress on ESG matters over time, with the help of some already leading the way, such as France's Le Wagon or China's Aihuishou.



MING-PO CAI  
Founder, Chairman and CEO at Cathay Capital

# II. 2020 ESG Impact Highlights

2020 has been an active year during which ESG matters have progressed significantly. Main achievements and progresses during the year include:

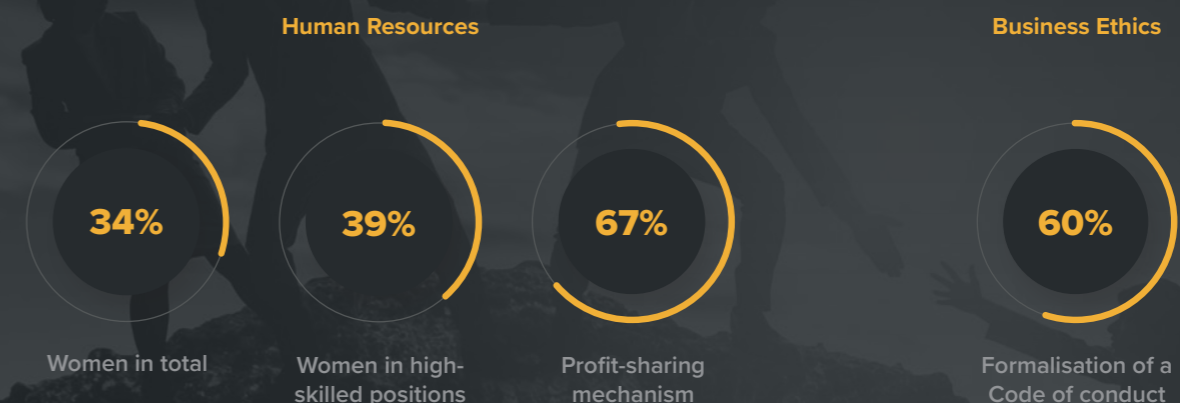
- We signed the United Nations Principles for Responsible Investment (UN PRI), committing to monitor and report on ESG at an even more granular level than we did before;
- We also expanded our ESG perimeter and decided to commit to the UN Guiding Principles on Human Rights and the OECD Guidelines for Multinational Enterprises;
- Also, the management company created an executive-level sustainability position and recruited a Chief Impact Officer. In parallel, CCPE significantly moved towards parity with a 2020 ratio of 47%;
- We have reviewed and reinforced our ESG reporting system, with upgraded reporting KPIs (data security, actions promoting employee's wellbeing, sensitivity to raw materials reducing emission of greenhouse gas...) together and with the implementation of the Reporting21 software tool: this digital platform enables us i) to collect data in a more consistent way and ii) to share it back with

management teams and boards;

- We have introduced Sustainability Development Goals ("SDG") to our portfolio companies with the objective to help them to measure their respective impact footprint. Progress will be measured annually at board level.
- In a very concrete way, the sustainability path we have engaged has already generated genuine impact on some portfolio companies:
  - As many stakeholders engage with companies in the IT sector to promote diversity and inclusion of women and underrepresented minorities, **Le Wagon** takes action through its "Women in Coding" sessions and the rollout of anti-discrimination training. Anticipating stakeholder interest in sustainable IT infrastructure, **Le Wagon** is also developing awareness of the environmental impacts of IT and digitalization among staff and students.
  - As human capital is essential to **Biose's** success, the company has introduced a profit-sharing scheme and implemented a robust skills development strategy. Biose is also implementing a training program

in Auvergne, financed by the region and focused on microbiote environment and technicalities to promote education and employment.

- **Aihuishou** has significantly strengthened its business ethics framework, notably through implementing a whistleblowing procedure, and has achieved a robust and internationally recognised certification standard on cybersecurity (ISO 27000).
- Highlights of 2020 main portfolio results:
  - Most ESG KPIs show stability or improvement on the historical portfolio perimeter of the Fund (reported as "2020 proforma"), reflecting on the consistency over time of portfolio companies' ESG developments;
  - We have included in this 2020 ESG report 4 new invested companies (to reach a total of 16). This inclusion has an impact on the evolution of several reported KPIs.
  - Such results together with the actions we have undertaken in 2021 give us a solid confidence on the ability of portfolio companies to improve significantly in the 2021 reporting.
  - Key highlights:



These 2020 progresses create a strong encouragement to further explain ESG fundamentals, carry sustainability values, and guide our portfolio companies towards higher awareness and concrete action plans.

Drawing upon this renewed ambition, our Management Company CCPE elected for the **SFDR art 8 classification** for the

latest fund under fund raising (Small Cap 4) and intends to commit under the same classification for next Private Equity funds to come. This choice highlights our commitment towards sustainable investments that promote elected environment and/or social elements.

The next steps will be i) reinforcing our ESG Due Diligence process to bring even

greater focus on ESG-related opportunities and sustainable value creation early in the investment cycle, ii) initiating climate change accountability and mitigation by working closely with portfolio companies to develop low-carbon products and services and diminish their overall environmental footprint, iii) develop a set of specific ESG metrics & targets that we will track closely with portfolio companies.

## III. Our Values

We are one **globally integrated, agile, and diverse team** driven by the underlying principles of **sincerity, doing what we say** and **being useful** advisors, connectors, and stewards to our entire ecosystem.

We pride ourselves on **being good people** and we are **invested in the long-term success of our partners** both in the good times and the bad.



### BEING USEFUL

We build trust by constantly being useful to our ecosystem in achieving their goals.



### DO WHAT YOU SAY

Sincerity is the universal language.



### DETERMINATION

If we don't work hard today, we won't have a rice bowl tomorrow.



### GRATEFULNESS

When we drink water, don't forget those who dug the well.



### DIVERSITY

We are one global team, with various backgrounds and cultures, for one world.



### CHANGE THE WORLD FOR THE BETTER

We want to leave the world better than how we found it.

## IV. Our Commitments



We are committed to being a **responsible investor**, working with companies who share our vision and respecting recognized international standards on sustainable investment.

As such, we signed the **United Nations Principles for Responsible Investment (UN PRI)**, committing to monitor and report on ESG.



We are committed to the **UN Guiding Principles on Human Rights** and the **OECD Guidelines for Multinational Enterprises**.

In this context, as explained below, we address the issue of Human Rights systematically in our pre-investment due diligence approach. In addition, we encourage our portfolio companies to ensure compliance with the International Labor Organization's ("ILO") Core Labor Standards and Basic Terms and Conditions of Work, as well as the International Bill of Human Rights, in line with the UN Guiding Principles on Business and Human Rights.



## V. Sustainability Governance

A central milestone of the past year has been the creation of an executive-level sustainability position, Cathay Capital's Chief Impact Officer, highlighting the importance of the issue to the Group. Our Chief Impact Officer's first mandate was the steering of a structural and strategic process, with the help of external experts and advisors, to define a broader sustainability vision, roadmap, investment procedure, and investment tools applicable to both Cathay Capital Private Equity and Cathay Innovation. Building on solid track records on both sides, this large-scale, strategic project has involved all of Cathay's management team and is ongoing at this stage.



