

HOT PEPPER MOBILE INC

2022 Sustainability Report



Bring digital to every person, home and organization
for a fully connected, intelligent world

Contents

1. About Hot Pepper

2. Sustainability Management

P3 Contributing to a clean, efficient, low-carbon, and circular economy

P3 Collaborating for the common good

P3 Sustainability Management System

P3 Sustainability Risks and Opportunities

3. Digital Inclusion

P4 Driving Equity and Quality in Education

P4 Conserving Nature with Technology

P4 Enabling Inclusion and Equity in Health

4. Environmental Protection

P5 Reducing Carbon Emissions

P5 Green Partners: Encouraging Top 100 Suppliers to Set Emission Reduction Targets and Building a Greener Supply Chain

P5 Contributing to a Circular Economy

5. Healthy and Harmonious Ecosystem

P6 Caring for Employees

P6 Employee Health and Safety

P7 Accommodation at Hot Pepper

P7 Entertainment at Hot Pepper

P7 Employee Training and Development

P7 Diverse and Inclusive Workforce

6. Business Ethics

P9 Anti-corruption and Anti-bribery

P9 Intellectual Property and Trade Secret Protection

P9 Trade Compliance

7. Supply Chain Responsibilities

P10 Supplier Risk Rating and Auditing

P10 Supplier Performance Management

8. Community Responsibilities

P11 Promoting Gender Equality

P11 Respecting Human Rights

About Hot Pepper Inc.

Hot Pepper, Inc. is a handset manufacturer and subsidiary of Shenzhen XiaoLajiao Technology Co., Ltd. (XLJ), a top 10 mobile phone brand in China. The U.S. headquarters is located in Irvine, California with regional offices in Dallas, Texas; Kansas City, Kansas; and Lahaina, Hawaii. Launching off the long-term success of parent company, XLJ, Hot Pepper, Inc. offers proven experience in creating beneficial partnerships with carriers and distribution channels and providing outstanding engineering support. In addition to working with the nation's four leading wireless networks, Hot Pepper, Inc. also provides support to regional carriers and added value resellers.

◆ Sustainability Management

Contributing to a clean, efficient, low-carbon, and circular economy

We are committed to minimizing our environmental impact in manufacturing, operations, and over the entire lifecycles of our products and services. Hot Pepper's innovative products and solutions help industries reduce their energy consumption and emissions, and contribute to the circular economy. We actively work with all our industry partners to shrink our carbon footprint.

Collaborating for the common good

We operate with integrity and in compliance with all applicable laws and regulations, and continue to enhance sustainability risk management. We work to ensure that our employees can develop and realize their personal value. We conduct due diligence on our global supply chain to ensure its sustainability. We actively contribute to the communities we operate in. We also work with all industry partners to build a healthy and harmonious business ecosystem.

Sustainability Management System

To work towards our strategic sustainability goals, we have, based on international standards and guidelines such as ISO 26000/ SA 8000, determined the scope of our sustainability management system and we have created the system using the PDCA (Plan, Do, Check, Act) cycle. This process took into account factors in Hot Pepper's internal and external environment, local laws and regulations, and the requirements of stakeholders like governments, customers, and employees.

Sustainability Risks and Opportunities

To systematically manage sustainability risks, Hot Pepper has created a guide based on the Risk, Governance, and Control (RGC) methodology. The guide covers risk identification, risk assessment, target setting, risk control, risk monitoring, and risk governance. It helps Hot Pepper business departments improve their sustainability risk management organization and operations to keep risk within an acceptable level. Sustainability risk management is not just about identifying risks; it also identifies potential opportunities. This is an important input to our annual sustainability goal setting and helps improve our sustainability performance.

◆ Digital Inclusion

Nearly half of the world's population does not have access to the Internet, according to the International Telecommunication Union (ITU). Though they are living in the digital age, they have been left behind in the digital world, as they are unable to benefit from digital technology and the opportunities that it provides. Access to education and healthcare is also highly unequal across different parts of the world and the environment is deteriorating, further widening the regional gaps. Since the emergence of COVID-19, the way we study, work, and live has been completely redefined; cloud offices, online education, and contactless shopping became the new normal. During this process, connectivity has been driving sustainable development in ways we never saw before. The pandemic highlighted that digital inclusion is more necessary and urgent than ever. We have worked with global partners such as UN agencies, NGOs, research institutes, governments, and customers to promote digital inclusion, focusing on four high-impact domains: equity and quality in education, environmental protection, inclusion and equity in health, and balanced development.

