



Report Description

This report is the first Environmental, Social, and Governance (ESG) report released by Zhejiang Sanhua Intelligent Controls Co., Ltd. (hereinafter referred to as "Sanhua Intelligent Controls," "the Company," or "we") to present the Company's ESG performance in 2023. Through this report, we aim to communicate with our stakeholders on ESG management policies, actions, and achievements.

This report is prepared in accordance with the *Rules Governing the Listing of Shares on Shenzhen Stock Exchange and the Self-regulatory Guidelines for the Companies Listed on the Shenzhen Stock Exchange No. 1 – Standardized Operation of the Companies Listed on the Main Board*. It refers to the *Sustainability Reporting Standards* (2021 Edition) of the Global Reporting Initiative (GRI) (referred to as GRI Standards) for relevant requirements.

- **Organizational Scope:** Unless otherwise specified, the organizational scope of this report is Zhejiang Sanhua Intelligent Controls Co., Ltd., the listed entity.
- **Timeframe:** From January 1, 2023, to December 31, 2023. Some content extends beyond this timeframe.
- **Release Cycle:** Each financial year, synchronized with the annual report.

The financial data in this report is sourced from the audited financial report in 2023, while other data is sourced from internal documents and relevant statistics. Some content and data appropriately trace back to previous years. Monetary amounts mentioned in the report are in RMB unless otherwise stated.

The data in this report contains no false records, misleading statements, or significant omissions. This report was reviewed and approved by the Company's Board of Directors on April 28, 2024.

This report is available in both Simplified Chinese and English. In case of any discrepancies between the two versions, the Simplified Chinese version shall prevail. The electronic version of the report can be obtained from the Company's official website (<http://www.zjshc.com>), the Shenzhen Stock Exchange (<http://www.szse.cn>), and the CNINFO website (<http://www.cninfo.com.cn>).

Your feedback is crucial for improving our ESG performance. If you have any questions or feedback regarding this report or the Company's ESG issues, please feel free to contact us via the following channels:

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Sanhua Intelligent Controls is committed to the vision of green and low-carbon development. Guided by the principles of "Three flowers of management, technology, and talent", the Company has become a global leader in the field of HVAC&R, home appliances, new energy automobile thermal management. Our commitment extends to the field of biomimetic robotics, where we strive to meet customer needs, drive industry progress, and contribute to social development through innovative products and technologies. Since our inception, we have remained steadfast in our mission, staying focused, professional, and abreast of industry trends, thereby leading the global market. Looking forward, we anticipate a greener, more low-carbon market. To this end, we will continue to pursue an innovation-driven, energy-saving, low-carbon, and technology-leading development strategy, making significant contributions to achieving the global "dual-carbon" goal through product and technological innovation.

Low-carbon intelligence and innovative development. Sanhua Intelligent Controls has been committed to the vision of Developing smart and low-carbon Economy, Creating Eco-friendly Environment for Mankind since 2008. In 2019, this vision was further developed into "Develop smart low-carbon economy, create eco-friendly environment for mankind" Sanhua Intelligent Controls remains steadfast in its commitment to professional management, focusing on thermal management for home appliances, commercial refrigeration, and new energy vehicles, while also expanding into biomimetic robotics. With the ongoing green energy revolution, Sanhua Intelligent Controls is increasing its focus on heat pumps and other new energy-saving technologies, which hold significant promise. It is also prioritizing the advancement of heat pump technology and thermal management products, accelerating the adoption of refined production and digital transformation, and driving market promotion, application, and rapid iteration upgrades. These efforts are aimed at creating more green value for customers and the industry as a whole.



Intelligent monitoring and green production. At the production and manufacturing level, Sanhua Intelligent Controls has implemented a smart energy IoT management platform. This platform monitors and analyzes energy usage data to identify and address energy waste, mitigate environmental impacts, and reduce carbon emissions while also lowering energy costs. By establishing an energy analysis model, it analyzes the correlation between energy consumption behavior and actual energy usage in real time, gradually optimizing energy utilization. By monitoring carbon emissions, it ensures compliance with regulatory requirements and industry standards. By improving energy efficiency to reduce carbon emissions, the Company aims to establish itself as a green enterprise.

Global layout and steady progress. "Where the market is, there is Sanhua Intelligent Controls," the Company has been expanding its international presence since its establishment, gradually realizing the globalization of marketing, manufacturing, logistics, and research and development (R&D). It is committed to deepening the integration of globalization and localization, staying attuned to market trends, addressing customer needs, and fulfilling local social responsibilities. By establishing manufacturing and logistics bases worldwide, Sanhua Intelligent Controls ensures that its products are closer to customers, reducing transportation distances and significantly cutting carbon emissions associated with logistics. Looking ahead, Sanhua Intelligent Controls plans to further expand its global footprint by constructing overseas factories in countries such as Mexico, Poland, and Vietnam. These efforts will enhance manufacturing and operational capabilities, improve logistics efficiency, and reduce carbon emissions, thereby contributing to local economic and social development.

Green and low-carbon development is a globally recognized consensus and a crucial factor for enterprises to achieve sustainable and high-quality growth. Sanhua Intelligent Controls is committed to embracing the ESG concept and driving innovation to promote green development. We aim to ensure that every Sanhua Intelligent Controls product, through technological advancements, contributes to reducing energy consumption and emissions, thereby fostering a greener future.



Zhang Yabo

April 28, 2024



2023



1

Total assets

RMB 100 million

Total revenue

RMB 100 million

Net profit

RMB 100 million

Total tax

RMB 100 million



2

Proportion of female employees

%

Number of patents

Number of hosting/participating in national or industry standards



3

Number of ISO14001 certified companies

Number of green factories

Total installed capacity of energy storage stations

MW

Total installed capacity of energy

MWh

March 2024



Federation of Industry and Commerce of Zhejiang Province

December 2023



Leading Group Office of Manufacturing High-Quality Development of Zhejiang Province



December 2023



Zhejiang Machinery Industry Federation

December 2023



Department of Science and Technology of Zhejiang Province



November 2023



Department of Science and Technology of Zhejiang Province

November 2023



Zhejiang Science and Technology Publicity and Education Center (Zhejiang Base for Promotion and Application of Innovation Methods of the Ministry of Science and Technology)



¹ The scope of economic statistics is consistent with the scope of the Company's consolidated financial statements.

² The scope of social performance data covers the listed body of Zhejiang Sanhua Intelligent Controls Co., Ltd, excluding the overseas part.

³ The scope of photovoltaic installed capacity data covers electromechanical parks in Meizhu, Daming, Hangzhou, Binhai, Wuhu, and Sitong; the scope of installed capacity data in energy storage stations covers parks in Meizhu, Daming, Hangzhou, and Binhai.





The Company attaches great importance to ESG management, taking into account the concerns from regulators and the evaluation systems of ESG rating agencies in mainstream capital markets (e.g., MSCI ESG⁴, EcoVadis⁵) to guide the consolidation of governance and sustainable development. In 2023, the Company launched an ESG systematic work program. All departments actively took on the important responsibility of improving the ESG sustainability rating and participated in the formulation of ESG and sustainability strategies and action plans. By doing so, we ensure the effective implementation of ESG work, and regularly report the progress to the Strategic Management and ESG Committee to comprehensively deepen the ESG management and promote the Company's sustainable and long-term development.

In 2023, the Company's ESG Task Force took active actions. It has held 9 ESG working meetings to review and make decisions on core issues such as ESG and sustainable development strategies and goals, and figured out the focus of work in detail. Meanwhile, the Company attaches great importance to ESG promotion and capacity building. It has organized 19 ESG training sessions covering various aspects such as policy interpretation and practice cases, attracting more than 200 participants. We have effectively enhanced employees' ESG awareness and practice ability, providing strong support for the sustainable development of the Company.

The Company's management attaches great importance to ESG management. The Board of Directors, as the highest governance body, is fully responsible for the Company's environmental, social and governance strategies and related supervision, formulates the Company's ESG/sustainability strategies, target frameworks, and major policies, and monitors the development trends, risks, and opportunities regarding ESG/sustainability, as well as evaluates their impact on the Company's long-term development.

The Company has established the Strategic Management and ESG Committee, which is mainly responsible for: organizing, implementing and effectively managing the Company's strategic development plans; leading and promoting the construction of the Company's ESG governance system to promote its long-term sustainable operation; ensuring the effective implementation of the Company's ESG strategies and plans, and promoting the improvement of ESG management performance and the implementation of sustainable development goals; guiding and facilitating the effective implementation of ESG work by the ESG project team and all business units.

Within the year, the ESG Task Force of the Company was established as a standing body of the management to incorporate ESG work into the entire work architecture. It enhanced the management's continuous and effective efforts into ESG work and ensured that ESG will be fully integrated into the Company's decision-making process and closely linked to strategy and risk management. The ESG Task Force is composed of the Company's senior managers, with the Company's Human Resources Director and Procurement Director as the leaders, and delegates from each functional department and each business unit as members.

undertaking duties related to the promotion of the Company's ESG sustainability rating; participating in the formulation of the Company's ESG and sustainability work planning and action points; holding regular ESG work meetings to discuss and determine the duties of each member, implementing daily ESG work, and reporting to the Strategic Management and ESG Committee on a regular basis; responding to ratings, inquiries, questionnaires, etc. from investors and rating agencies regarding the Company's ESG and sustainability efforts; taking the lead in planning ESG information disclosure work and assisting in preparing annual ESG reports in accordance with the requirements of regulators, investors and rating agencies.



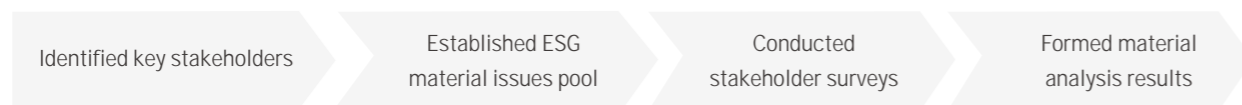
Sanhua Intelligent Controls actively expands communication channels with stakeholders in its daily operation and services. Through a regular communication mechanism, we carry out multi-channel and multi-form communication activities. We fully understand the expectations and demands of stakeholders, actively respond to their concerns, and build a harmonious and stable relationship.

<p>Government and Regulators</p>	<ul style="list-style-type: none"> • Communication and Reporting • Compliance Disclosure 	<ul style="list-style-type: none"> • Corporate Governance • Integrity and Compliance • Risk Management • Responding to Climate Change • Emissions and Waste • Employee Rights and Interests
<p>Investors</p>	<ul style="list-style-type: none"> • Timely Telephone Communication • Investor conferences • Performance Release • Shareholders' Meeting • Roadshows • Questionnaires 	<ul style="list-style-type: none"> • Responding to Climate Change • Emissions and Waste • Corporate Governance • Risk Management • Innovation and Intellectual Property Rights • Sustainable Procurement • Product Lifecycle Management
<p>Customers</p>	<ul style="list-style-type: none"> • Social Media • Customer Satisfaction Surveys • Customer Complaints • Questionnaires 	<ul style="list-style-type: none"> • Product Life cycle Management • Customer Relationship Management • Consumer Health and Safety • Compliance and Integrity • Network and Information Security

<p>Management</p>	<ul style="list-style-type: none"> • Regular Announcements • Performance Reporting Meetings • Daily Communication • Questionnaires 	<ul style="list-style-type: none"> • Corporate Governance • Business Ethics • Innovation and Intellectual Property Rights • Risk Management • Emissions and Waste
<p>Employees</p>	<ul style="list-style-type: none"> • Employee Congress • Employee Training • Employee Events • Social Media • Intranet • Employee Satisfaction Surveys 	<ul style="list-style-type: none"> • Occupational Health and Safety • Pooling and Retaining Talents • Human Rights Protection • Human Capital Development
<p>Suppliers/Service Providers</p>	<ul style="list-style-type: none"> • Regular Communication • Suppliers' Official Websites • Questionnaires 	<ul style="list-style-type: none"> • Network and Information Security • Occupational Health and Safety • Sustainable Procurement • Consumer Health and Safety
<p>Industry Associations</p>	<ul style="list-style-type: none"> • Company Website • Industry Communication • Questionnaires 	<ul style="list-style-type: none"> • Innovation and Intellectual Property Rights • Fair Competition
<p>Media</p>	<ul style="list-style-type: none"> • Media Interviews • Company Website • Questionnaires 	<ul style="list-style-type: none"> • Responding to Climate Change • Community and Public Welfare



In 2023, Sanhua Intelligent Controls established this year's material issues pool based on the macro environment and both internal and external conditions. It also identified the key material issues of sustainable development through a combination of questionnaires and key stakeholder interviews. Through the dual material analysis, we respond to stakeholder concerns in this report.