# VI. Our Approach


CCPE formalised its ESG management system in 2017. It integrates ESG issues in all stages of the investment process and allocates Cathay's roles and responsibilities while accompanying portfolio companies in the adoption of sustainable practices and in implementing continuous improvement with regards to these issues.


The ESG procedure sets out CCPE's commitments and key ESG criteria considered in investment decisions:

- 

**SAFEGUARDING**  
its activities from risks posed by ESG matters, thus minimizing any subsequent negative externalities
- 

**PROMOTING**  
good practices and encouraging positive externalities on all stakeholders
- 

**ENCOURAGING**  
the efficient use of natural resources, reducing greenhouse gas emissions in portfolio companies' value chains, and protecting the environment
- 

**COMPLYING**  
with ESG-regulations and standards, such as the International Labor Organization Core Labor Standards, and aligning with good industry practices
- 

**ENCOURAGING**  
portfolio companies' in seizing the potential for positive impacts and opportunities in their business activities, such as strengthening their supply chain structures and management

## 6.1. AS A RESPONSIBLE INVESTOR

This section, in accordance with article 173 of the French Law on the Energy Transition and Green Growth ("Loi sur la transition énergétique et la croissance verte"), outlines how Cathay Capital integrates environmental and social issues within its activities as an investor.

The first pillar of Cathay's ESG approach focuses on ensuring that ESG issues are accounted for at all stages of the investment process, from the pre-qualification to the exit stage.

In the initial stages of investment (deal qualification and LOI stages), potential portfolio companies' activities are

screened to ensure compliance with CCPE's Exclusion List (e.g. trade in wildlife or wildlife products regulated under CITES, or gambling, casinos and equivalent enterprises). No investment will be made in a company engaged in any of the activities mentioned on the Exclusion List.

A formal company report is then developed on any associated material ESG matter based on the initial review and investigation of public information regarding any adverse impact on local communities or the environment. The findings from the ESG report are discussed at the local executive committee level to identify any potential NO GO decisions.

If a company passes the initial qualification stages, Cathay Capital then launches

ESG due diligence which is performed by qualified, independent, external experts to assess the ESG risks and impacts of the proposed portfolio company's operations. Notably the report notably contains an assessment of operations into high, medium and low risks, based on the Commonwealth Development Corporation (CDC) criteria and sector profiles.

For all operations categorized as high risk, the deal team requests the independent external experts to assess the prospective company's compliance with Cathay Capital's ESG requirements, and to carry out a gap analysis by applying relevant standards and guidelines. For example, for existing operations, risks and impacts must be assessed through an environmental and social audit.

If any material adverse impact or performance has been identified, an ESG action plan is defined and agreed upon with the potential portfolio company's management team to prioritize and define key actions, responsibilities, deliverables, compliance indicators and a reasonable time frame to remedy any areas of non-compliance. The key takeaways from ESG due diligence are then summarized and presented to the global partners and advisory committees along with the assessment of compliance with Cathay's ESG Requirements and an ESG action plan if appropriate.

During the closing stage, the deal team will only complete an investment in a proposed Portfolio Company if:

- The Portfolio Company has agreed upon and signed the ESG Action Plan if relevant; or
- Any material adverse impact has been resolved in accordance with the ESG requirements.

During the holding stage, the deal team follows up on the relevant action plan and more generally on continuous improvements on a regular basis, and ESG topics are addressed, on regular basis, by the company's board of directors or on a minimum yearly basis.

## 6.2. AS A PARTNER TO OUR PORTFOLIO COMPANIES

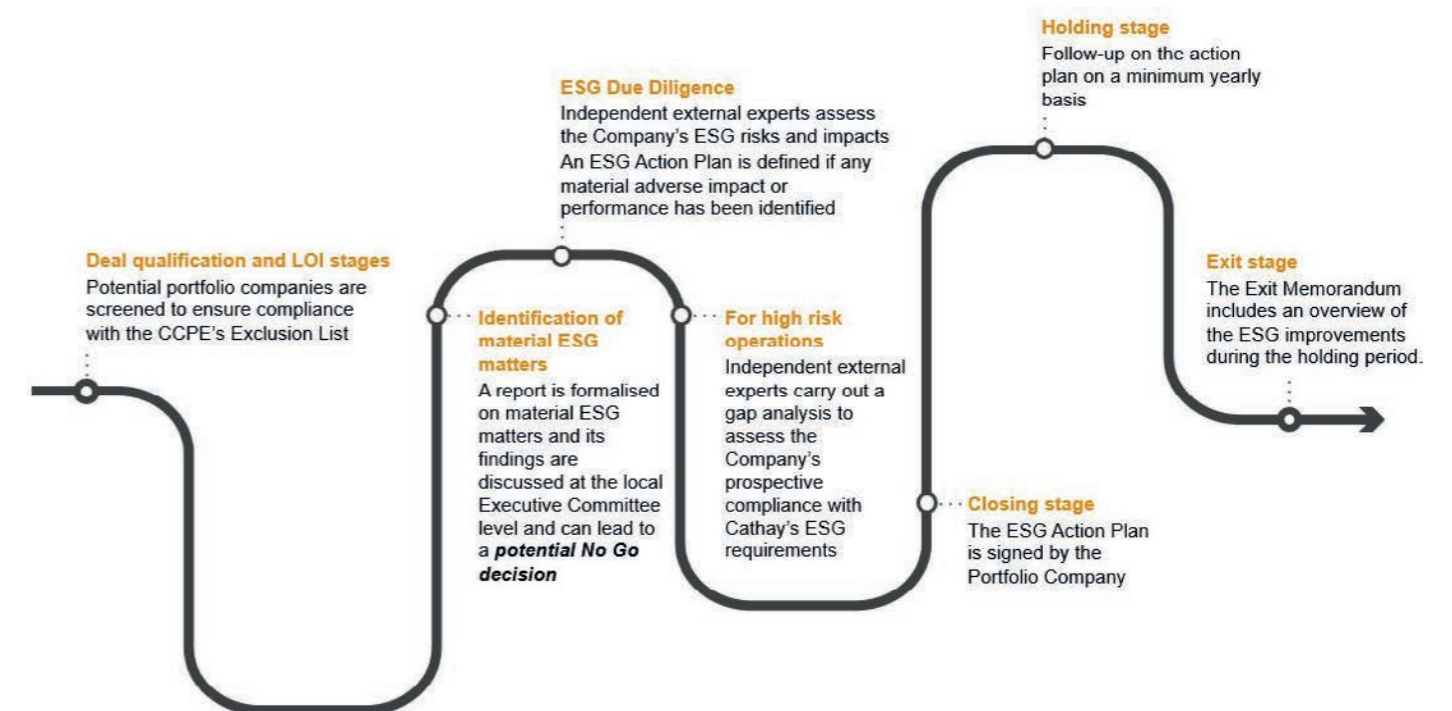
Cathay Capital is committed to accompanying its portfolio companies in the adoption of sustainable practices, controlling for adverse impacts, and embracing opportunities linked to ESG. In order to do so, Cathay monitors both positive and adverse impacts and effects on the environment and all stakeholders (including employees and any affected communities) on a regular basis. As mentioned previously, ESG topics are addressed at least once a year by the companies' boards.