Driving Equity and Quality in Education

Education is the root of progress, and universal education is a defining feature of modernity. Human civilization took a great step forward when education became a right for every person, and when every person began to enjoy its benefits. However, economic and institutional inequalities mean that access to educational resources in certain regions is still far below the level enjoyed in the developed world. Unfortunately, the COVID-19 pandemic has only exacerbated this gap, undermining education equity. To address this challenge, Hot Pepper is working with its partners like UNESCO to provide people in different regions with equal access to high-quality education.

Conserving Nature with Technology

Economic prosperity has pulled many people out of poverty, but it has also caused serious damage to the environment. As environmental degradation begins to affect human well-being, nature and the environment have become an increasingly major concern for governments and for the public. Together with environmental organizations and other partners, Hot Pepper is exploring how to apply its ICT solutions to protect the environment and reduce the human impact on the environment.

Enabling Inclusion and Equity in Health

Health is a basic human right. Our shared goal is to make healthcare easier to access for more people, so that all of humankind can enjoy the benefits of good health. Technology can play a role in achieving this goal, so Hot Pepper collaborates with a wide range of partners to apply ICT in healthcare. We are helping different groups of people across different regions gain equal access to high-quality medical resources and digital services, so that no one is left behind in the digital world.

◆ Environmental Protection

The 21st century has seen a sharp increase in the severity of climate change, melting glaciers, plastic pollution, soaring e-waste, and other environmental problems, forcing us to reassess our relationship with nature. Even since the signing of the Paris Agreement in 2015, global warming has been still accelerating. However, we are happy to see that more and more countries have committed to the goal of carbon neutrality and are taking more action to slow climate change. Carbon neutrality will mean the shift from the fossil fuel era to a clean energy era. More and more countries and companies are investing in and using more renewable energy. To reduce our carbon footprint and the negative impact of human activities on the environment, people are exploring and developing the circular economy so that we can get the most out of the resources we use.

Reducing Carbon Emissions

We assess the carbon footprints of our own equipment using the lifecycle assessment (LCA) methodology, and minimize our energy consumption at every phase of the product lifecycle. In addition, a series of technical and managerial measures help us to save energy, use renewable and clean energy, and reduce greenhouse gas emissions on Hot Pepper campuses. Our work also extends up and down the supply chain: We encourage our suppliers to set energy saving and emission reduction targets, and work with our partners to help customers in a diverse range of industries cut their energy consumption and emissions using ICT solutions.

As well as leveraging innovative products and solutions to help other industries go green, Hot Pepper also takes steps to make sure our own operations are green, low-carbon, and sustainable. Guided by the principle of "low consumption, low pollution, high efficiency", we have been striving to build green, sustainable company campuses. To create green campuses, we use as much renewable and clean energy as possible at the source, take technical and managerial measures to save energy during our operations, and properly dispose of hazardous waste and organize environmental awareness programs. These efforts have enabled us to cut costs, and achieve more efficient, sustainable, low-carbon operations. In 2022, about 220 million kWh of the electricity we used in China came from renewable energy sources, equivalent to reducing CO₂ emissions by 188,000 tons*

Green Partners: Encouraging Top 100 Suppliers to Set Emission Reduction Targets and Building a Greener Supply Chain

Hotpper has incorporated environmental requirements into our procurement strategy and processes. Environmental factors are considered during supplier qualification, selection, review, performance management, and in selection of materials. In addition to complying with all applicable environmental laws and regulations ourselves, we are also building a competitive and green supply chain by offering proper incentives to suppliers

Contributing to a Circular Economy

In a linear economy, we acquire materials from natural resources and bury or incinerate them when they are no longer needed. Under this model, we are consuming resources that are already very limited, and burdening our environment. Hot Pepper is committed to exploring how to contribute more to the circular economy, reducing our reliance on natural resources, and providing

customers with more eco-friendly products. To reduce the pressure on our environment, Hot Pepper continues to improve its product designs, reduce the weight and size of product packaging, and use fiber-based packaging instead of plastic packaging, so that the packaging materials can be more easily disposed of. We have also established a global recycling program to extract residual value from electronic waste, which will help us reduce our consumption of resources, and contribute to the circular economy.

One of the key ways to protect the environment and promote the circular economy is to use renewable and more eco-friendly materials and to take less from nature. At Hot Pepper, we continue to source renewable materials for use in our manufacturing. We are already using a dozen renewables in Hot Pepper products, such as recycled aluminum, tin, gold, cobalt, and paper. We are also exploring the possibility of encouraging our suppliers to use more high-quality renewable materials, to increase our own use of renewables and reduce our reliance on the mining of minerals. We want to leave a more sustainable, better world for future generations.