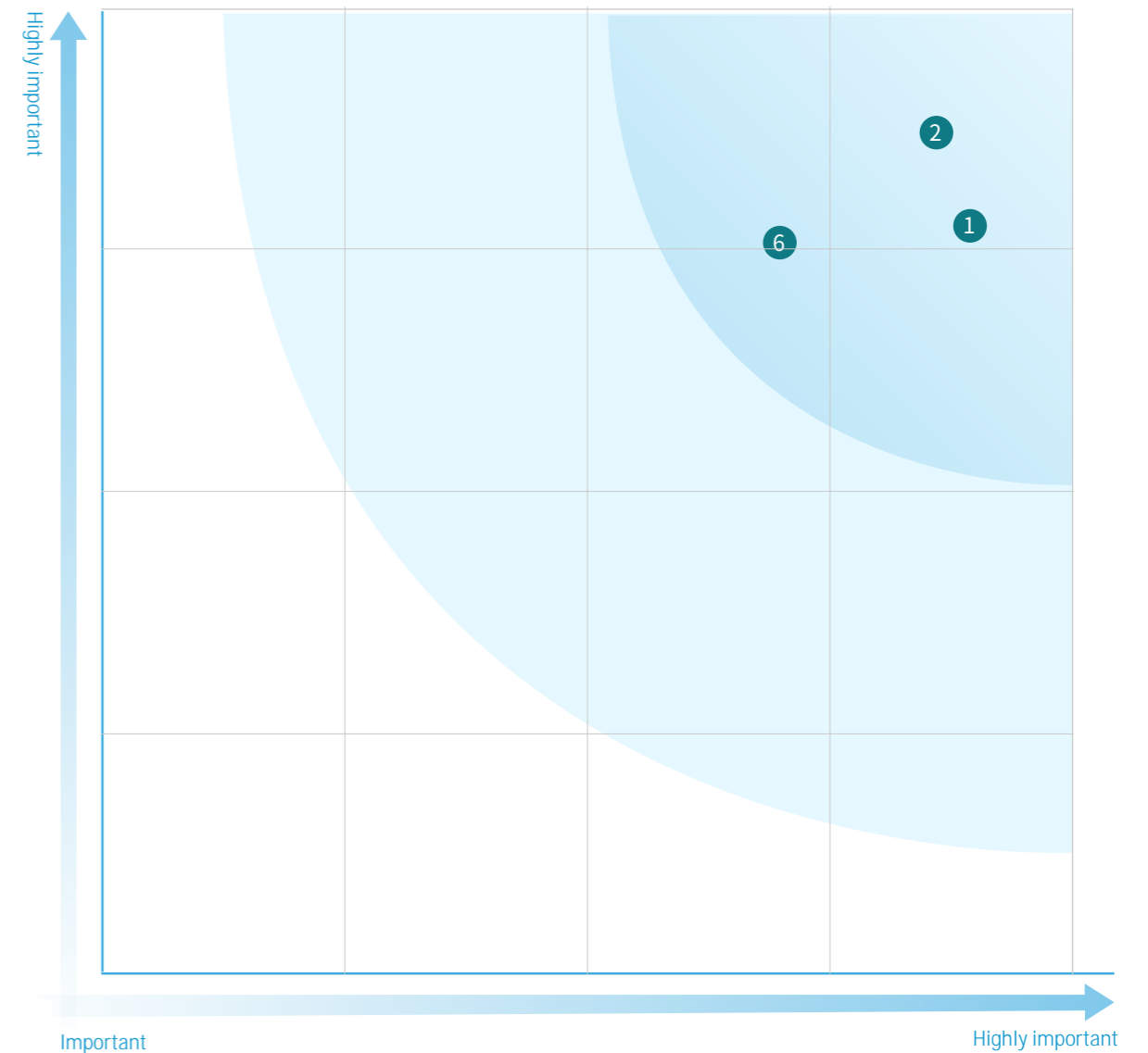


Based on stakeholders' "influence by the enterprise" and "influence on the enterprise", we have identified 8 major categories of stakeholders, including: employees, management, government and regulatory agencies, suppliers/service providers, customers, industry associations, media, and investors.

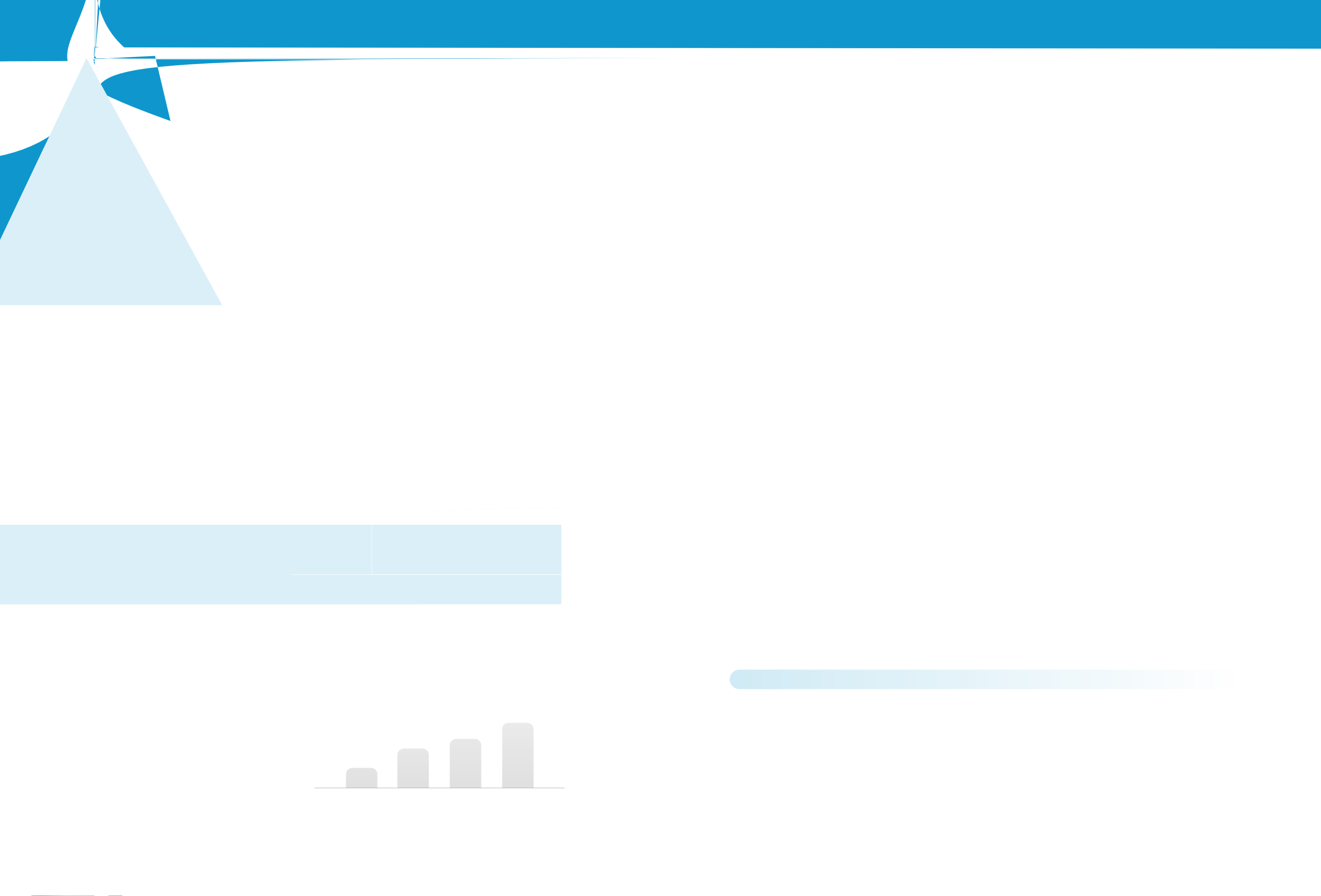
Through benchmarking against international supervision and policy trends, industry trends, peer performance, etc., as well as reference to the United Nations Sustainable Development Goals (SDGs), MSCI ESG ratings and S&P Corporate Sustainability Assessment (CSA) issues of concern for benchmarking and analysis, Sanhua Intelligent Controls has established a material issue pool for this year, covering a total of 23 issues in terms of environment, society and governance.

The issues included in the material issue pool were prepared into questionnaires and distributed to stakeholders for scoring. 278 valid questionnaires were collected by the Company in 2023. Meanwhile, we interviewed important stakeholders to further understand their concerns and expectations.

Combined with the results of stakeholder surveys, the Company ranked the 23 material issues. In the dimensions of "importance to stakeholders" and "importance to Sanhua Intelligent Controls's operations", we formed the 2023 Sanhua Intelligent Controls 's materiality matrix in 2023.



- | | | |
|--|--|--|
| 1. Corporate Governance | 7. Environmental Policies and Management | 16. Occupational Health and Safety |
| 2. Business Ethics | 8. Energy Consumption and Greenhouse Gas Emissions | 17. Human Capital Development |
| 3. Innovation and Intellectual Property Rights | 9. Water Resources Management | 18. Human Rights Protection |
| 4. Sustainable Procurement | 10. Clean Technology Opportunities | 19. Labor Practice Management |
| 5. Risk Management | 11. Product Life cycle Management | 20. Pooling and Retaining Talents |
| 6. Network and Information Security | 12. Chemicals and Hazardous Substances | 21. Customer Relationship Management |
| | 13. Emissions and Waste | 22. Consumer Health and Safety |
| | 14. Responding to Climate Change | 23. Corporate, Citizens and Public Welfare |
| | 15. Biodiversity | |







Low GWP refrigerants tend to increase the risk of flammability and have high costs of components. To address these problems, the Company, as a supplier of components, has come up with numerous workable solutions:



The Japan Refrigeration and Air Conditioning Industry Association released the JRAGL-16 standard for the use of slightly flammable refrigerants in August 2017, which requires that the use of R32 refrigerant in commercial air conditioners (mainly multi-connected units) must be equipped with a safety shut-off valve from 2025 onwards to prevent accidents caused by refrigerant leakage. The Company's stepper motor-driven electric ball valves, EBVs, have been widely adopted by the market for their design and performance advantages.

● **Building the test bench for R290-specific plate heat exchanger performance:**

To reduce the charge of R290 refrigerant and improve the heat exchange efficiency of R290 system, the Company is the first in the industry to invest in the construction of R290-specific plate heat exchanger performance test bench, which is used for the development and testing of R290-specific plate heat exchanger.



According to the EU regulations, R32 refrigerant will be phased out in the future and replaced by R290 refrigerant which is flammable and explosive. The Company has upgraded and certified the related products at the first time to ensure that they meet the new safety standards. Among them: four-way reversing valves, solenoid valves, electronic expansion valves, pressure transmitters and pressure switches have all obtained the relevant third-party certification.



▲ Products that have obtained safety certification

⁶ Global Warming Potential (GWP) values, the index of the greenhouse effect produced by a substance, is used to estimate and compare the potential impact of emissions of different gases on the climate system.





In October 2023, Sanhua Intelligent Controls TMS Cloud (Phase I) was launched, which directly connects the settlement of many banks and integrates various business systems and capital platforms within the Company. The first phase of the platform includes six functional modules and 299 accounts directly connected with banks and enterprises, which has covered the balance, details, and return inquiries of major accounts in China, Singapore, Vietnam and North America, and realized the visualization, controllability and adjustability of funds in the above regions.

The successful launch of the system realizes the closed-loop operation of business, finance and fund information, promotes the Company's "integration of business, finance and assets" and "paperless finance", and accelerates the Company's digital transformation.



In 2023, Sanhua Intelligent Controls gradually built and improved the industrial internet platform consisting of the domestic supply chain collaboration sub-platform, the design and R&D collaboration sub-platform, the intelligent manufacturing sub-platform, the operation and management sub-platform, the intelligent warehousing and logistics sub-platform, the intelligent energy IoT sub-platform, and the information security control sub-platform, and put a number of projects into practice.



sorting out the computer view of business staff in business units based on management objectives and indicator systems; displaying the daily sales plan of the sales staff; through the shipment and invoicing to prejudge the achievement of sales targets; monitoring new products and strategic customer sales in real time; assisting the business personnel in assessing their own sales performance from multiple perspectives, guiding and motivating them.



It realizes functions such as automated data collection and analysis, provides data support for the Company's management when making decisions on equipment resources, and monitors equipment abnormalities in real time, and alarms in advance.



For each level of management positions, 5 themes and 3 points are identified, which are carried through to daily or monthly performance appraisal. The model focuses on the Company's operational goals, highlighting clue discovery and management, and effectively promoting the Company's "MASI" cycle.



Based on 5G "Industrial Gateway + Sinking UPF + Industrial Internet Platform + Application System", the system realizes full-lifecycle traceability to meet the requirements of high-end customers. At the same time, it can be flexibly deployed and dynamically tuned to the equipment to improve the yield rate and reduce the number of customer complaints.

In addition, the Company has created digital tools such as OA system (Collaborative Office Platform), EHR platform (Electronic Human Resource Platform), M365 project (Document Collaboration Platform), etc., to improve the office and production efficiency in all aspects from the daily office, human resource integration, and document sorting.



Quality Products Creating Sustainable Value

Sanhua Intelligent Controls continues to improve its product quality management system to ensure that each product meets or exceeds customer expectations. The Company is constantly investing in research and development while also focusing on improving the effectiveness of its services. It adheres to the principle of integrity, putting quality first to ensure the stability and reliability of product quality and providing customers with more excellent products and services.

The Company strictly abides by the Product Quality Law of the People's Republic of China, the Metrology Law of the People's Republic of China, the Standardization Law of the People's Republic of China and other laws and regulations, and has formulated rules and regulations such as the Control Procedures for Defective Products, to strictly conduct product quality management, and to prevent defective products from unintended use or delivery.



- The quality department coordinates product quality management, clearly identifies, determines, and handles non-conforming products, and issues instructions to stop or resume production; conducts statistical analysis of non-conforming products and supervises the implementation of decisions on their disposal; and determines the responsibility for quality losses due to non-conforming products.
- The production department is responsible for identifying, reporting, isolating, reviewing, and handling non-conforming products in the manufacturing process.
- The departments of supply management, planning, and sales are respectively responsible for reviewing and handling non-conforming samples, batch products, and finished products in the warehouse.