Cathay Capital has taken this mature approach one step further by publishing, on an annual basis, information regarding the ESG performance of the portfolio companies composing its Sino-French Small Cap Fund, with the goal of extending to all future Funds. By publishing reports, CCPE aims to provide full transparency on its portfolio companies' impact on the environment and society to its key stakeholders, and to implement continuous improvement.

As such, for the third year in a row, in March 2021, Cathay teams both in France and China distributed an ESG questionnaire to each portfolio company, as part of its 2020 reporting campaign. The data was consolidated for publication in the present ESG report.

The annual questionnaire was revised in 2020 with a selection of new indicators with the entire reporting process being implemented on the Reporting 21 online platform. Taking inspiration from the aspects covered in ESG due diligence at the time of investment, the questionnaire include the following dimensions: Corporate and ESG Governance, Business Ethics, Human Resources, Environment, Health & Safety, Supply Chain and Community Involvement. The companies were also asked to provide qualitative information and comments as part of the questionnaire to illustrate and explain their answers.

As such, Cathay Capital has also aligned with the common "portfolio companies" ESG indicators elaborated by France Invest in its Recommendations to facilitate the dialogue between GPs and LPs. Further, considering the geographical specificities of the Sino-European Small Cap Fund II, Cathay added complementary indicators to the annual ESG reporting of portfolio companies, which enables the measurement of performance on key matters such as health and safety, and social dialogue, to name a few.



# VII. Presentation of the Portfolio Companies

For the year 2020, Cathay extended the reporting scope to include three new portfolio companies acquired in 2020: Biose Industrie, Le Wagon, FuturMaster and EasyVista. The following section presents independently each of the 16 portfolio companies that participated in the 2020 ESG reporting campaign (except EasyVista which ESG metrics should be included as part of 2021 report). Section seven details a series of indicators that consolidate the ESG performance of all portfolio companies.



## Aihuishou

**Investment date: December 2016**

Aihuishou is a listed China's largest electronics recycling services platform, focusing on used cell phones, tablets, laptops, and smart digital products. Cathay has helped the company in their next phase of development to provide Chinese consumers with safe and convenient services to recycle their idle items and contribute to environmental protection efforts.

Aihuishou is the first mover with the largest collecting network in the 3C products recycling market. The company standardizes the collecting process and ensures data security, providing convenient and trustworthy one-stop recycling services for used mobile phones and other 3C products.

*Minority ownership*



## AD Education

**Investment date: February 2017**

Created in 1990, AD Education is now the leading higher education platform in France dedicated to education in the creative fields, with over 4,900 students across seven schools spread across 11 campuses.

Cathay has helped the company accelerate its international expansion, both in Europe through a "buy-and-build" strategy and in China by signing strategic partnerships to attract Chinese students, exporting French know-how in creativity and design to the world.

*Minority ownership*



## The Independents

**Investment date: July 2017**

Created in 2017 following the merger of K2 and Karla Otto, The Independents is a creative agency that offers communications, event management and marketing services to its clients in the fashion, luxury, beauty, and lifestyle sectors. While each company operates under their original names, The Independents together have over 400+ experts in fashion and luxury, specifically knowledgeable on China's consumer market, with subsidiaries in New York, Los Angeles, London, Paris, Milan, Tokyo, Shanghai, Beijing, and Hong-Kong.

*Minority ownership*



## Jiuye

**Investment date: February 2018**

Founded in 2014 and based in Shanghai, Jiuye provides full cold chain solutions for B2C companies in the fresh & frozen food industry. It supports clients' online sales on various platforms by providing services for fresh goods procurement, long-route transport, warehousing and last-mile delivery.

*Minority ownership*



## Righton Gene

**Investment date: January 2018**

Established in 2010, Righton Gene (formerly known as Yuanqi Bio) is a leading IVD company focused on the development, manufacturing, and distribution of molecular diagnostic test kits primarily using multiplex RT-PCR, NGS, and ddPCR. The company's extensive product line covers diagnosis, prognosis, drug selection, and therapeutic monitoring for leukaemia, lymphoma and solid tumour patients. Righton was listed on the Sci-Tech section of the Shanghai Stock Exchange on May 17, 2021 with the stock number 688217, with a closing increase of 477% on the first day.

*Minority ownership*



## Labelium

**Investment date: February 2018**

Labelium, a consulting agency specialised in online marketing and digital strategy, aims to become a leader in data consulting and digital marketing. As a reference agency in its sector, both in France and globally, Labelium has become a trusted partner for major international groups, including Louis Vuitton, Dior, L'Oréal, Lacoste and Carrefour.

*Minority ownership*

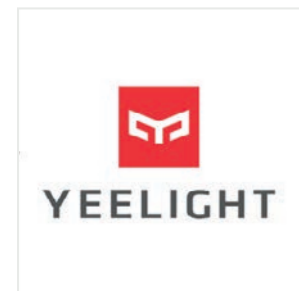


## Soocas

**Investment date: February 2018**

Founded in 2015, Soocas (Shenzhen) Technology Co., Ltd. is a digital native vertical brand dedicated to electronic product for personal care such as electric toothbrushes, water flossers, shavers, and hairdryers. Based on customers' evolving needs, Soocas conducted independent R&D to continuously innovate and provide advanced, intelligent, high-performance, and high-quality products and services for personal care. Soocas is highly competitive in terms of technology, supply chain and channel layout. Three of its products won the 2018 IF Product Design Award and the company is particularly well known for its electric toothbrush.

*Minority ownership*



## Yeelight

**Investment date: October 2018**

Founded in 2012 and located in Qingdao, Yeelight is the leading innovative smart lighting company that develops and produces smart home lighting products and provides smart lighting solutions. Having built full range of residential lighting products and penetrated main online sales channels, some offline and overseas channel, Yeelight has already become a well-known brand in the market.

*Minority ownership*



## Brass Master

**Investment date: September 2018**

Founded in July 2013, Brass Master is an original designer and manufacturer of brass-made handicrafts. Brass handicrafts are fully made of brass as raw material and decorated using the brass colouring technique, of which the company is the original developer and owns patents. Brass Master sells and distributes its products via online channels only, including Tmall, Youpin, WeChat and official website.

*Minority ownership*



## Finance Active

**Investment date: March 2019**

Founded in 2000, Finance Active is the leading provider of debt management solutions for local authorities in Europe. Its "cloud-native" services now include local public finance planning, collateral management, and foreign exchange management solutions. It enables treasury departments to automate and digitize critical tasks such as liability consolidation, reporting and real-time market benchmarking. Finance Active is also increasingly present in companies and financial institutions, both public and private. Finance Active namely holds a solution for loaners, allowing them to dematerialize and fluidify their customer relations.