◆ **Healthy and Harmonious Ecosystem**

The UN SDGs address common challenges facing the global community. Some of these goals include achieving decent work and economic growth, health and well-being, education, equality, and partnerships. These issues will have a profound, long-term impact on many companies' ability to grow sustainably. As such, companies should align their business strategies with the UN SDGs to ensure their operations are ethical, enhance their own sustainability and transparency, and create safer and more inclusive workplaces for their employees. We also believe that all companies should also work with their partners up and down the value chain to contribute to the UN SDGs and create value for the global community

Caring for Employees

Employees are our most valuable asset. They are the mainstay of Hot Pepper's sustainable development. It is the hard work of our employees that has made Hot Pepper what it is today. We care for our employees and put their safety first. During the COVID-19 pandemic, we have taken a number of steps to ensure our employees' health and safety. We are working to create a warm, relaxed, and efficient workplace. Employee professional development remains one of our priorities, and this includes our commitment to training employees through job rotations and offering them a choice of career paths. We encourage employees to keep an open mind and to broaden their perspectives, so that they can proactively manage the uncertainties that lie ahead while pursuing excellence with a spirit of craftsmanship. We value diversity and inclusion, and want to bring together bright minds from across the globe. We are working to make Hot Pepper an attractive space where outstanding people can create and share value together.

1) Employee Health and Safety

Hot Pepper always puts employee health and safety first. We do our best to ensure the health and safety of Hot Pepper employees, subcontractors, and other partners. In 2022, our safety efforts covered the safety management system and safety practices in business domains like manufacturing and deliveries.

Health and safety action overview:

- Safety management system: Started applying for the ISO 45001 certification
- Manufacturing: Organized five Safety Awareness Month activities, covering mechanical safety, electrical safety, fire safety, vehicle safety, and comprehensive safety.
- R&D labs: Provided basic training on EHS for employees in our R&D labs, and had them sign the EHS commitment letter.

Hot Pepper has a robust employee health and safety management system. Our comprehensive employee insurance and health support are designed to give our employees worldwide strong support. Employee insurance includes social insurance, commercial insurance, and medical assistance, while health support covers health checks, health centers and consultations, global medical emergency services, and lifestyle guidance.

2) Accommodation at Hot Pepper

It is company policy to provide highquality living and working environments for our employees around the world, no matter whether we make profits or not. COVID-19 forced the world to hit the pause button. However, it did not stop Hot Pepper from improving the working and living conditions of our employees. In 2022, more Hot Pepper employees moved to beautiful, safe, and comfortable apartment complexes with gardens. Some moved to sea-view dormitories equipped with gyms and karaoke rooms. These efforts have given our staff a stronger sense of safety and happiness

3) Entertainment at Hot Pepper

Hot Pepper employees have set up many employee clubs to enrich their leisure time. These include a music club, dance club, reading club, calligraphy and painting club, and gym club. Despite the pandemic, various clubs and departments still managed to organize many leisure activities in 2022, allowing our employees to enjoy their spare time.

4) Employee Training and Development

We greatly value the development of our employees' capabilities and careers, and provide them all with sufficient training and equal promotion opportunities. We have various training programs, such as the Strategic Reserve, First-Line Manager Development Program (FLDP), and New Employee Orientation (NEO), to reskill and upskill employees. We run an internal talent market that allows employees to move around the company and make the most of their expertise. Mentors are assigned to help local employees adapt to their new jobs and our corporate culture as quickly as possible, so that they can contribute to our growth in local markets.

Diverse and Inclusive Workforce

Hot Pepper values diversity in the workplace and is committed to creating an inclusive workplace where all employees enjoy equal opportunities. We respect the lifestyles of all of our employees and encourage our departments and local subsidiaries to engage with their staff in the most appropriate way. We do not interfere with rights of minority groups to practice their beliefs and customs; instead, we create an environment that makes it easier for them to do so. For example, Hot Pepper has opened prayer rooms on its campuses in a move to meet the needs of employees of various faiths. We also run facilities like gyms, libraries, cafes, and lactation rooms on our campuses, as part of our efforts to provide services that meet the diverse needs of our employees. When it comes to employee recruitment, compensation, and promotions, we do not discriminate against anyone based on factors like race, nationality, descent, religion, disability, gender, sexual orientation, marital status, and age.