A comprehensive management approach is adopted throughout the lifecycle of non-conforming products, involving classification, identification, review, disposal, data analysis, deductions, and other review and supervision procedures to ensure product quality standards, including:

- Raw materials and outsourced components
- Raw materials and outsourced components used in production
- Finished products during production
- Outsourced components before processing
- Finished products in storage inspection
- Customer products
- Third-party warehouse products
- Suspect products
- Recalled products



- Products delivered with large-scale non-conformance or safety hazards, or affected by other changes (including technological, legal, regulatory, and conflict events) impacting the quality or safety of delivered products, as well as batches found internally affected by non-conforming products, are included in the recall scope.
- **Identification and Review:** require quality engineers to complete the Recall Product Process Form and establish a task force for recall review, with the general manager and legal counsel participating as necessary.
- Based on the review, the quality department deliver the Recall Product Process Form to relevant departments; sales personnel are responsible for communicating with customers and providing feedback on recall events; to ensure smooth product recall; coordination with customers is conducted via telephone, fax, email, etc.
- Sold products are isolated, labeled, and registered in a separate area in the finished product warehouse; products on the production line are isolated and labeled in a separate area by workshop personnel; products in storage are isolated, labeled, and registered in a separate area by warehouse personnel; finally, instructions for handling recall products are issued based on conclusions from review meetings.



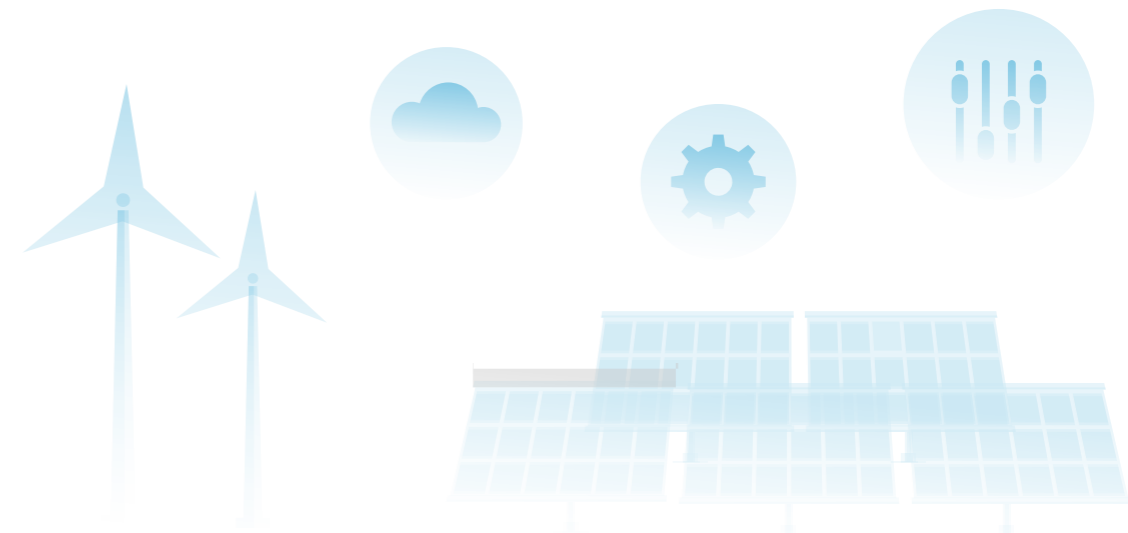


Sanhua Household regularly conducts quality management activities using the QRQC board as a platform and face-to-face visual management as a means. Quality managers from each business unit focus on customer concerns and potential market risks, delving into internal improvement work. Through visual quality management, we continuously improve product quality and services to meet customer needs and effectively address market risks, laying a solid foundation for the Company's stable development.



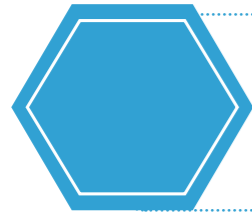
In March 2023, assessment experts from China National Accreditation Service for Conformity Assessment (CNAS) conducted an on-site conformity assessment of Sanhua Intelligent Controls Metrology and Testing Center, and audited the requirements of all management and technical elements of the accreditation guidelines covered by the quality management system documents. The assessment involved a total of 7 testing objects and 110 testing parameters, including valve product testing items, copper and copper alloy, metal material chemical and physical testing items. Since the first CNAS accreditation in 2012, Sanhua Intelligent Controls Metrology and Testing Center has upheld the principle of objectivity, impartiality, science and rigor. It continues to improve the testing services for the construction of the Company's product quality system.

In 2023, the Company also placed significant emphasis on the quality digitalization project, and both the Quality Master Data and Quality Window have been launched. The uniqueness, integrity, and consistency of the Quality Master Data ensure data accuracy, reducing business risks and costs while facilitating data sharing and enhancing work efficiency. The Quality Window provides accurate, comprehensive, and real-time data support, assisting management in making more scientific and rational decisions, thus improving the Company's competitiveness and market share. Furthermore, the construction of the Quality Management System (QMS) has been completed, ensuring more timely access to quality information and faster quality improvement. The Company has strengthened its efforts in special external quality inspection, guaranteeing transparent quality data and efficient control through measures such as separating external inspectors from sampling personnel and automatically uploading external inspection data in real-time.

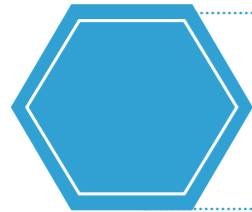




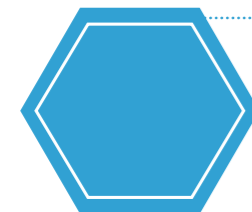
The Company prioritizes the health and safety of consumers. To ensure that all employees understand the principle of product responsibility, during the reporting period, we revised the Control Procedures for Product Safety Management. In addition, we defined, identified, and controlled safety-related products and characteristics, and established procedures for addressing potential or actual defects and their impacts. The specific control procedures are as follows:



we organize education and training in advance on product safety issues; when these issues occur, if safety-related products cause significant harm to customer interests, we will assume defendant responsibility, and relevant department directors will bear primary responsibility.



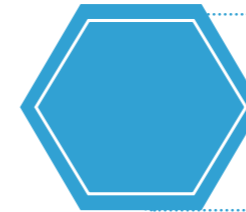
we strictly adhere to relevant laws and regulations, conducting risk assessment, evaluation, and validation of product safety characteristics; combining customer requirements, we conduct risk analysis on products to identify potential hazards during the manufacturing process, and taking preventive measures in advance.



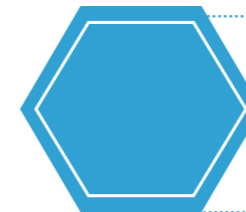
we are responsible for the transfer and delivery of goods, products, and materials, with clear traceability markings on manufacturing batches.



we submit product certification applications to third-party laboratories and promptly notify customers.



we develop emergency plans for non-conforming products. Once non-conforming products are identified, they should be recalled immediately, and relevant personnel should be investigated.



safety-related quality certification documents must be archived by the corresponding department for at least 15 years (or according to customer requirements if specified).

The Company has established the Control Procedures for Product Identification and Traceability to standardize the management process of product identification throughout the stages from raw material/component inspection, warehousing, production, to delivery, ensuring the traceability of products.

• **Offline Product Information Traceability:**

products are traced by batch numbers and product models as unique identifiers. If there is no process flow path in the system, a flow card will be used to track the product's movement between various processes.

•

relying on the MES system for traceability management, comprehensive traceability of quality, production processes, and materials is conducted. Additionally, QR codes are used as important identifiers for some products.

Sanhua Intelligent Controls insists on building an open, transparent and efficient corporate governance system. We have formulated and continuously revised the Articles of Association, the Rules of Procedure of the Shareholders' Meeting, the Rules of Procedure of the Board of Directors, the Rules of Procedure of the Board of Supervisors and other normative operational documents in strict accordance with the requirements of the Self-regulatory Guidelines for the Companies Listed on the Shenzhen Stock Exchange No. 1 – Standardized Operation of the Companies Listed on the Main Board, and other relevant laws, regulations and normative documents. The Company has formed an operational decision-making and supervision and management system structured by the Shareholders' Meeting, the Board of Directors, the Board of Supervisors and the management, and has established an efficient internal management system.

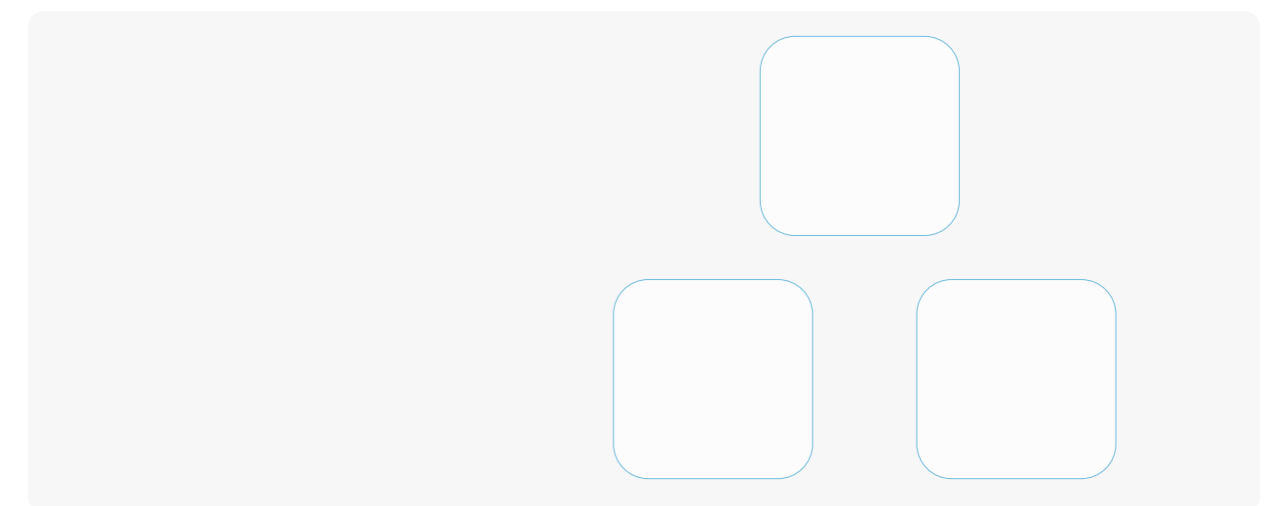
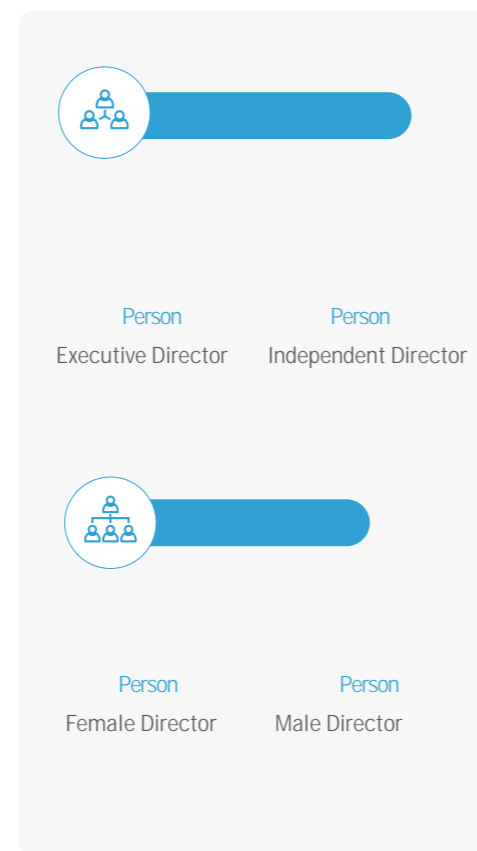
The remuneration of the Company's senior management personnel is determined in accordance with the standards of the Company's unified remuneration management system, and the remuneration is determined on the basis of the Company's operating results and performance assessment indicators through the Company's performance assessment mechanism, which conducts regular appraisals of the senior management personnel.

Since its listing, the Company has insisted on rewarding its shareholders through a relatively stable profit distribution policy and cash dividend program, and has conducted equal communication and built mutual trust with investors. The Company fulfils its information disclosure obligations voluntarily in strict accordance with the provisions and requirements of laws and regulations,