*Minority ownership*



## Medifa

**Investment date: July 2019**

Medifa Healthcare Group is a designer and manufacturer of ready-to-use modular operating room systems, mobile operating tables and accessories used in operating rooms and other facilities requiring aseptic rooms. The company has successfully transformed itself from a contract manufacturer to a supplier of equipment and infrastructure solutions for mobile operating rooms through targeted acquisitions and developments, positioning itself as a "One-Stop-Shop" for end customers.

*Minority ownership*



## OrderPlus

**Investment date: July 2019**

Founded in May 2014, OrderPlus is one of the leading players in China's e-commerce exports sector, primarily targeting the fashion space. Leveraging China's efficient, responsive and value-for-money manufacturing capabilities, the company sells China products into global markets with sophisticated and effective marketing method.

*Minority ownership*



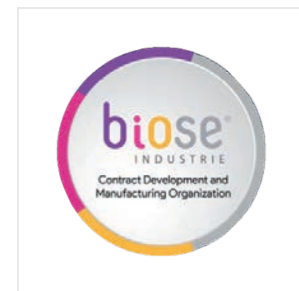


## Le Wagon

Investment date: March 2020

Founded in 2013, Le Wagon is a coding school open to all, offering short and intensive on-site trainings or “coding bootcamps” in web development and data science. As such, Le Wagon offers 9 to 24 week-long full-time or part time trainings on programming and web development core concepts. Since investment, Le Wagon extended its range of training services with (i) opening of B2C Data Science programs, in both Full time and Part time mode, (ii) launch of a B2B-dedicated tailor-made offering at the destination of mid to large corporates, with dedicated team and resources, and (iii) global expansion of Core Campuses through franchise buy-backs to broaden Le Wagon’s brand and successful boot-camp model.

Minority ownership



## Biose Industrie

Investment date: July 2020

Founded in 1951, Biose Industrie is a French Contract Development and Manufacturing Organisation (CDMO) dedicated to Live Biotherapeutic Products. The company is active in the development and manufacturing of Freeze-dried bacteria as Drug Substance and Drug Products. Biose’s clients require above all a reliable traceability, a strong quality process and good manufacturing practices.

Minority ownership

FuturMaster

## FuturMaster

Investment date: June 2020

Founded in 1994, FuturMaster is the leading APS (Advanced Planning and Scheduling) software developer in France. Its software allows companies to increase sales by improving predictions and decrease costs by optimizing supply processes, boosting margins and working capital.

Minority ownership



## EasyVista

Investment date: September 2020

Easyvista is a French company founded in 1988 by Sylvain Gauthier (CEO) and Jamal Labeled (COO), employing 250 people. The company is offering two main IT Service Management software (“ITSM”): Service Manager (core software to manage IT back-office tasks) and Self-Help (to create intelligent knowledge bases that employees can access directly to solve their problem themselves), the latter being also positioned as a Customer Service Management (“CSM”) solution.

Minority ownership

# VIII. Portfolio 2020 ESG Performance Results

In order to better report on CCPE's portfolio's ESG performance and progress, 2020 indicators are presented both on pro-forma (scope of companies providing data for the year 2019) and complete (15 companies) perimeters. It is to be noted that a lesser percentage in 2020 than in 2019 (without pro forma) does not mean a poorer performance but reflects the integration of new companies to the scope of the analysis.

In addition to the extension of the reporting scope, the 2020 campaign provided the opportunity to improve the data collection and the data quality of reported ESG indicators. Data quality for historical ESG data (for 2019) was also improved. **2019 indicators as presented below remain comparable with the data presented in the 2019 ESG report.**

CCPE will continue to work towards improving its ESG reporting in the future and ensuring comparability of indicators over several years.

After remarkable progress achieved in 2019, several portfolio companies

have continued to improve. However, the COVID-19 crisis halted some developments and limited ambitious initiatives on ESG matters such as starting to measure carbon footprint. Despite the seismic impact of the pandemic, Cathay is very proud to note that in 2020, at pro forma and full scope, most ESG performance indicators at the portfolio level have remained stable. In some cases, such as the share of women in executive committees, we are even witnessing a substantial increase for the 2nd year in a row. Similarly, the share of women in high-skilled positions increased by six points at 39% in 2020 compared to 33% in 2019. We also found that in 2020, 60% of companies formalised and implemented a responsible procurement policy compared to 42% in 2019.

New indicators were also introduced in 2020 on hot topics such as the number of data security breaches experienced during the year, sensitivity to raw materials or the physical vulnerability to climate change.

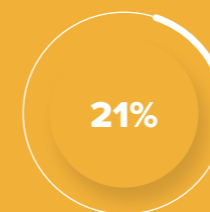
### 8.1. CORPORATE GOVERNANCE

In 2020, 38% of CCPE portfolio companies presented a unitary board structure, composed of non-executive and executive members, whilst 54% have a dual board structure, comprising of a Supervisory Board and a Board of Directors.

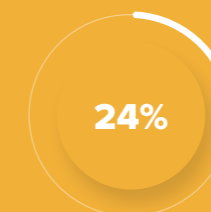
Cathay Capital is committed to promoting gender equality in portfolio companies' workplaces, particularly by ensuring women are represented on companies' boards. In 2020, 23% of board members were women (24% pro forma), which represents a two-point increase compared to 2019.

In 2020, portfolio companies reported for the first time on corporate values and mission statements with 67% indicating that they had both formalised corporate values and defined a mission or an objective.

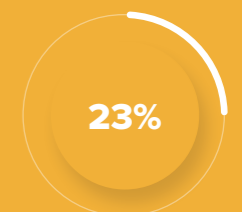
Share of the women in executive committee



2019



2020 pro forma



2020





- **38% | Unitary** : Management Board
- **8% | Dual** : Executive Committee and Advisory Board
- **46% | Dual** : Executive Committee and Supervisory Board
- **8% | Other**

KPI	2019	2020 PRO FORMA	2020
Formalisation of corporate values	-	-	67%
Definition of a mission/objective	-	-	67%
Existence of an anonymous grievance scheme	50%	42%	40%
Share of companies with no litigation process over the past year	80%	80%	73%

**8.2. ESG GOVERNANCE**

Following the identification of corporate values, 47% of portfolio companies began to identify and map the positive and negative impacts of their activities according to the United Nation's Sustainable Development Goals (SDG). While further diligence is still required, along with input from company management teams or specialised experts if relevant, the initial results are highly encouraging. Cathay Capital views these first attempts as positive indicators that will pave the way for meaningful developments in the years to come.

Cathay Capital also firmly believes that a governance system for ESG issues within a company is vital. This ensures that ESG policies, procedures and initiatives are appropriately implemented and managed while measuring the companies' ESG performance through a dedicated set of key performance indicators.

In 2020, among the portfolio companies of the Sino-French SME Fund II, 53% have appointed a person responsible for ESG issues, an improvement compared to 2019 (50%), and 53% indicate that they are monitoring ESG issues at board level.