We prohibit the use of child labor or any other forms of forced or involuntary labor, and we have effective policies and measures in place to prevent the use of child labor and forced labor, covering each major phase of an employee's relationship with the company, including recruitment, employment, and exit. We also require the same of our suppliers, and conduct regular audits to ensure their compliance. No incidents of child labor or forced labor have ever taken place in Hot Pepper's history.

We offer a supportive workplace and maintain effective mechanisms to ensure that our employees' voices are heard. We are working to establish positive relationships with our employees. For example, we gather our employees' opinions and suggestions through the Manager Feedback Program (MFP), the organizational climate survey, self-reflection sessions, the manager open day program, and more. Employees can file complaints and seek assistance through channels such as the complaint hotline of the Committee of Ethics and Compliance (CEC) and the internal service hotline.

◆ Business Ethics

We conduct business with integrity, adhere to standard business ethics, and observe all applicable laws and regulations in the countries and regions in which we operate. This is a guiding principle for our management team. For years, we have invested heavily in building a compliance management system that aligns with industry best practices and embeds compliance management into every link of our business activities and processes. These efforts continue to this day. We value and work hard to create a culture of integrity. All employees are required to comply with our Business Conduct Guidelines (BCGs).

Building a professional compliance management team is a longterm effort. In every country or region where we operate, we appoint full-time compliance officers who manage and oversee the operational compliance of local subsidiaries. In particular, we have taken the following steps to ensure local compliance:

- Compliance is included in the key performance indicators (KPIs) for every team. We adopt a reward and discipline mechanism for good/poor compliance records, and steer subsidiaries' investment in compliance management.
- Guided by Hot Pepper's general compliance requirements, all subsidiaries develop their own compliance management policies and systems with reference to local laws and regulations, to ensure that all of our business activities comply with local law.
- Subsidiaries identify and analyze compliance risks, and on that basis set annual compliance objectives, develop and implement control measures, and regularly review progress to ensure that the measures are effectively implemented.
- Self-assessments, checks by compliance oversight bodies, and independent internal audits are conducted to assess whether compliance management mechanisms are effective. These assessments inform continuous improvement in compliance management.

Hot Pepper is committed to building a culture of compliance and an atmosphere of integrity. Our senior management team leads by example and lives our core value of integrity. The company runs a variety of awareness programs – including internal communications, training, and exams – that remind employees of their obligations and responsibilities in compliance.

Anti-corruption and Anti-bribery

Hot Pepper has zero tolerance for bribery or corruption. In every country in which we operate, we conduct all business under a legal framework that supports fair competition and opposes bribery and corruption. We place our obligation to fight bribery and corruption above our own commercial interests, and we are working to ensure that our business is conducted in a fair and transparent manner.

We are strengthening our anti-bribery and anticorruption compliance system in four ways: a culture of compliance, governance and oversight, compliance risk assessment and prevention-discoveryresponse techniques, and continuous operations. We regularly conduct compliance audits to identify potential compliance risks in all business scenarios, develop targeted control measures, and embed these measures into our business activities and processes.

We have established complaint channels through which employees and other parties can report violations. When Hot Pepper receives a complaint, we launch an investigation and protect the whistleblower from any form of threat or retaliation by keeping their identity secret.

We continually communicate with our stakeholders (e.g., industry peers, consultants, partners, and NGOs) about compliance, clarifying our position and views on anti-bribery and anti-corruption. This helps ensure that all stakeholders have a clear understanding of Hot Pepper's compliance regulations and policies.

Intellectual Property and Trade Secret Protection

Hot Pepper is committed to protecting its own IP and trade secrets, while respecting those of others. We explicitly prohibit our employees from improperly acquiring, disclosing, using, or disposing of trade secrets of others. Specifically, the key measures Hot Pepper has taken to protect the trade secrets of others include:

- Issuing the Regulations on Respecting and Protecting Third Party Trade Secrets, which sets out clear rules that employees must follow to respect and protect trade secrets of others during business activities and ensure that employees carry out business activities legally and in accordance with our contracts.
- Embedding trade secret protection requirements into business processes such as R&D, sales, procurement, and HR, conducting regular reviews, and continuously improving management mechanisms by taking away lessons and case studies from day-to-day operations.
- Organizing publicity, training, and exams on trade secret protection for all employees, so that they are all fully aware of the obligations and responsibilities they have in terms of trade secret protection compliance.
- Conducting supervision, including checks and audits, to examine efforts aimed at protecting trade secrets of others and thus ensuring effective implementation of policies, rules, and processes.
- Establishing an accountability system based on official corporate policies such as the Accountability Protocol for Infringements of Other Parties' Trade Secrets and the Accountability Rating Criteria for Information Security Violations to hold violators accountable.