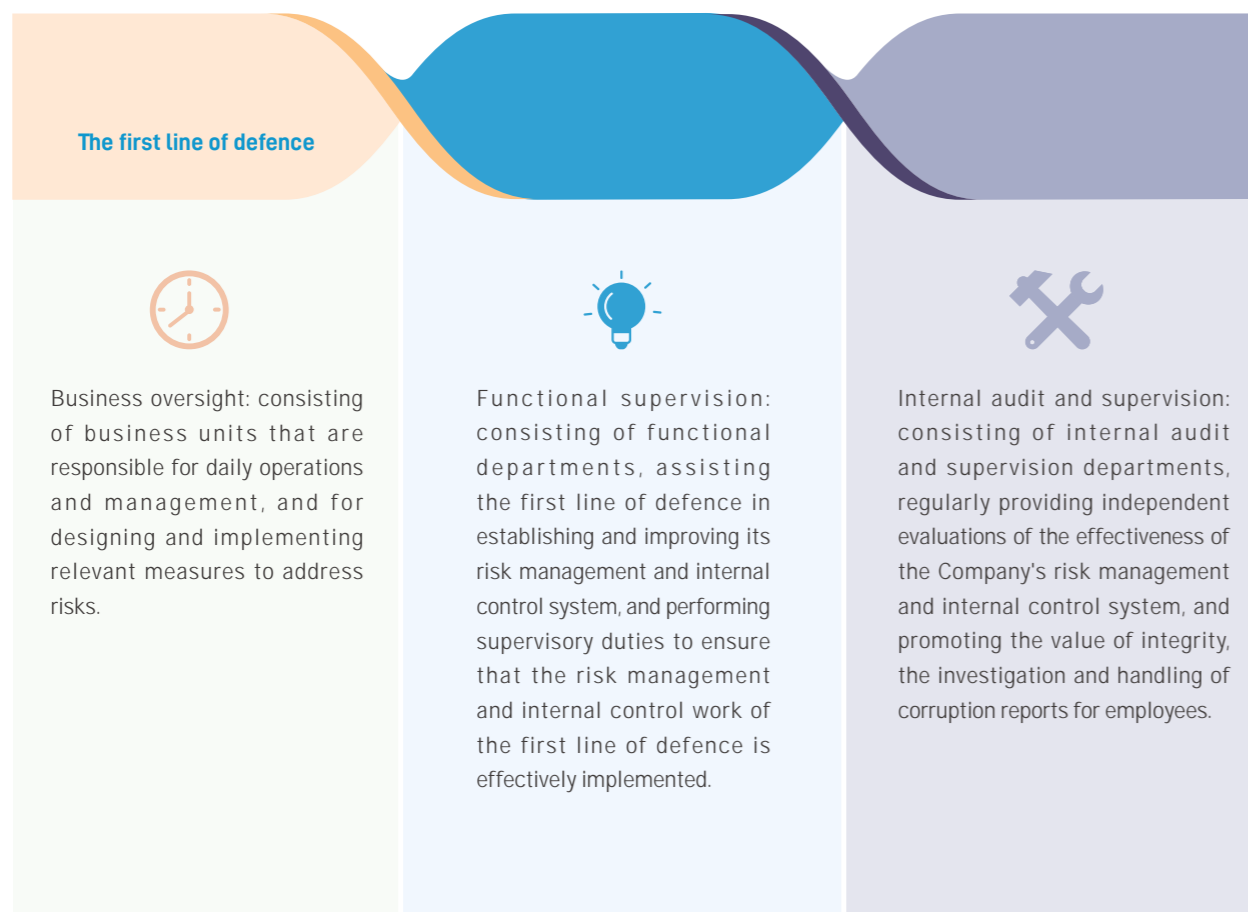
The Board of Directors consists of 9 directors and is accountable to the Shareholders' Meeting. Its main duties include implementing the resolutions of the Shareholders' Meeting, exercising the decision-making authority on major matters, formulating the working regulations of specialized committees and regulating the operation of specialized committees. Under the Board, there are Audit Committee, the Nomination Committee, the Remuneration and Assessment Committee, the Strategic Management and the ESG Committee, all of which are responsible to the Board of Directors; among them, the members of specialized committees are all composed of directors, and independent directors account for the majority and act as convenors of the Audit Committee, the Nomination Committee, and the Remuneration and Assessment Committee. In 2023, the Company held a total of 10 Board of Directors' meetings, and the 9 directors attended all 10 meetings, with an attendance rate of 100%.

To ensure the independence and effectiveness of the Board of Directors, the Company makes a clear distinction between supervisory and executive functions. Currently, the number of independent directors is 3, accounting for one-third of the total number of directors.

The Company focuses on the diversity of its Board of Directors. Currently, there is one female director. A study has been conducted to increase the proportion of female directors, and the Nomination Committee assumes the responsibility for identifying suitable candidates.



The Company has established a "three lines of defence" mechanism to ensure the effectiveness of its risk management and internal control system.



In response to information security risks, the Company has formulated the Information Security Risk Management Procedures to standardize and guide the identification, statistics and risk assessment of information assets, stipulating the identification, statistics, risk assessment and risk management methods and processes. It also requires that risk assessment activities for information security be conducted on a regular basis, with routine risk assessment activities implemented once a year. In the event of the following circumstances, the Company will temporarily initiate a new risk assessment: the addition of important information assets, such as: new on-line business systems, the acquisition of new servers, the addition of new network resources, etc.; significant changes in the business environment; major changes in management or technological innovations.

The Company adheres to integrity and compliant operation, and regards law-abiding and compliant operation as a prerequisite for its sound development. The Company has formulated and issued the Contract Management Measures, the Trademark Management Measures, the External Lawyer Management Measures, the Overseas Legal Affairs Management Measures and other systematic documents; at the same time, it has formulated/ revised the "16+22" standard contract model texts to strengthen the Company's standardized operation.

The Company identifies, monitors and examines the compliance situation in production and operation through daily legal work (including but not limited to legal answers, contract review, trademark management, business administration, dispute resolution, and exchanges and discussions with business departments), compiles risk points, provides improvement or enhancement solutions, upgrades systems and optimizes processes. In 2023, the Company has formed special reports on compliance issues such as fixed employee remuneration, evaluation of customer contracts, use of commercial fonts, export control, data entry and exit, filing of overseas investment, protection of trade secrets, etc., and the overall compliance situation was good. At the same time, the Company includes special improvement recommendations in the compliance special reports and sent them to relevant departments or business units for implementation or reference, which promotes continuous rectification and improvement in key compliance areas, as well as enhanced the compliance awareness of various departments and business units to firmly control business compliance risks.

The Company emphasizes compliance risk prevention and other management work, and is actively committed to strengthening employees' awareness of the compliance culture. In 2023, the Company held 14 legal trainings, with 1,500 employees in key positions as participants, to strengthen the management's awareness of compliance, and to create a favorable atmosphere of compliance awareness within the Company.



The Company opens a legal affairs column on the "Sanhua Intelligent Controls E-learning Platform", produces and uploads training courses and related training slides, such as a brief analysis of customs supervision on employees carrying goods in and out of the country and the promotion of knowledge on enterprises' overseas investment. Furthermore, we establish a database of laws and regulations related to the Company's business for the exchange of and study by the employees.

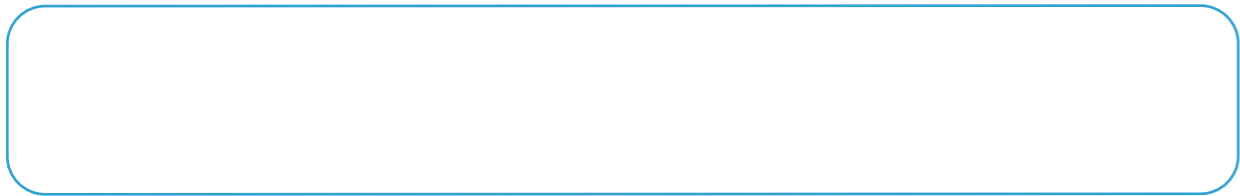
March	Training on "Building a Trade Secret Protection System"
April	Training on "Explaining Contracts for Sanhua Automotive Customers"
April	Training on "Antitrust Compliance"
May	Training on "Patent Application and Protection for Process Equipment"
June	Training on "Exchanges in Mexican Import and Export Businesses".
July	Training on "Corporate Compliance Knowledge"
August	Training on "Trade Secret Protection System and Enforcement".
September	Training on "Compensation as Part of a Series of Trainings on Labor Compliance in Enterprises".
October	Training on "Contract Management Methods and Contract Evaluation Process".
November	Training on "Recruitment as Part of a Series of Trainings on Labor Compliance in Enterprises"
December	Training on "Independence Compliance for Listed Companies".
December	Training on "Contract Management Practices"



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Total number of legal enquiries from business staff

In 2023, the Company had no significant compliance risk incidents and was not involved in any major litigation cases. The Company provides its employees with access to compliance counselling. During the year, employees made over 200 legal enquiries to the Company's legal staff.



Sanhua Intelligent Controls strictly abides by the Data Security Law of the People's Republic of China, the Personal Information Protection Law of the People's Republic of China and other laws and regulations in carrying out its business.

With the rapid development of business, the Company's information security management boundary has been expanded to the upstream and downstream supply chain. In 2023, the Company regulated the safe use and management of the information network, safeguarding the smooth operation of the information network and the safe use of computer resources, and guarding against the risks to the information system or data due to the unauthorized access to the network resources. Also, the Company has issued the network security management specification to maintain network security.

The Company emphasizes the construction of security management. In order to meet the requirements of the parties related to the information security management system (customers, employees and suppliers) on strengthening the attention to the confidentiality of the personal information, the Company establishes and implements a documented management system in accordance with the standards of the management system, and the basic structure has been completed. The ISO/IEC 27001 :2022 management system established by the Company meets the requirements of ISO/IEC 27001 :2022 standards and relevant laws and regulations, which operates normally and effectively.

In 2023, the Company upgraded its information security management system, with 18 new systems added during the year, including office terminals, network security, third-party security, data backup and recovery, security compliance, business continuity, system security and human resources security.

The Company has an all-round coverage of network security, and has set up the Information Security Division and Infrastructure Department to guide the network security management work of each industrial unit of the Company, as well as to coordinate the planning of the Company's overall network architecture planning; the ITBP of each industrial unit is responsible for the implementation of the requirements of the management specification in the respective industrial unit. At the same time, employees are required to strictly comply with the management requirements of this specification and actively participate in trainings and activities related to network security management.

The Company carries out standardized management in terms of network structure, access, use, equipment, protection, monitoring and early warning, supervision and inspection, etc., so as to effectively reduce the risks to the information system or data due to various reasons. In addition, in order to standardize the management of the Company's network environment, strengthen the terminal network security management, ensure that third-party communications and operating procedures meet the requirements of information security protection, the Company formulates the office terminal security management specification and third-party network security management specification in the light of the company's actual situation, so as to safeguard the Company's network security in an all-round way.

The Company steps up information security awareness training for new employees and technicians, and carries out information security awareness promotion for employees in the form of monthly e-mails. In addition, the Company carries out internal detection of situational awareness and threat intelligence analysis, and conducts daily statistics and checking and erasing of out-of-service and high-risk assets; and increases the vulnerability scanning, IPS, and other security equipment, so as to reduce the vulnerability of the Company's internal security and strengthen the ability of defending against external attacks. In order to prevent information security loopholes caused by human operations, the Company also conducted information security drill tests to enhance employees' awareness.

- Conduct two phishing email prevention campaigns in the form of emails to employees;
- Organise an internal phishing email drill in which 1,800 employees were randomly selected and sent phishing emails, and provide targeted training and guidance to employees based on the test results;
- Produce a special information security training PPT on phishing emails and select the topics for the training test;
- Complete on-site training and examination for employees who clicked on phishing links;
- Complete the analysis of the test results and inform 11 employees of the training and test results by email.

As a global manufacturing enterprise, Sanhua Intelligent Controls is committed to building a globally competitive product industry chain ecosystem. Adhering to the principle of "Integrity and Shared Value", the Company works hand in hand with its supply chain partners to continuously promote high-quality development and build a safe and responsible supply chain. We emphasize the relationship with suppliers and customers, and strengthen communication and cooperation with all parties in the process of operation and management, effectively protecting the legitimate rights and interests of suppliers and customers.

As for suppliers, the Company always adheres to the business values of mutual benefit and win-win cooperation, strictly fulfils the contractual agreements and business rules signed with suppliers. We establish and strictly implement the procurement standards and evaluation system, carry out stable and effective management of procurement, and guarantee the safety and compliance of suppliers' business operations.

The Company actively develops digital intelligence of supply chain, and has built a number of digital platforms to continuously improve the service level and customer experience.

	In January 2023, the platform was formally put on line and applied in Sanhua Automotive, and played an important role in enhancing cost advantages and efficiency through the online running of supply side management, demand management, price management, execution synergy, and financial synergy boards. Meanwhile, in December 2023, the supply side management and inquiry module went online in the main business units.
	For the shipping business of finished products, in order to solve the problems in the process of controlling the reverse flow from the ordering to the signing of acceptance by customers and of the return of goods, we have built a set of flexible and universal supply chain management platforms (integrated with the warehousing function of PES) to support the control of order management, transport management, expense management and other aspects of different business segments.
	We improve the efficiency and quality of the supply chain by equipping the entire production line with automated equipment from transport, unloading, receiving, warehousing, storage to the end production line.

The Company actively develops a sustainable procurement policy by incorporating environmental issues, labour and human rights (e.g., working hours, wages) into the principles and agreements of supply chain management in the Basic Supply Agreement for Suppliers and the Letter to Suppliers, which regulates the supplier's code of conduct and ensures that rules are followed to fulfil social and environmental responsibilities. Corporate purchasing staff undergo specialized training on sustainable procurement policies to make themselves aware of social and environmental issues and to integrate themselves into the purchasing function management.

	Incorporate Corporate Social Responsibility (CSR) risk analysis items into the scoring items during new supplier enrolment and annual audits. Evaluate suppliers on environmental or social practices, notify suppliers of relevant official announcements, and organise CTI environmental dynamics training, hazardous substances training, and global environmental regulations training to strengthen the management capability of suppliers.
Avoid conflict	Sign a Conflict Minerals Statement, develop a Conflict Minerals Reporting Template, supplement the Conflict Minerals Policy with supply agreements, and actively engage in responsible mining procurement.
	The Company requires suppliers to provide reports on hazardous substances, which are incorporated into supplier performance management and appraisal. We regularly summarize and share case studies on the sustainability of suppliers.
	The Company conducts research into the recycled materials industry, including copper scrap, aluminium scrap and steel scrap, in its procurement practice, and gradually procures alternative electrolytic copper to reduce carbon emissions at source; explores clean energy such as green power to optimize its own energy structure; and exchanges with suppliers with clear plans and progress in the areas of green development and carbon neutrality, in order to learn from advanced carbon management concepts and measures.

The Company carries out access management for new suppliers in terms of operation status, production, qualification certification, industry experience, etc., so that suppliers with excellent potential can enter the Company's supply system and provide strong protection for the Company's operation and production.

The Company requires suppliers involved to sign documents such as the Basic Supply Agreement for Suppliers, the Integrity and Self-Discipline Cooperation Agreement, and the Corporate Social Responsibility Agreement, in order to regulate the management of suppliers in the areas of product quality, compliance, working environment and human rights, health and safety, business ethics, and environmental protection.