A third of portfolio companies answered positively when asked if they have formalised a CSR policy or strategy, showing that concrete management processes are emerging to handle ESG issues and opportunities.

**Impact on the Sustainable Development Goals identified by portfolio companies**

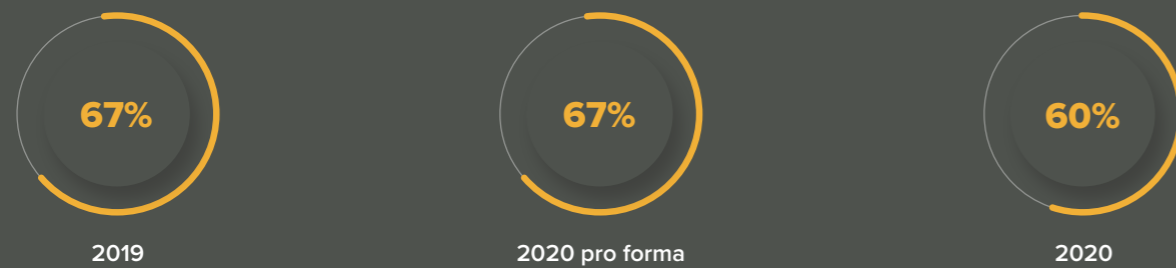
PORTFOLIO COMPANIES	SDGs Identified
FinanceActive	
Guanghua Education	Quality education
OrderPlus	
Soocas (Shenzen Technology)	Good health and well-being
Yeelight	Affordable and clean energy + Responsible consumption and production
Medifa	Good health and well-being
The Independents	
Labelium	
Shanghai Rightongene Biotechnology	Good health and well-being
AD Education	Quality education
Brassmaster	
Aihuishou	Responsible consumption and production + Climate action
Biose	Good health and well-being
Le Wagon	Quality education
FuturMaster	

KPI	2019	2020 PRO FORMA	2020
Appointment of an ESG manager/responsible	50%	58%	53%
Monitoring ESG issues at Board level with KPIs	67%	67%	53%
Existence of a CSR Sustainability policy or strategy	-	-	33%

KPI	2019	2020 PRO FORMA	2020
Appointment of a Business Ethics manager/responsible	50%	50%	40%
Data security breaches	-	-	0%
Existence of an information systems security policy	-	-	60%

### 8.3. BUSINESS ETHICS

Formalisation of at least 1 document on Business Ethics such as a Code of Conduct and/or ethical guidelines



The management and monitoring of business ethics help in safeguarding the company from any risks associated with its activities, and having better control over these risks, if there are any.

In 2020, 40% of portfolio companies had appointed a Business Ethics Manager, a slight decrease compared to 50% in 2019 but stable at pro forma (i.e., 50%).

The adoption of a code of conduct or ethical guidelines is also considered to be a good practice and is useful in defining companies' core values and encouraging professional and appropriate attitudes both in the workplace and through relationships with company stakeholders (e.g., clients). In 2020, 60% of companies have implemented a code of conduct or ethical guidelines (67% pro forma).

On the rising subject of cybersecurity, both new indicators on the questionnaire revealed great promise. Despite the growing risks due to the pandemic, none of the portfolio companies reported any data security breaches. Further, the presence of an information systems security policy in nearly two-thirds of the portfolio companies indicates that the previous performance is no coincidence and advocates for further expansion of best cybersecurity practices.



### 8.4. HUMAN RESOURCES

In total, CCPE's portfolio companies' workforce reached 7,742 FTEs, of which 34% are women and 25% are permanent contracts. The total workforce increased by approximately 4% since 2019.

#### Women in total



#### Women in high-skilled positions



The share of permanent contracts significantly increased from 18% in 2019, to 25% in 2020; and remains low overall. However, the low-level of permanent contracts can largely be explained when considering the context of portfolio companies in China: as per Chinese laws and regulations, which establish that employment contracts must be re-signed every three years with permanent contracts may be signed only after the third contract renewal. When excluding China based companies from the calculation, the share of permanent work contracts is 94%.

Over the course of 2020, portfolio companies recruited a total of 2,504 new employees, of which 36% were people under 26 years old. As a likely aftermath of the pandemic, the total number of recruitments decreased significantly compared to 2020 (i.e., -44%).

To remain competitive and provide employees with the right working environment, the proper management of human

resources topics is vital. In 2020, 73% of companies have appointed a HR Manager (75% pro forma, a slight decrease from 2019).

As our portfolio companies strive to maintain the growth of their talents, the percentage of employees has remained stable from 71% in 2019 to 69% in 2020. For reference, 47% of portfolio companies provided information on this KPI, they represent 71% of the total number of employees within the Sino-French Small Cap Fund.

The increase in the percentage of companies that implemented a profit-sharing scheme mechanism, from 33% in 2019 to 67% in 2020, can partly be explained by a more comprehensive reporting scope (all profit-sharing mechanisms, legal or voluntary).

At Cathay, we firmly believe that actions to promote employee wellbeing open a direct pathway to long-lasting growth. As

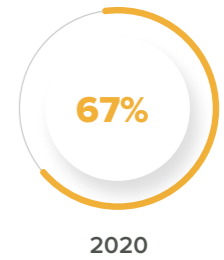
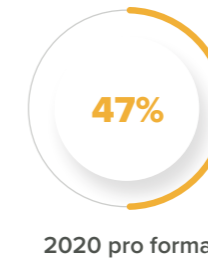
the COVID-19 crisis shook the fundamentals of so many well-established workplace routines, our portfolio companies were emboldened to reinvent themselves. New processes were developed and actions to support employees were implemented by 87% of our portfolio companies.

The implementation of flexible hours presented here does not take into account adaptation of working hours that were a direct consequence of lockdowns due to the COVID-19 global outbreak. More than 50% of our portfolio companies promoted employee health and wellbeing having already subsidised gym memberships and mental health support, introduced walking meetings or lengthened parental leave.