Trade Compliance

Hot Pepper has long been dedicated to complying with all applicable laws and regulations of the countries and regions in which it operates. These include all applicable export control and sanction

laws and regulations of the UN, China, the US, and the EU.

Following industry best practices, we have established an integrated trade compliance management department within the company. This department manages trade compliance across both group functions and field offices. We have also established specialist teams in our global offices that monitor changes to local laws, integrate trade compliance into the company's rules and processes, and manage and oversee trade compliance in each link of our business operations, from procurement, R&D, and sales to supply and services.

Hot Pepper continuously works to push employees to further their own trade compliance awareness. Every employee must sign the BCGs each year, which includes a commitment to comply with all applicable export control laws and regulations. Hot Pepper provides training sessions on trade compliance to managers and employees across the company, and the format of this training varies from session to session. These efforts, combined with targeted training for specific business scenarios, help employees to fully understand the company's and their own responsibilities and obligations for export control

◆ Supply Chain Responsibilities

Hot Pepper manages our sustainability in line with industry best practices and globally recognized standards. Sustainability plays a vital role in our procurement strategy and is a key part of our supplier management process, from supplier qualification and selection to performance appraisals and day-to-day management. We regularly appraise suppliers' sustainability and facilitate their ongoing improvement by working closely with customers, suppliers, industry organizations, and other stakeholders. As part of our efforts to fight COVID-19, in 2022 we incorporated pandemic prevention into our CSR requirements for procurement, and helped suppliers purchase necessary supplies.

Supplier Risk Rating and Auditing

We perform onsite assessments on all potential suppliers to examine their sustainability systems, their capacity to comply with applicable laws, regulations, and the Supplier CSR Agreement, and their actual level of compliance. No company that fails the assessment is eligible for consideration to become a Hot Pepper supplier.

Supplier Performance Management

Every year, Hot Pepper appraises suppliers' overall performance based on their sustainability performance, onsite audit results, and improvements made. When we appraise the sustainability performance of our suppliers, we take into account how they manage their suppliers' sustainability. Suppliers are classified into four grades (A, B, C, and D) based on their sustainability performance.

◆ Community Responsibilities

Hot Pepper is an active, productive member of the communities in which we operate. We believe in the power of communication, and work to promote digital inclusion and socioeconomic development in local communities using ICT solutions. We value collaboration, and work with governments, customers, and non-profit organizations to organize a wide range of charitable

activities. From cultivating ICT skills to promoting gender equality and fighting COVID-19 with technology, our efforts have a positive and ongoing impact on local communities.

As a responsible corporate citizen, Hot Pepper actively organizes charitable activities in the countries and regions where we operate. We work with partners, including governments and both international and regional organizations, to benefit and support local communities. Over the years, Hot Pepper has carried out a range of charitable activities and offered voluntary services to address problems facing local communities, facilitate the development of local culture, art, and sports, protect the environment, and support vulnerable groups.

Promoting Gender Equality

According to the ITU, in 2022, the proportion of women using the Internet globally was 48%, compared to 58% of men. There is still a huge gap between men and women in terms of Internet access and usage, as well as participation and leadership in the technology sector. Hot Pepper believes that in the digital era, more opportunities and support must be given to women to ensure they are competitive in the digital economy. This has been proven to promote social integration, inclusiveness, and diversity.

Respecting Human Rights

Hot Pepper adheres to all applicable international and national laws and policies and develops products and services in compliance with international standards and certifications. Hot Pepper respects all basic human rights as promoted by the Universal Declaration of Human Rights. We strive to ensure that our business activities will not adversely impact human rights. Hot Pepper has been a member of the United Nations Global Compact (UNGC) since 2004, and has been a member of the Responsible Business Alliance (RBA) since 2018. In addition, Hot Pepper is committed to the United Nations Guiding Principles on Business and Human Rights and standards released by the International Labour Organization (ILO), among others.

Hot Pepper believes that connectivity is a basic right for every human being. We are committed to building better network connectivity and providing convenient and affordable information and communications services to billions of people around the world using our innovative technologies. Ubiquitous broadband and connectivity will create new jobs, promote development, decrease poverty, and improve quality of life. In addition, connectivity will help us respond to global challenges, reduce the human impact on the environment, and provide essential communications services to support rescue and relief efforts during natural disasters.