<p>the purchasing department is responsible for finding and researching new suppliers that are in line with the Company's supplier development principles, and registering suppliers who meet the standards.</p>
<p>we complete the system registration, audit and approval of new suppliers according to the Regulations for Supplier Audit Management. For the suppliers who do not pass, they are given an opportunity to review and listed in the Potential Supplier Audit Report after being approved.</p>
<p>Access approvals, potential inclusion/qualified supplier lists</p>
<p>suppliers approved for access are first included in the Potential Supplier List and, after approval of key documents, in the Qualified Supplier List, both of which are updated in the first quarter of each year.</p>



In November 2023, Sanhua Automotive held the annual Partner Conference with the theme of "Partnership & Globalization", inviting representatives of more than 150 suppliers from all over the world, totaling about 400 people, to participate in the conference. This event starts a new journey to improve "partnership" and "build a global ecological supply chain together".

Adhering to the globalization strategy, green and low-carbon concepts, efficient operation and digital management, Sanhua Automotive takes a global vision in the areas of purchasing, quality and R&D. During the meeting, Sanhua Automotive introduced the annual global procurement plan, called on suppliers to establish long-term deep cooperation with the Company to foster a supply chain ecosystem. The Company introduced the relevant situation from the level of quality management, R&D innovation and made an outlook.

Sanhua Automotive also invited experts to form a jury. After rigorous evaluation and comprehensive assessment in terms of product quality, service capability and technical strength, cost control, etc., the Company awarded 58 suppliers with titles such as Supplier Excellence, Value Contributor, Technological Innovator, Best Quality, Quality Progress, and other awards.

The Company emphasizes supply chain risks. In the context of the division of labour in global industrial chain, through the construction of line management system and risk prevention initiatives, the Company continues to enhance the industry chain supply chain resilience and security level. The Company requires approved suppliers to sign documents such as the Confidentiality Agreement, the Basic Supplier Agreement, the Integrity and Self-discipline Cooperation Agreement, the Corporate Social Responsibility Agreement, etc. The Company requires suppliers to strictly abide by the Supplier Code of Conduct, and urges suppliers to standardize their management in terms of product quality, business compliance, working environment and human rights, health and safety, business ethics and environmental protection.

Supplier risks identification

Purchasing department, together with the quality department, technical department, conduct due diligence on suppliers, identify and assess suppliers' risks, including quality aspects, legal affairs, financial situation, and issue the relevant supplier risk assessment form. The evaluation method can be used, but not limited to countersigning, mail, meeting records and other forms of confirmation to reach a unanimous opinion.

Medium to high-risk items identified by the targeted supplier during the targeting phase need to be listed in the Risky Supplier Management Form.

management is based on risk classification (prioritisation), which is implemented in accordance with the risk classification management defined in the Company's system.

The Company conducts risk-oriented due diligence investigations on potential suppliers and cooperative suppliers to effectively assess and grasp their potential operational or compliance-related risks and information, so as to construct line of defence and control barriers to prevent and effectively control potential risks. In the Analysis of Potential Supplier Audit Report, the Company requires suppliers to provide detailed information on quality management plan, production process control management, material resources usage and human resources management.

The Company actively promotes supplier performance appraisal. Regular supplier appraisal can enhance their work efficiency, reduce procurement costs, and ensure the quality of suppliers while maintaining good supplier relationships to match the Company's procurement strategic objectives.



Annual performance review

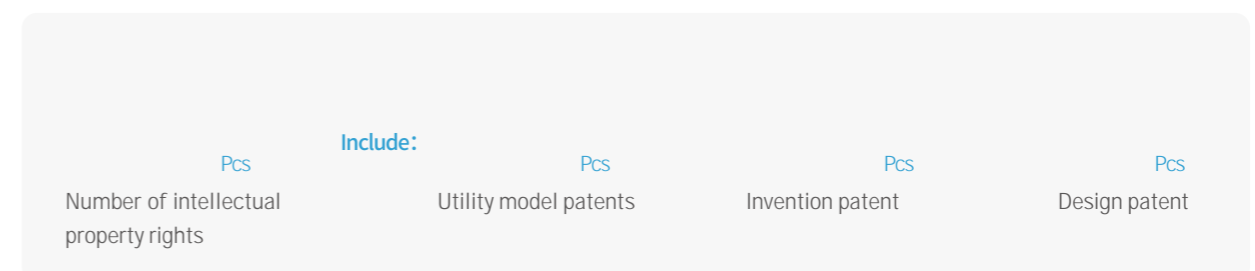
- Evaluation process: According to the annual supplier performance table compiled by the Purchasing Department, the final performance evaluation results are discussed and determined by all relevant departments, countersigned by the Quality Centre and the Purchasing Department, and approved by the Director of purchasing; and the results are announced after the approval of the annual evaluation results of the suppliers;
- Annual performance application: An annual performance score is obtained from the combined score of the average quality and delivery scores for each quarter and the quarterly price and service scores, and a Supplier Comprehensive Performance Notification Letter is issued based on the results of the rating.
- Suppliers may appeal to the Procurement Centre if they disagree with the results of the performance evaluation. The Centre shall complete the investigation within 10 working days. If there is no objectionable issue in the investigation result, the original evaluation result shall be maintained; otherwise, the Procurement Department shall gather all relevant departments together to revise the evaluation.
- The following awards are given on the basis of annual supplier performance ratings: Best Quality Supplier, Outstanding Supplier and Strategic Supplier.



The Company adheres to the principle of "respecting other's intellectual property rights and protecting its own intellectual property rights". We protect our own competitive advantages and brand reputation with perfect intellectual property management, and avoid infringing other people's intellectual property rights. By the end of 2023, the Company applied 169 valid trademarks. In order to enhance employees' awareness of intellectual property protection, during the reporting period, the Company carried out training on "patent application and protection of process equipment", with a total of 120 participants. The Company emphasizes the protection of intellectual property rights and carries out group building activities with the theme of intellectual property rights.

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Trademark

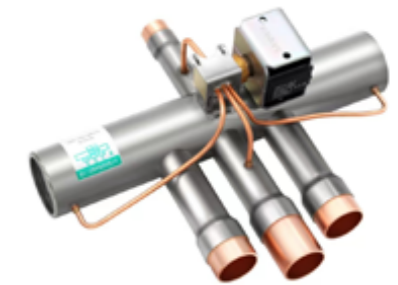


The automotive and refrigeration home appliance industries are the key industries for green transformation. Reducing carbon dioxide emissions during the product life cycle and reducing carbon consumption throughout the life cycle of products through technological advances will not only help to promote the advancement and application of energy-saving technologies and products in the industry as a whole, but also help to promote the realization of the "dual carbon" goal. With a deep understanding of green and low-carbon development, Sanhua Intelligent Controls makes every effort to grasp the opportunities from clean technology, take green energy-saving technology as the lead, continuously enrich green products and green services, and actively drive the whole industrial chain to carry out recycling and carbon reduction practices, so as to jointly provide green energy for the high-quality development of the economy and society.

With the accelerated pace of transformation and upgrading of economy, energy and industrial structure, the demand for green and low-carbon products and services is increasing. The Company insists on promoting scientific and technological innovation and green technology. We are committed to researching green and low-carbon technologies, advocating the concept of green technology, promoting the strategic transformation from "cost leadership" to "technology leadership", and developing new products and technologies with independent intellectual property rights in energy-saving, environmental protection, material saving and consumption reduction.

As a solutions provider in the field of thermal control and thermal management, the Company follows the principle of green and low-carbon, and carries out a number of key projects during the year in the areas of lead-free, environmental protection and safety, and endeavors to create greener and more environmentally friendly quality products.

Based on the three principles of "lead-free, reduce carbon emissions and increase customer value", the Company has successfully produced many products with stainless steel. Such product process is more environmentally friendly, and the product itself is compact, with light weight and small size, high pressure resistance, high strength, good corrosion resistance and other advantages, which has been supplied in large quantities.



▲ Image of stainless steel four-way valve

The Company ploughs into the development of a new generation of green refrigerants. We have developed various types of products suitable for R32/R290/R454B refrigerants. To meet the market demand for carbon dioxide (CO₂) environmentally friendly refrigerant, we have developed various products for HVAC&R systems using CO₂ as refrigerant, including 4-way valve, electric expansion valve, ball valve, check valve, etc. At the same time, during the year, we also completed the development of a full range of solenoid valves for ammonia systems, which do not contain copper and reduce the environmental pollution caused by lead, and effectively avoid the risks of explosion and stress corrosion caused by the reaction with ammonia, thus improving the safety of the products.

The new microchannel products independently developed by the Company feature high energy efficiency, low refrigerant charge and full recovery, etc. By replacing the traditional finned tube heat exchanger, it achieves a 30% increase in heat transfer efficiency and can reduce refrigerant charge by up to 50%, which significantly reduces the power consumption and carbon emission; at the same time, the products are made of aluminum, which is easy to be recycled and is friendly to the environment.

▲ Micro Channel Heat Exchanger

The Company emphasizes the environmental impact of the full life cycle of products, especially the practicability of sustainable development, and takes the initiative to incorporate the concept of ecological and environmental protection into the process of product development, design and production, etc. Adhering to the concept of sustainable development, we start from the various stages of the life cycle of the products, and based on the principles of environmental ethical management, we measure and assess the impacts of products on the environment during their life cycle, and improve the competitiveness and sustainability of products, including cycle carbon footprint tracking and other traceability information.

	<ul style="list-style-type: none"> The Company is deeply committed to developing a new generation of green refrigerants, actively promoting the substitution process of low GWP (Global Warming Potential) refrigerant products, and reducing system charge and direct emissions through the development and application of low charge components. At the same time, we select new refrigerants in terms of environmental performance, safety, energy efficiency, cost, applicability and availability, and jointly promote the development and application of new environmentally friendly refrigerants.
	<ul style="list-style-type: none"> The Company actively develops energy-efficient products in the areas of refrigeration, air-conditioning and home appliances, and automotive thermal management. We improve energy efficiency through the development and application of high-efficiency components, system optimisation and other measures, and giving full play to the direct and indirect emission reduction of the relevant products. The variable frequency drive developed by Hangzhou Leaderway Electronics Co., Ltd are widely used in home appliances, commercial air conditioning and refrigeration, and heat pumps, significantly improving energy efficiency and reducing power consumption and carbon emissions.
field	<ul style="list-style-type: none"> To meet the needs of thermal management customers, we provide plate heat exchangers, pressure regulating valves, electronic expansion valves, sight glasses, and variable frequency drive, etc. With the advantages of technological innovation and product series, we foster a thermal management system of energy storage, and provide good temperature management for the large amount of heat generated during the process of charging and discharging of batteries. As a participant in the drafting of the standard of the Liquid Cooling Radiator for Energy Storage Batteries, Sanhua Thermal Management Technology (Hangzhou) Co., Ltd actively participates in the formulation of industrial standards.



With innovation at the core, the Company continuously reduces the environmental impact of its products through product risk assessment and eco-product design to achieve sustainable development. The Company has drafted eco-product design-related guidance requirements, which explain eco-product design in terms of initiation, compliance, implementation and identification of the whole process as well as continuous improvement, and require engineers in each business unit to follow the sustainable product eco-design regulations in product design. Meanwhile, based on the international standards related to the carbon footprints of products, the Company docks with the international and domestic standardisation organizations and industry associations, compiles relevant standards, takes concrete actions to formulate international/industry standards. Additionally, we conduct

Sanhua Intelligent Controls strictly abides by the laws and regulations related to environmental protection and resource conservation, ensures that all pollutants are discharged in compliance with the standards, and that there are no incidents of environmental protection violations or accidents of environmental pollution. In addition, we encourage enterprises to strengthen the management of energy consumption, stop wastage, effectively and reasonably utilize energy, reduce the cost of production, and improve economic benefits.

The Company emphasizes environmental protection, adheres to the principle of "prevention as the mainstay, combining prevention and treatment". We take the initiative to shoulder the social responsibility of environmental protection while seeking our own development, and endeavors to promote the sustainable development of the society and the environment.

The Company actively responds to the concept and requirements and adheres to green development. We strictly follow the Environmental Protection Law of the People's Republic of China, the Atmospheric Pollution Prevention and Control Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Wastes and other laws and regulations of the environment management applicable to the Company. We also continue to improve the environmental protection related policies and system documents, and start from the multi-dimensional aspects of system, policy, implementation, assessment and evaluation to ensure the operation, audit and continuous improvement of the environmental management system, improving the level of environmental management.

By the end of 2023, all of the Company's 16 subsidiaries had passed the third-party certification of the ISO14001 Environmental Management System.



▲ The certification of the ISO14001

subsidiaries

All passed the third-party certification of the ISO14001 Environmental Management System



- Formulate a series of environmental management system procedure documents such as the Exhaust Gas Prevention and Control Procedures, the Solid Waste Control Procedures, the Chemical Hazardous Materials Control Procedures and the Hazardous Waste Management Measures.
- Regulate the use of resources and waste discharge of each production base according to the requirements of ISO14001 system standards, and scientifically monitor and prevent the occurrence of environmental risks.
- Formulate the Environmental Protection Assessment Rules to further strengthen the environmental management.



- Organize special environmental protection personnel to carry out monthly environmental protection inspections for each division and functional department, and follow up the completion of the rectification of each problem, and issue environmental protection on-site checklists for the problems identified on site.
- The directors of each division and functional department are mainly responsible for the environmental protection work of their own departments, the implementation of environmental protection management, and are directly responsible for the environmental protection work of their own departments;
- The director of the planning department of each division and the person in charge of the relevant departments are responsible for arranging the implementation of the rectification of identified problems, and complete of the rectification within the specified time and report;
- Each division regularly organises environmental self-inspection of the department and reports the self-inspection problem points of the month and the rectification situation of the previous month.