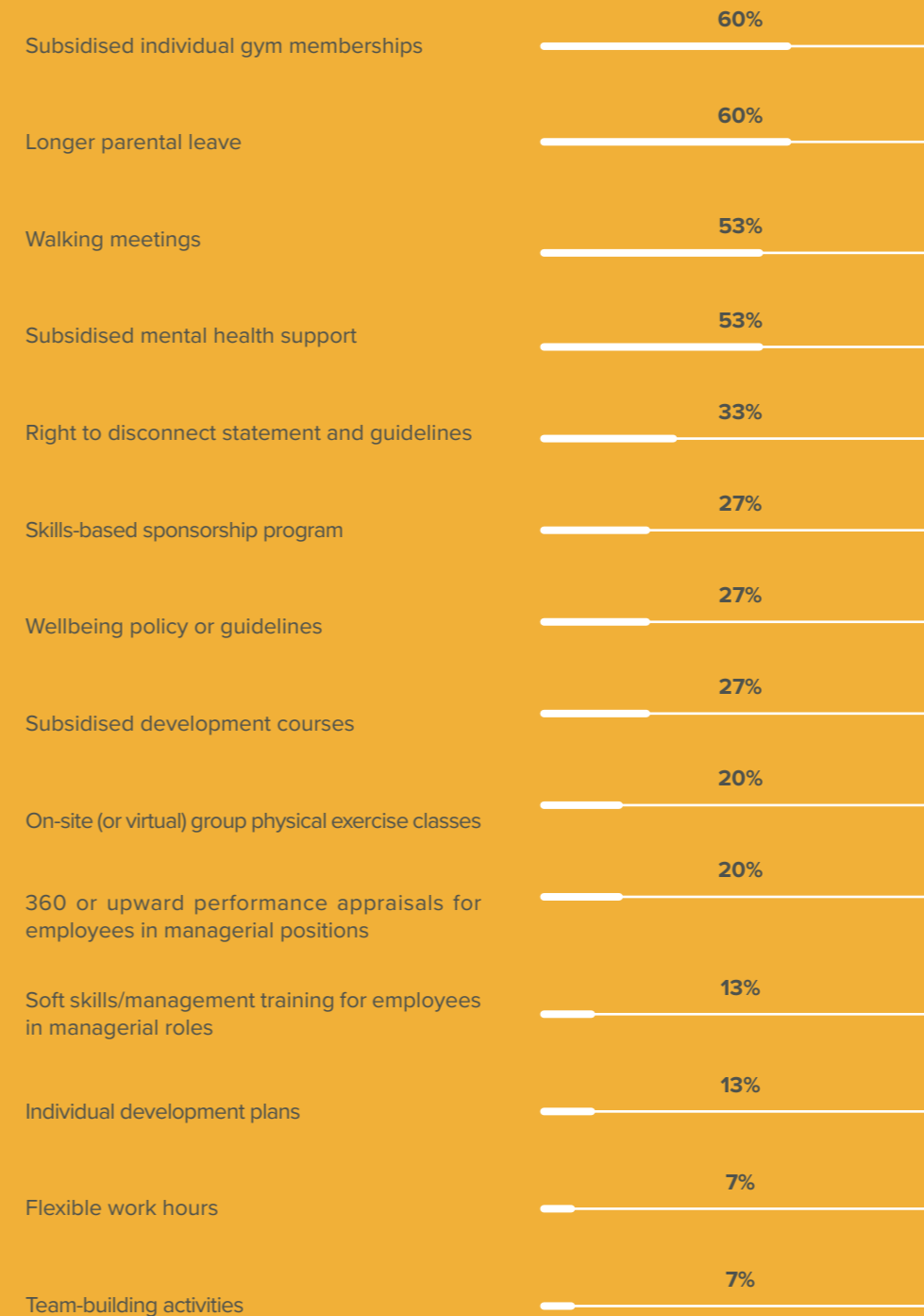
Team building activities appear as exceptionally low which is a direct consequence of the COVID-19 pandemic.

KPI	2019	2020 PRO FORMA	2020
External hires that are under 26 years old	-	-	36%
Permanent work contracts	18%	22%	25%
Permanent work contracts (excluding Chinese companies)			
Employee engagement of satisfaction survey	-	-	40%
Appointment of a HR Manager	92%	75%	73%
Percentage of employee trained during the year (results only concern portfolio companies that answered the question in 2020 survey)	71%	71%	69%

Implementation of a profit-sharing mechanism



Share of portfolio companies that have implemented employee wellbeing actions



**8.5. HEALTH & SAFETY**

The fact that the share of portfolio companies that perform health and safety trainings remains stable at 40% in 2020 compared to 42% in 2019 shows that Health & Safety issues are duly managed in portfolio companies for which such issues are material. Nonetheless, Cathay reaffirms its wishes for all its portfolio companies of the Fund to have implemented a safety, hygiene, and security policy. When during ESG due diligence the implementation of health & safety programs were identified as necessary, dedicated actions were included in the portfolio companies' roadmap for 2021.

**Implementation of a Health & Safety policy**



**Implementation of a Health & Safety trainings**



**8.6. ENVIRONMENT**

In the context of the rising concerns around climate change, and in alignment with Cathay's commitment to protecting the environment per its ESG Procedure, Cathay Capital strives to ensure that portfolio companies implement initiatives to measure and reduce their environmental footprint and promote the use of renewable energy.

**Initiatives for the reduction of the environmental footprint**



**Types of initiatives that were implemented, percentage of portfolio companies**



In 2020, 47 % of companies implemented initiatives (at least one) to reduce their environmental footprint, a significant decrease compared to 2019, attributable in part to the effects of the COVID-19 pandemic. However, several portfolio companies have taken this a step further and are implementing a whole series of initiatives. Three portfolio companies (Soocas, Medifa and Aihuishou) have implemented at least three of the initiatives presented above.

For the portfolio companies that did not report any measures in 2020, dedicated initiatives were identified and integrated to their roadmap for 2021 when relevant.

Following the identification of positive impact according to the Sustainable Development Goals, 27% of portfolio companies reported that their products and services are contributing to avoiding CO<sub>2</sub> emissions. While further diligence is still required, along with supporting details to precisely identify which products are contributing to this KPI, the preliminary results indicate that the Fund is already actively embarking on the transition towards a low-carbon economy.

In addition, a significant share (40%) of portfolio companies in 2020 reported being sensible to raw material issues with limited associated risks.

KPI	2019	2020 PRO FORMA	2020
Implementation of an environmental policy/strategy	-	-	20%
Measurement of carbon footprint	0%	0%	0%
Portfolio companies with products/ services that contribute to avoiding CO <sub>2</sub> emissions	-	-	27%
Physical vulnerability to climate change with a significant risk identified	-	-	0%
Physical vulnerability to climate change with no significant risk identified	-	-	20%
Sensibility to raw material issues with a significant risk identified	-	-	7%
Sensibility to raw material issues with no significant risk identified	-	-	40%

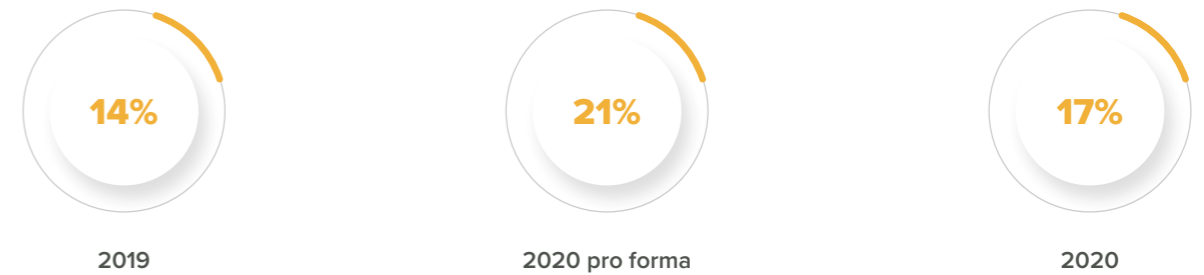
**8.7. OPERATIONS AND SUPPLY CHAIN**

In 2020, 17% of portfolio companies have integrated ESG criteria in the selection of suppliers and subcontractors, showing a slight increase compared to 2019. Moreover, 60% of companies have implemented a responsible procurement policy which is a significant improvement compared to 42% in 2019. Indeed, portfolio companies at constant 2019 perimeter are increasingly taking into account ESG considerations while new portfolio companies are onboarding and need to implement similar initiatives.