- According to the Environmental Protection Assessment Rules, all departments and subsidiaries are required to strictly implement the provisions of the environmental management system formulated by the Company to eliminate all kinds of violations.
- The Company's assessment of the monthly report is reflected in the monthly performance appraisal.

The Company continues to standardize the management of project construction and production operations. We establish strict safety and environmental protection rules and regulations, and provides effective guidance to the environmental protection work of each subsidiary. At the same time, the Company continuously optimizes the production process, carries out maintenance and overhaul of environmental protection facilities and technological transformation, improves the level of "three wastes" management and clean production, maintaining the stable operation of various indicators.

● Investigation, identification and determination of environmental factors

- Each department lists the environmental factors that have an impact on the environment based on their activities, and then identifies and determines environmental risk factors based on the Environmental Factors Record and Determination Sheet.
- Based on the Environmental Factors Record and Determination Sheet submitted by each department, we send our personnel to conduct a reasonableness assessment, and then collate and make a company-level Environmental Factors Record and Determination Sheet.

- The relevant departments should be notified in time for repair and replacement for environmental protection facilities not in normal use or damaged.
- Each division should maintain and record environmental protection facilities.
- Waste gas, wastewater and other emissions outlets should be installed in accordance with the requirements of environmental treatment facilities.

- The Company should submit implementation reports on the national emissions permit management platform, which will be made public on government platforms after review by local environmental protection authorities.
- The controlled emission points of key emission units are installed with online monitoring facilities in accordance with the requirements, the monitoring data are transmitted in real time to the national and local regulatory platforms, and supervisory monitoring is carried out in co-operation with the regulatory authorities.
- In accordance with national environmental protection requirements and the requirements of the EIA report, qualified third-party agencies are hired to conduct regular testing of environmental pollutants such as waste gas, wastewater and noise, and to issue third-party-certified test reports.

- The key production departments (pickling, electroplating, sewage treatment stations, hazardous chemical warehouses) organize at least one emergency rescue drill before November 30 each year.
- When an accident occurs, it will be handled strictly in accordance with the principle of "four no spares" (no spares until the cause of the accident has been investigated, no spares until the person responsible for the accident has been dealt with, no spares until the public have been educated, and no spares until preventive measures have been taken), and not conceal, misrepresent, or delay in the reporting of accidents.

- Radiation flaw detection equipment is examined through environmental protection records and may not be purchased without authorization.
- Radiation flaw detection staff need to be licensed.

In order to accelerate the green development of industry, promote energy saving and consumption reduction, reduce costs and increase efficiency, and increase the effective supply of green products and services, the Company actively carries out the evaluation of "Green Factory", so as to help the Company achieve the goals of plant intensification, harmlessness of raw materials, cleaner production, resourcefulness of waste, and low-carbon energy. As of the end of 2023, 4 factories have been awarded the title of "Green Factory" by the Ministry of Industry and Information Technology of the People's Republic of China.

The Company fully recognizes the importance of biodiversity conservation and remains constant attention to the impact of its own activities on biodiversity. We carry out risk factor identification and hidden danger investigation in compliance with relevant laws, regulations and policies, such as the Opinions on Further Strengthening Biodiversity Conservation, the Soil Pollution Prevention and Control Law of the People's Republic of China and the Regulation on Groundwater Management, and other relevant laws and regulations. When we select sites for project construction, biodiversity conservation is taken into consideration. Environmental impact assessment is carried out in accordance with the requirements of laws and regulations, and projects are not developed within the ecological protection red line, so as to fundamentally reduce the impact of project construction and later operation on biodiversity.



The Company responds to the National Plan on IT Application for the 14th Five-Year Plan period (2021-2025), which is "promote green, intelligent and ecological civilization, and promote the synergistic development of digitalization and greening", and continues to promote the construction of digital factories, boost automation levels, and improve production, office and management efficiency, so as to explore new ways of digitalization.



The Company's products focus on energy-saving and emission reduction. We pursue low-carbon and environmental protection in manufacturing operations and park management. Through the intelligent energy system, we monitor in real time the status of energy consumption of all divisions, workshops and energy-consuming equipment in the park, and summarize and analyze the total amount of energy consumption, so as to provide data support for the optimisation of the energy consumption structure and carbon reduction.

By the end of 2023, the platform has covered 7 domestic parks, and other domestic parks and overseas parks are being actively promoted. The platform monitors real-time data on electricity and natural gas consumption in the parks and conducts statistical analyzes of energy consumption, which, combined with in-house production, provides early warning of unreasonable energy consumption anomalies in each business unit for improvement and analysis.

The smart energy IoT management platform can also achieve the following benefits through real-time monitoring and data analysis:

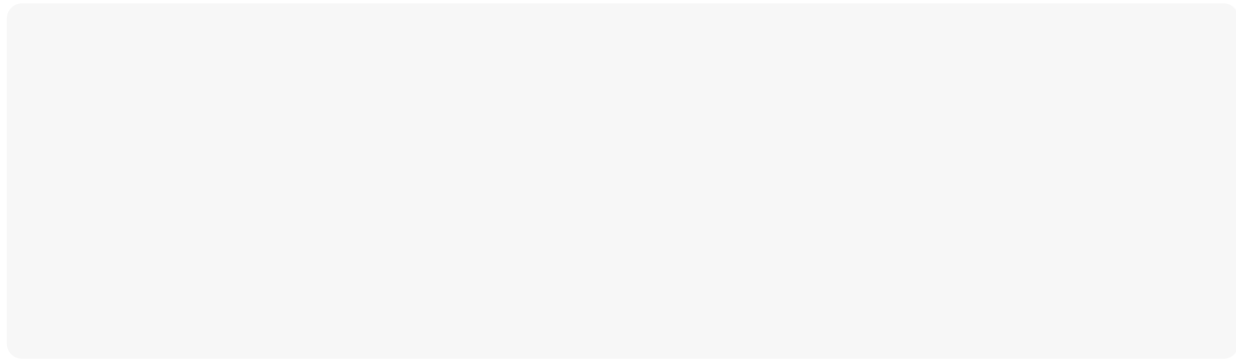
- Electricity savings: optimize electricity consumption behavior, improve efficiency of electricity consumption during off-peak hours and reduce costs.
- Basic utility optimisation: Based on the analysis of electricity consumption data, the billing method is adjusted to reduce the payment of basic utility.
- Reduction of equipment costs: energy-saving renovation of energy-consuming equipment to reduce equipment operating costs.
- Energy management automation: energy metering and billing services for multi-corporate companies in the park.
- Rapid policy response: the platform's billing model is synchronized with policy adjustments, helping enterprises to adjust their energy management strategies in a timely manner and reduce energy costs.

The Company actively advocates low-carbon operation and environmental protection, encourages employees to practice green concepts in the production and offices, so as to enhance energy conservation and environmental protection awareness, and jointly carry out actions to save resources and energy.

friendly office supplies

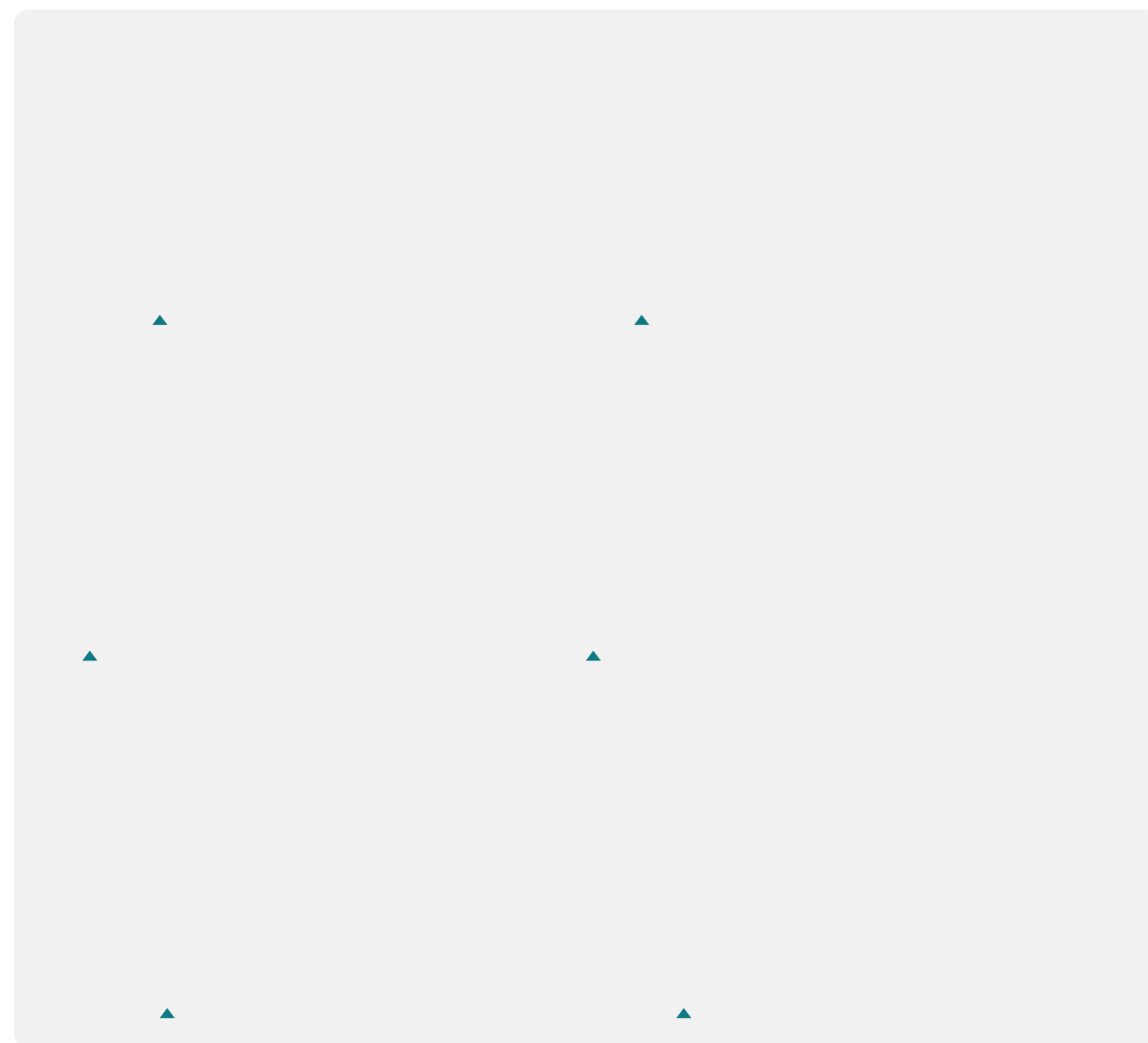
- Promote paperless office, paper documents require double-sided printing
- Strictly control color printing and stop unnecessary color printing.
- Use e-mail and OA system as much as possible for the transmission of documents and information, and reduce the number of paper documents.
- Procurement of environmentally friendly office products, e.g. recycled paper, refillable ballpoint pens
- Procurement of recyclable toner cartridges for laser printers, pencils, etc.
- Procurement of energy-efficient labelled office appliances (e.g. photocopiers, printers)
- Procurement of office furniture made of environmentally friendly materials

- Turn off the power of lights, air-conditioners, computers, printers, water dispensers, etc. after work.
- Switch off the video system in time after the video conference, so as to reduce the long-time standby energy consumption.
- Avoid prolonged standby time for computers, printers, shredders and other office equipment.
- In places where central air conditioning is not used, do not open doors and windows when the air conditioner is turned on as well as turning on the air conditioner when there is no one, and control the cooling temperature in summer at 26°C or above, and heating temperature in winter at 20°C or below.
- Use LED energy-saving lamps in the office as much as possible



Sanhua Intelligent Controls actively promotes green and low-carbon development. Relying on the environmental management system, we incorporate the concepts of resource conservation, protection and improvement of ecology and the environment into the whole process of operation and management and in all aspects, in order to achieve sustainable growth, and to bring benefits to environment, society and environment.

<p>Photovoltaic projects</p>	<ul style="list-style-type: none"> •The total installed capacity of Sanhua Household PV system is 11 MW. The energy-saving renovation of the 5.8 MW facility connected to the grid in the first phase in 2015 was completed in September 2023. The renovation increases the power generation efficiency of this system by 5%, increases the power generation capacity by 510 MWh per year, and reaches an average annual power generation capacity of 10,250 MWh. •The total installed capacity of the solar photovoltaic (PV) systems on the roofs of Sanhua Commercial Refrigeration's factories in the Damien City Park amounts to 10.76 MW, and PV power generation accounts for about 34% of the park's total overall electricity consumption by the end of 2023. •Sanhua Automotive Thermal Management in Shaoxing added a 5.8 MW PV project, which was completed and connected to the grid in July 2023, bringing the overall installed PV capacity to 16.3 MW by the end of 2023.
<p>Energy storage project</p>	<p>The Company has built energy storage power stations in Xiasha, Hangzhou, Xinchang, Shaoxing, Binhai, Shaoxing etc. The system is used to store the off-peak electricity and release it for use during the peak electricity period, making full use of the price difference between the peak and off-peak electricity, and accurately calculating and determining the installed capacity of the energy storage to realise the "two charging and two discharging" every day to assist the green transformation of enterprises.</p>



2023



Power generation from new energy facilities

MWh



Natural gas consumption

10,000 standard cubic metres



Total amount of purchased green power

MWh

The Company emphasizes the environmental impact of its operations, and has formulated and implemented a number of internal environmental management procedures, including the Waste Gas Prevention and Control Procedures and the Solid Waste Control Procedures, to strengthen environmental management and improve environmental performance, ensuring that emissions can be managed effectively and resources can be conserved.

The production process of the Company involves electroplating, acid pickling, powder spraying, welding, injection molding and other processes, and the air pollutants generated are mainly soot, sulphur dioxide and nitrogen oxides. The Company has a waste gas management procedure, and the collected waste gas must be filtered and treated to meet the *Integrated Emission Standard of Air Pollutants* before being discharged.

The Company carries out regular spot checks on the waste gas and treatment systems to ensure that the systems are functioning properly. The results are recorded in the "Waste Gas Exhaust System Spot Check Sheet" and the "Waste Gas Treatment System Spot Check Sheet". At the same time, in accordance with regulatory requirements, a third party is commissioned to regularly monitor and assess the level of exhaust emissions to ensure compliance with air pollutant emission standards.

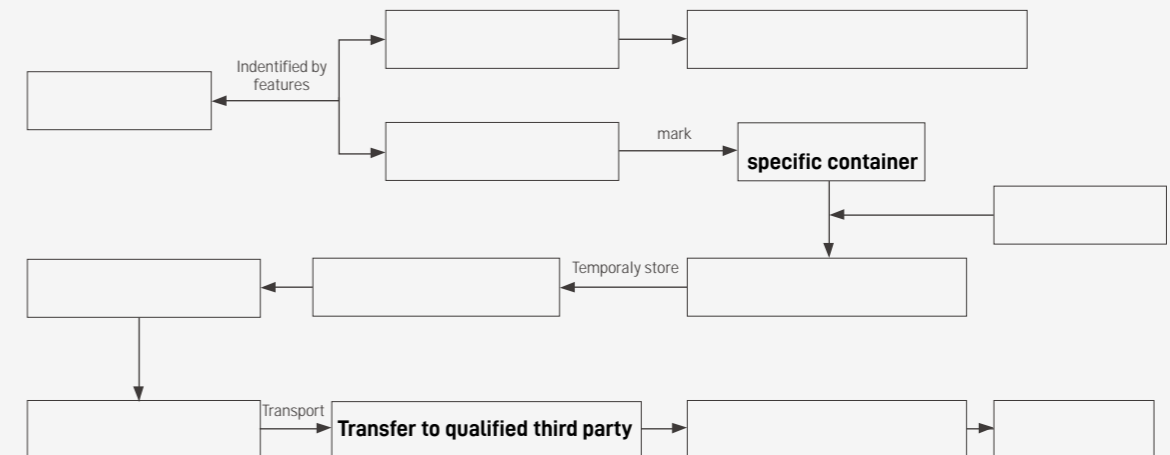
Taking the "Green Factory" as an opportunity and responding to the national target of preventing and controlling PM2.5, ozone, volatile organic compounds (VOCs) and other air pollution, the Company invested a total of RMB 13 million to build an annual production capacity of 200 million sets of refrigeration components equipped with aqueous cleaning and hydrocarbon cleaning technology transformation projects in households. By investing in a number of aqueous cleaning line, replacing part of the original trichloroethylene cleaning process, the cleaned products not only significantly improve the surface color, uniformity, cleanliness, welding quality, but also effectively reduce the emission of volatile organic compounds (VOCs). This is of great significance to improve the quality of the local air environment, enhancing the enterprise efficiency and social benefits.



According to the *Work Plan for Building of "Zero-Waste Cities" during the "14th Five-Year Plan" Period*, the Company emphasizes the prevention and control of solid waste pollution, combines with the "dual carbon" strategy, and actively promotes the pollution control action, accelerates the green and low-carbon development of the enterprise, and fully participates in the construction of "Zero-Waste Cities". In 2023, Zhejiang Sanhua Commercial Refrigeration Co., Ltd. was awarded the certificate of "Zero-Waste Cities Cell" issued by Shaoxing Pilot Zero-Waste Cities Construction Leading Group Office.



Waste is classified and managed according to the Company's Solid Waste Control Procedures, and household waste and production



▲ The chart of hazardous waste identification, collection, storage and disposal

Hazardous waste identification

Hazardous waste is identified according to the national hazardous waste list or the national hazardous waste identification standards and identification methods. At the beginning of each year, each production department identifies, counts and sums up the amount and types of hazardous waste generated and incorporates them into the hazardous waste management plan for strict management.



The Company's wastewater sources are mainly production wastewater and staff domestic sewage. We carry out sewage diversion, with clear water pipe, sewage pipe and reuse water pipe, for different wastewater using different collection and treatment methods, to improve the efficiency of water resources. According to the relevant regulations, the sewage is regularly monitored once a year, to ensure that the quality of water sewage standards.

10,000 cubic meters
Total amount of wastewater

Sanhua Household has two wastewater treatment stations in Meizhu Park, which can treat five streams of wastewater: chromium-containing wastewater, nickel-containing wastewater, copper-containing wastewater, composite wastewater, and citric acid wastewater, with a total of about 3,110 tonnes of wastewater treated per day.

According to the national standard Limits of Volatile Organic Compounds Content in Cleaning Agents GB38508-2020, trichloroethylene and other substances involved in the traditional cleaning process are volatile organic compounds (VOCs) exceeding the standard substances, which cannot meet the new environmental protection requirements. In this regard, the Company spontaneously develops hydrocarbon cleaning technique to help the cleaning agent can be recycled. This technique does not produce waste liquid and has no need for waste liquid treatment. In addition, hydrocarbon cleaning agent also has a high flash point, which belongs to the safety of the general chemicals (flash point higher than 60 °C), easy to store and manage.

Most of the cleaning aids in the market contain phosphate. Though the effect of rust removal on the surface of steel parts is obvious, the phosphorus-containing substances discharged into the sewage will lead to eutrophication of the water body, which in turn causes environmental pollution. By optimising the formula of cleaning agent, the Company has successfully developed non-phosphorus additives, which not only meet the requirements of cleaning and rust removal, but also effectively reduce the pollutants in the water body.

In 2023, the Company systematically sorted out its packaging process management and improved the construction of packaging process standards in all aspects, including system construction, standardisation management, quality management and supplier technology management. The reduction and saving of packaging materials was achieved through the adoption of recyclable folding packaging, recycling of recycled packaging, and the reduction of packaging airfreight volume. We also integrated packaging methods, changing the existing plywood pallets and plywood pallet covers to honeycomb paperboard pallets and honeycomb paper pallet covers, which saved more than RMB 2 million in packaging procurement costs during the year.

RMB
million
Packaging procurement costs saved

Heat pump integrated Module, Integrated Coolant Module , Accumulator , and many other parts use polypropylene blow-molding and blister-molding laminates in the overall recyclable folding packaging, instead of the disposable material-based cardboard boxes and wooden pallets.

Cooperate with third parties in packaging leasing and transport and packaging integration projects to optimize supply chain management, improve the efficiency and transparency of the supply chain, reduce intermediate links in the supply chain, lower supply chain costs, promote sustainable development, reduce resource wastage and environmental pollution in the process of logistics and packaging, and improve the efficiency of resource utilisation.

Increase the protective strength of packaging for components, reduce the use of disposable packaging materials, and reduce resource consumption, further reduce the volume of packaging airfreight, realizing logistics cost reduction and efficiency improvement.

2023

million
Number of cardboard boxes | Number of pallets | Number of plastic boxes | Number of recyclable packages

The Company emphasizes the conservation and comprehensive use of water resources, abides by environmental protection requirements, and strictly complies with relevant regulations. The Company uses water resources mainly from municipal tap water.







The Company strictly complies with national laws and regulations, and signs and fulfills labor contracts with employees. According to the actual situation of the Company, the Employee Handbook and Quota Management Measures for Staff have been formulated to make the rules and regulations transparent. Collective agreements and collective agreements for female employees have been formulated to provide employees with various career development channels. The annual evaluation is conducted in accordance with the Company's Management Measures for Annual Excellence Evaluation. At the same time, the Company adheres to the principle of fair competition, provides equal opportunities to all employees, and strictly prohibits any form of employment discrimination. Halal canteens are also provided to meet the needs of ethnic minority employees.



We are committed to creating a working environment featuring respect and equality, where employees are not discriminated against or treated unfairly based on race, religion, gender, nationality, age, marital status, disability, or sexual orientation, in terms of remuneration, training, promotion opportunities, and other aspects. Specific labor compensation regulations are established for female workers during pregnancy, childbirth, and breastfeeding, ensuring that there is no discrimination or unjustified reduction in wages. Furthermore, we firmly oppose any form of sexual harassment and maintain a zero-tolerance policy towards any acts of sexual harassment.



The Company values employee welfare and ensures the maintenance of daily life, guaranteeing that all workers can obtain a living wage that meets their basic needs. Our remuneration policy stipulates that wage levels shall not be lower than the local minimum wage standards. We maintain close collaboration with labor unions and organizations, continuously monitor changes in local economic conditions and living costs, and timely evaluate and adjust employee remuneration.

The Company adheres to the principle of "openness and fairness", treating all applicants equally and selecting talents based on merit, without discrimination based on age, disability, ethnicity, gender, marital status, nationality, political affiliation, etc. We strictly prohibit the employment of child labor and forced labor, and conduct regular internal inspections to ensure legal and compliant employment to the maximum extent.

In 2023, the Company continued to optimize its talent recruitment strategy, striving to attract and cultivate more outstanding talents. Throughout the year, we further implemented a diversified talent strategy, with a total of 2,872 new employees recruited, among which 2,058 were recruited through social recruitment. In addition, we conducted over 50 campus recruitment presentations, cooperated with more than 20 colleges and universities, and selected 500 outstanding graduates to join us.

The Company focuses on cultivating outstanding young management talents, continuously carrying out management trainee programs. Within the year, a total of 60 management trainees were contracted, among which 23% were overseas graduates, and 47% were graduates in majors such as machinery, electric and electronic engineering, and energy and power.



New employees

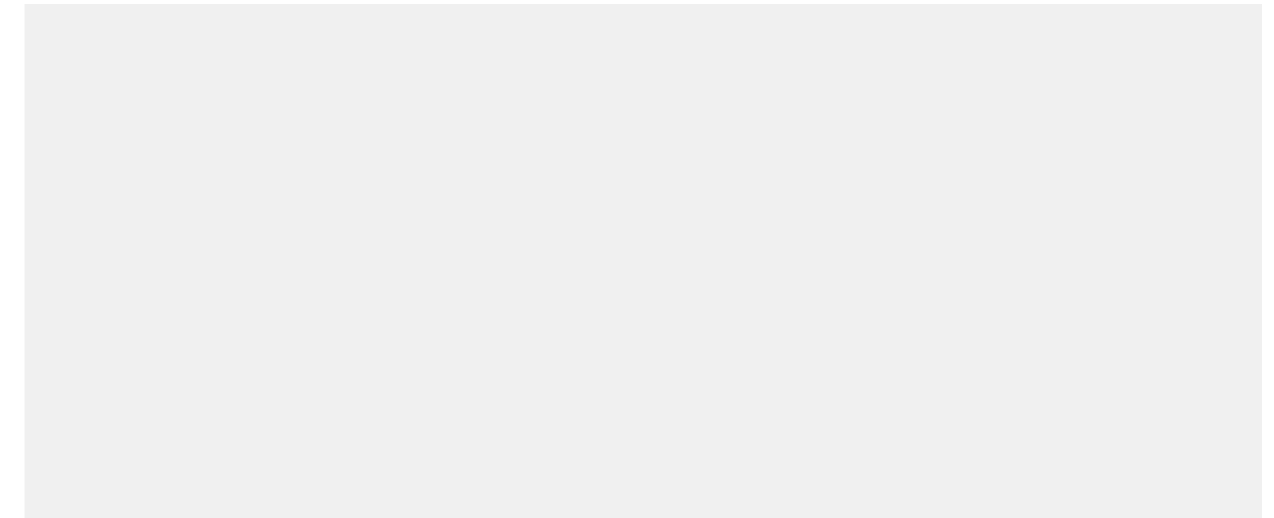
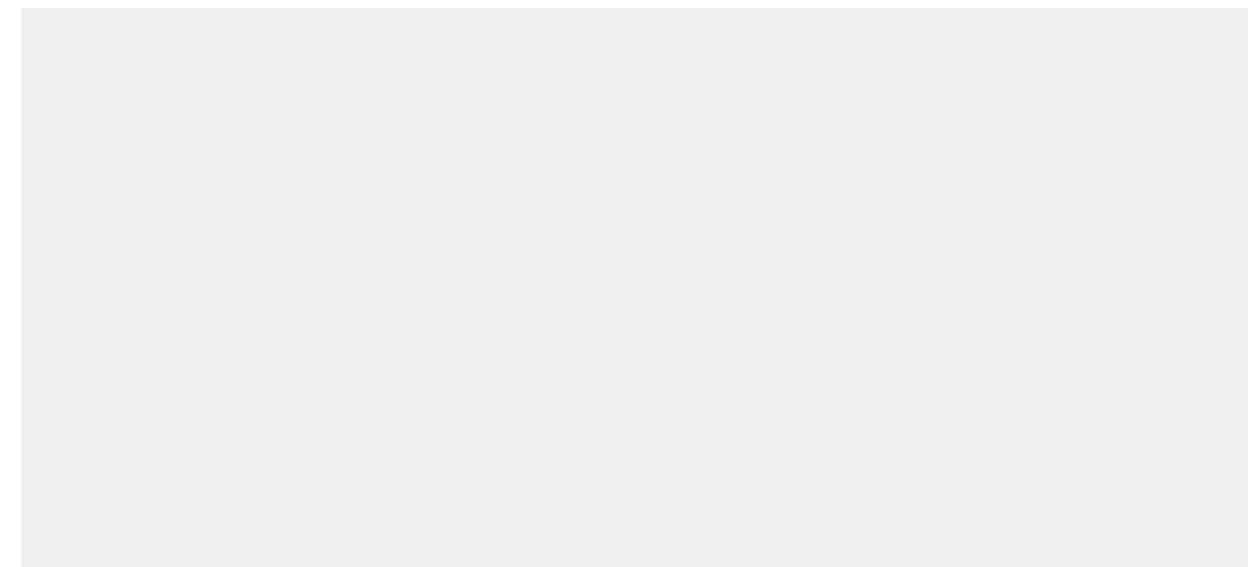
Campus recruitment presentations	Outstanding graduates
Colleges and universities cooperated	Management trainees contracted

Employee Remuneration and Benefits

The Company is committed to providing employees with fair working arrangements, aiming to promote a balance between work and personal life. Adhering to the principles of remuneration according to work and equal remuneration, the Company has established a system of regular salary increases and strictly complies with timely payment of social insurance to ensure the due legal rights and benefits of employees.