**Implementation of a Responsible Procurement policy**



**Integration of ESG clauses in suppliers and subcontractors contracts**



**8.8. COMMUNITY INVOLVEMENT**

Cathay Capital believes that in addition to providing direct benefits to local societies, community involvement has the potential to contribute to key business goals such as employee retention (i.e., boosting employee pride, belonging, motivation) and improving company reputation. 33 % of portfolio companies supported community projects (42% pro forma), which is a decrease from 2019 attributable in part to the effects of the COVID 19 pandemic.

**Support for community projects**



## IX. Companies in Focus

### 9.1. AIHUISHOU

The literal translation of “Aihuishou” is “love recycling”. The business model focuses on the recycling of mobile phones, laptops, digital cameras and other 3C (Computers/ Communications/ Consumer) products. As of December 2020, the company was still the largest electronics recycling player in China. As an industry leader, Aihuishou actively participates in the development of Chinese National standards for electrical product collection and treatment. Through its invaluable experience, the company is driving the sustainable development of the entire recycling industry.

The two main elements to the company's business model are privacy protection and distribution channels. Along the years, the company has put CSR at the heart of its business, which resulted to be the key to its success. In 2020 Aihuishou strengthened its processes to manage risks related to data security and business ethics. The company obtained 2 certifications that illustrate its leadership on data security: a “Level 3 Information Security Protection and Certification” from Ministry of Public Security of the People's Republic of China, and the ISO 27001 certification on Information Security Management. On Business Ethics, the company improved its internal and anonymous whistleblowing mechanism. Employee Business Ethics-related training for employees was also reinforced.

Aihuishou implemented a new corporate governance approach in 2020, which is “Governance Risk Compliance (RMC)”, to improve decision-making and risk management.

The company was registered on the NASDAQ stock exchange in early 2021 as the first circularity company and

described its mission as the following: “To give a second life to all idle goods” and “Partnership with our shareholders: creating long-term value and contributing to society”. Aihuishou President Zheng Fujiang stated: “We founded our company with the belief that environmental problems can be addressed while achieving commercial success. Since inception, we have transformed the pre-owned consumer electronics industry in China by facilitating recycle and trade-in services and further grown the industry by connecting and empowering all participants in the ecosystem. We remain excited about pursuing our mission and will leverage our platform and technology to continue to standardize mass-market pre-owned consumer goods.”

### 9.2. BIOSE

The company operates in a highly specialised segment of the pharmaceutical market therefore employee training and development is fundamental to maintain and continuously improve Biose's operational performance. As such, Biose has implemented a training process and remuneration policy to incentivize all employees in improving their skills and strengthening their expertise to address the specificities of the industry.

In addition, Biose promotes a corporate culture characterised by transparency and open dialogue. To this end, monthly meetings between Biose's CEO and its employees are scheduled to present an update on the company's strategy and an overview of day-to-day operations. A system of employee profit-sharing has also been introduced whereby each employee receives the same amount, regardless of his or her position in the company.

Among Biose's next steps for 2021, an initiative to optimise costs while reducing energy, materials, waste and water losses has been initiated. It will help to identify priority areas for making savings and minimising its impact on the environment. Furthermore, Biose is implementing a training program in Auvergne, financed by the region and focused on microbiote environment and technicalities to promote education and employment. Finally, easy mobility is a key thematic of wellbeing at work for the management, that plans to set up a free bike access program for all Biose's employees.

### 9.3. LE WAGON

Gender diversity is a priority for Le Wagon, both internally and the company's value offering. The company is keen to achieve gender parity among teachers, teaching assistants and students. To achieve this, several initiatives have been put in place to promote women in Tech through specific “Women in Coding” sessions, resulting in training over a thousand women since inception. Le Wagon's commitment is illustrated by the existence of a Code of Conduct for students, reminded at the beginning of all programs, and the training of supervisors on topics such as discrimination or sexual harassment.

Aware of current and upcoming environmental challenges in our society, Le Wagon also plans to raise awareness among its students regarding the ecological impact of the world digitalization. This project, which will be implemented in 2021, will also aim to train students in sustainable coding in order to reduce the carbon footprint associated with programming, that requires significant computation power and therefore energy.

## X. ESG Measures at Management Company Level

Cathay Capital aims to lead by example with its portfolio companies by implementing ESG initiatives at the management company level.

Regarding environmental issues, Cathay Capital has replaced plastic packs of water with a water fountain system while providing every employee with a glass gourd. Moreover, Cathay Capital's Paris offices are equipped with recycling containers to ensure efficient consumption of paper, coffee grounds and aluminium cans.

At Cathay Capital, fund Partners are responsible for managing HR-related issues for all employees under their responsibility, and the Group Managing Director oversees the related topics and the general status of all the company's employees. In 2019, Cathay performed a social audit to verify the company's respect of labour law practices, and adhered to a collective agreement, which will reinforce employees' protection.

Multiple measures have been implemented to foster employees' motivation and engagement within Cathay Capital, and to contribute to talent retention:



- Offering attractive career prospects with the opportunity for employees to progress within the company and develop their skills.



- A biannual performance review, during which employee performance is assessed and new objectives are set. Moreover, the company's values are included in the performance assessment grid, notably in the soft skills and attitudes employees are encouraged to adopt.



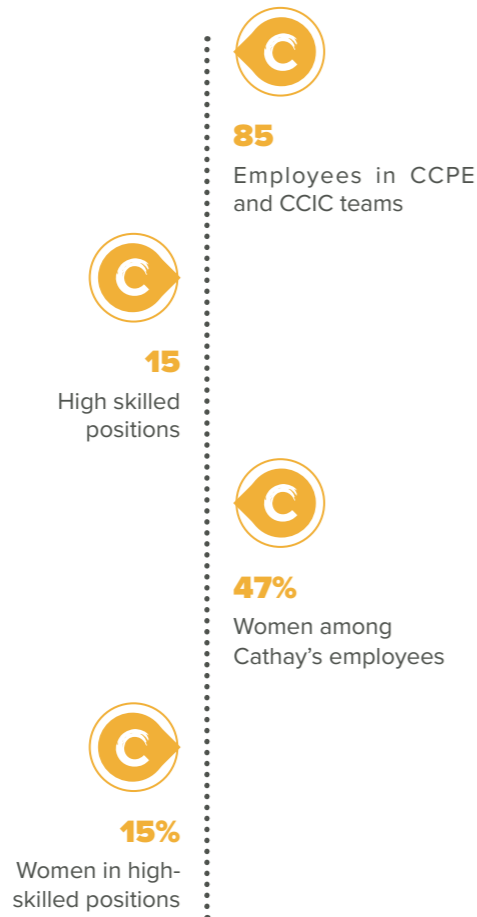
- Access to regular linguistic and cultural training sessions: French classes are offered to Cathay's Chinese employees, while Chinese classes are offered to French employees, which reinforces the bicultural symbiosis within the company. Employees must also follow mandatory training on compliance topics.



- Implementing effective work-life balance strategies is the first step to increase labour force participation, Cathay Capital has set up tele-working measures for its employees. Every year, the entire and global team participates in an annual team building event, aimed at bringing the company's employees together, during which the company's culture, values and goals are reaffirmed. Once every two years, the event takes place in France, and the other year, in China: in 2019, the teams met in France. During the annual team building event, Cathay Capital provided a workshop on ESG, including a discussion on the notion of impact to train and raise awareness of all Cathay employees.

**10.1. ESG METRICS AT THE MANAGEMENT COMPANY LEVEL**

In 2020, the CCPE and CCIC teams together consisted of 85 employees, among which 47% were women, a 10 point increase from 2019. Women account for 15% of the 15-total high-skilled positions (vs 24% in 2019).



**10.2. CATHAY FOUNDATION**

Since 2011, the Cathay Capital Foundation has sponsored initiatives which deepen and broaden mutual understanding between Western and Chinese cultures. Curiosity, openness, and the joy of giving back are qualities which investors, researchers, and artists all share.

Therefore, the Foundation sponsors cultural events, education programs and the translation of works from thought-leaders and researchers across the French and Chinese languages.

The Foundation seeks to become a vector of exchange between the two great economic and cultural powers of Europe

and China, and more broadly to build a network founded upon knowledge-sharing and a kindred spirit of good-will between all the continents of the Cathay ecosystem.



# XI. Our Ambition for the Years to Come

**In many aspects, 2020 was an extraordinary year. As companies worldwide were heavily affected by disruptions of all kinds, from the supply chain to a forced adaptation to a completely new way of work, the need to shift to a more sustainable economy and world has never been greater. At Cathay Capital, sustainability was a prevalent topic long before 2020, but the last 12 months has only strengthened our resolve to accelerate the global transition further and faster to foster greater resilience in the face of future challenges.**

In 2020, Cathay made significant progress on our own transformation by reviewing and reinforcing our reporting process, adding new indicators on actions related to key topics such as data security, promoting employee wellbeing and sensitivity to raw materials or products and services that contribute to reducing greenhouse gas

emissions. Portfolio companies were also encouraged to familiarise themselves with the UN's Sustainable Development Goals framework and identify which SDGs they have a substantial impact on, positive or negative. This initiative is a first step on the path to impact and ESG becoming one of Cathay's core value creation drivers.

Looking forward, we plan to reinforce our ESG due diligence process to bring even greater focus on ESG-related opportunities and sustainable value creation early in the investment cycle. Cathay will also nourish the ambitions towards climate change accountability and mitigation by working closely with portfolio companies on developing low-carbon products and services to diminish their overall environmental footprint. While there is certainly much more work to be done, Cathay Capital has never been more convinced that the benefits of being a responsible investor and contributing to the sustainable growth and transformation of global economies will far outweigh the costs by several times over.

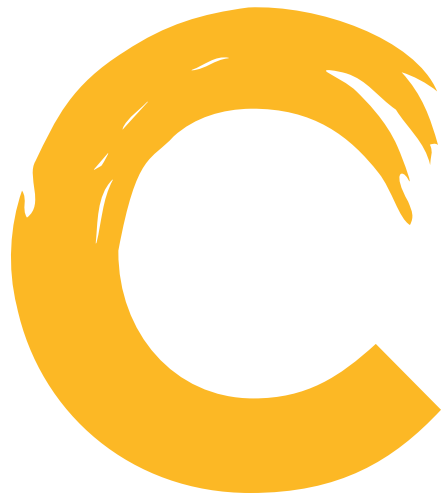


## XII. Appendices

### 12.1. APPENDIX A - EXCLUSION LIST

- Activities involving any use of forced labor or child labor;
- Activities that are illegal under the law of the host country or under international treaty, convention or regulation, in particular activities not consistent with the Kimberley Process concerning trade in diamonds and activities counter to the International Tropical Timber Organization (ITTO) agreement;
- Production of, or trade in, arms or ammunition;
- Production of, or trade in, tobacco; and alternative tobacco products, such as
- Vaporizers and electronic cigarettes (tobacco heating products);
- Gambling, casinos and equivalent activities;
- Trade in wildlife and products within the scope of CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora);
- Production of, or trade in, radioactive materials;
- Production of, or trade in, or use of, asbestos;
- Commercial deforestation or purchases of equipment for such purposes in tropical rain forests;
- Production of, or trade in, products containing polychlorinated biphenyl (PCBs);
- Production of, or trade in and storage or transport of significant volumes of dangerous chemicals, or the use of dangerous products for commercial purposes;
- Production of, or trade in, pharmaceutical products subject to international prohibition or destruction requirements;
- Production of, or trade in, pesticides or herbicides subject to international prohibition or destruction requirements;
- Production of, or trade in, ozone depleting substances subject to international destruction requirements;
- Fishing at sea with the use of floating nets of a length exceeding 2.5 km;
- Production on, or investment in, land belonging to, or claimed in an adjudication process by, an indigenous people without the duly documented agreement of the same people;
- Activities contrary to applicable ADS or IFC policies (whichever is stricter in the case concerned);
- Threats to the status of individuals, leases, companies or private institutions;
- Production or distribution of, or trade in, pornographic material;
- Prostitution;
- Products and commodities subject to French or European embargo. ;
- Production of, or trade in, narcotics (including cannabis and any product with cannabis as an ingredient);
- Production of, or trade in, drugs and substances;
- Upstream or downstream palm oil value chain (it being understood that upstream and downstream palm oil value chain does only refers to companies involved in the extraction, production and distribution of palm oil and not to companies which use palm oil in their products);
  - (i) Construction (including expansion and upgrading) of a coal-fired power plant, or*
  - (ii) power generation sector that owns or operates coal-fired power plants and for which coal-fired power accounts for at least 30% of its total installed power generation capacity;*
  - (i) Exploration, development and production of oil sand and/or shale oil and gas, or (ii) arctic oil and gas exploration projects, or (iii) pipelines transporting a significant volume of oil sand and/or shale oil and gas, as well as LNG export terminals supplied by a significant volume of shale gas; and*
  - (i) Greenfield and/or expansion of existing mining projects, covering mine planning and development, operation, on-site processing of extracted ore, mine closure and rehabilitation, or (ii) owns mining assets representing a significant share of its total assets and is involved in exploration, development or operation of such mining assets.*





 **CATHAYCAPITAL**

[www.cathaycapital.com](http://www.cathaycapital.com)