The Company has established a reasonable human resource management system and a scientific and comprehensive performance appraisal system. To implement the principles of equality between men and women, equal pay for equal work and distribution according to work, the Company links the performance appraisal of the management at all levels with the Company's business goals, and makes the employees and the Company become a community of shared interests through a reasonable remuneration structure and level. It aims to fully mobilize the employees' motivation, and stimulate the employees' sense of responsibility and sense of mission.

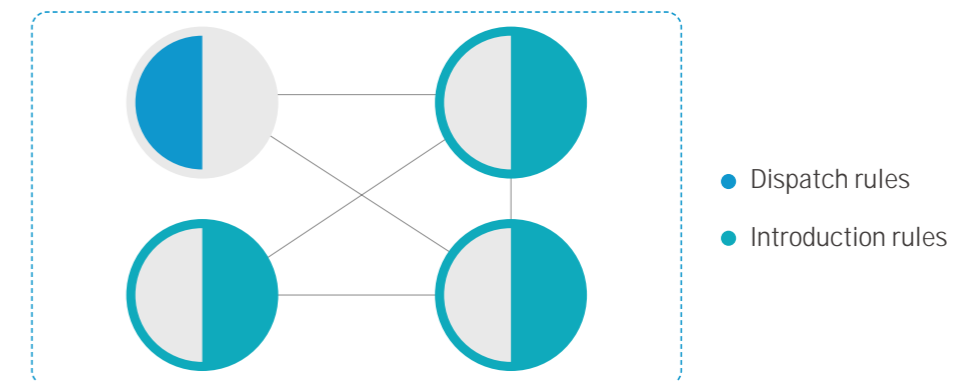
The Company actively responds to the Law of the People's Republic of China on the Protection of Women's Rights and Interests and the Special Provisions on Labor Protection for Female Employees, protects the leave rights of female employees such as maternity leave, breastfeeding leave and childcare leave, and prohibits salary reduction, dismissal, or the termination of employment or labor contracts due to pregnancy, childbirth or breastfeeding. The Company prioritizes and strengthens the labor protection of female employees during production, continuously improves the working environment and conditions for female employees, and protects the physical and mental health of female employees by carrying out health examinations.



The Company values globalization and diverse development of its employees, and has built an international talent management system. Through regular training and experience sharing, the Company continues to improve the cross-cultural communication skills of its employees, and jointly promotes sustained development and progress with employees, contributing to the Company's international development.



The Company has established a globalized international dispatch management system, and its subsidiaries at home and abroad have also formulated international dispatch management methods to provide standardized and consistent guidance for international dispatch and to ensure that expatriates work in a safe, compliant and efficient manner worldwide. Meanwhile, to improve the experience of international assignment and overseas business trip, the Company has formulated various country guides, visa guides, guides for overseas employees coming to China, and code of conduct guides for working overseas, to provide employees with convenience and assistance in international assignment.



- ✓ HQ and BUs have set dispatch rules
- ✓ European and US platforms have set introduction rules

Cross-Cultural Awareness and Training

The Company attaches importance to the cultivation of employees' cross-cultural awareness and international vision, and helps employees better understand and respect the differences between cultures and promotes the development of cross-cultural integration by carrying out bi-weekly cross-cultural awareness publicity activities and online/offline cross-cultural training.

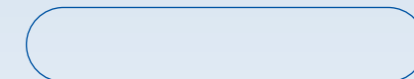
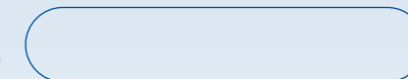


Foreign Language Learning and Certification

Focusing on foreign language improvement, the Company has established a management system for foreign language subsidies targeting outstanding talents with language proficiency. It encourages employees to learn one or more languages through various learning methods, to enhance international cooperation, communication and information processing, and improve work efficiency. In addition, the Company encourages employees to improve their English ability through English corners, online English learning APPs and one-on-one conversations with foreign teachers, creating a positive atmosphere for foreign language learning.

Globalized Internal Communication Platform

To strengthen communication and collaboration at home and abroad, the Company utilizes the globalized office platform as an internal communication platform to facilitate communication and collaboration among employees from different countries and regions. The platform features a variety of functions such as community, storyline, leadership, and Q&A. As an online communication hub for employees around the world, the platform helps everyone keep abreast of important Company achievements around the world, interact with colleagues from different countries, and gain access to valuable resources that help support personal career development and physical and mental health. With the platform, the Company brings together leaders and colleagues across the organization. Through interactive quizzes and story sharing, it creates a sense of belonging at work and provides a wealth of information and resources through its official account.



- Sanhua Intelligent Controls History and Culture
- Corporate Vision, Mission and Values
- Global News and Events
- Sanhua Intelligent Controls Leadership Insight
- Cross-Cultural Awareness and Inclusiveness
- Employee Recognition and Health
- Best Practices and Knowledge Sharing

The Viva Engage globalized internal communication platform

Globalized internal communications platform



The Company continues to promote the construction of dual prevention system for work safety, and has formulated and issued the Handbook of Dual Prevention System for Work Safety. The handbook combines risk management and control with hidden danger investigation, curbs the risk of work safety from the source and effectively reduces the occurrence of accidents. The Company has established a well-improved mechanism for hidden danger investigation and management, identifies all kinds of hidden dangers of safety, and eliminates these dangers through regular and irregular inspections, special rectification and other methods. Combined with the relevant reward and punishment mechanism, the Company ensures the effective operation of the dual prevention system of work safety, and safeguards the safety of employees' lives and properties.

- Curbing work safety risks at the source, effectively identifying, grading and controlling potential safety hazards in the plant, dividing the risk level according to "severe risk, major risk, general risk, low risk", and strictly implementing the risk control hierarchy with clear responsibilities and risk points.

- Organizing regular hidden danger inspection and management for work (fire) safety every month, strictly implementing the safety inspection plan, and conducting monthly special inspections and weekly random safety inspections in the workshop from time to time. Conducting rectification immediately to ensure work safety once hidden dangers are found.

-

Safeguarding fire safety by actively carrying out fire drills



In 2023, Sanhua Intelligent Controls conducted regular fire safety activities across all business units. Through extensive promotion, training, and emergency drills, employees' understanding and awareness of fire safety were enhanced. The Company aimed to strengthen fire awareness, improve employees' capabilities of responding to emergencies, and demonstrate the Company's fire safety policy of "putting prevention first, combining prevention with firefighting."





The Company places great importance on talent development. We have built targeted training systems with different levels and sequences, covering various aspects such as job skills, professional knowledge, and management abilities. These training systems aim to help employees enhance their abilities and achieve career development.

- We have established a comprehensive training system, including basic infrastructure training, leadership training, professional skill training, international talent training, new employee training, and other open courses, to provide employees with channels for comprehensive skill enhancement.
- Throughout the year, we conducted various themed training sessions such as the "Navigation Series," "Elite Procurement Class," "Elite Financial Class," "Management Performance Training," "Management Trainee Program," and "TDR Training," providing more systematic and comprehensive training for management personnel, technical and professional talents. Additionally, we optimized employee training plans in line with our development strategies, increasing efforts in talent development for areas such as international talent cultivation and digital transformation empowerment.

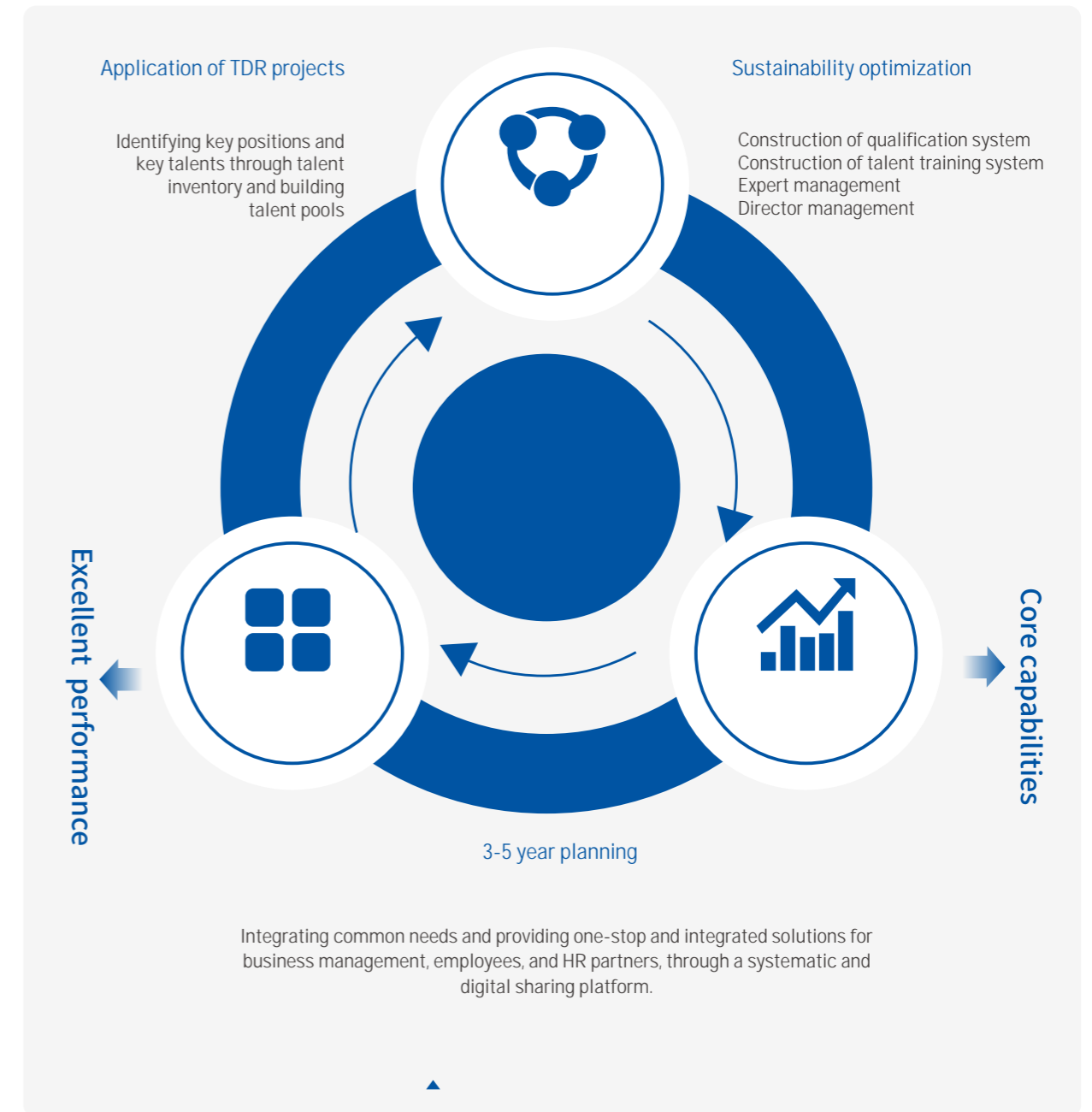
- The establishment of the lecturer and course system presents crucial for talent development. In 2023, we launched the "Internal Lecturer Training Program - Bright Star Plan," involving 53 business elites from all business units in a six-month professional TTT program. They underwent course development, trial teaching, and course polishing, resulting in 30 certified junior lecturers and 30 professional courses, injecting new vitality into our lecturer team.

▲ A group photo of certified internal lecturers at the certification ceremony



In May 2023, Sanhua Household organized the 2023 R&D Project Leader Training Camp, with over 70 R&D project leaders participating in the training. For this training camp, the Company developed a series of courses titled "R&D Project Leader Training Camp," covering modules such as refrigeration systems, reliability, project management, motor design, and cross-departmental communication. The objective was to help project leaders enhance their knowledge and skills, improve project management capabilities, and enhance cross-departmental communication skills. During the training, participants collectively discussed the "Portrait of an Excellent R&D Project Leader," encouraging everyone to strive for excellence and continuously develop themselves.

- We organized Teacher's Day activities for internal lecturers, gathering more than 30 outstanding lecturers to participate in this event. The representatives shared their educational mottos and delved into discussions on how to further enhance teaching quality, striving together to cultivate more outstanding talents.
- We carried out activities under the theme of "Not Wasting Good Times, Treading New Heights with Each Step," inviting over 10 teachers to embark on an autumn hiking. While enjoying the beautiful autumn scenery, the activity also symbolized the continuous pursuit of new educational heights and the firm belief in scaling the peak of knowledge.



of qualification


Within the year, qualification standard interviews were conducted, covering 33 position categories and 40 participants, to confirm the division of positions, and adjustments were made to 22 qualification standards.

qualification


Establishing learning maps for all positions, and collecting training learning requirements for necessary knowledge, skills, and professional abilities for promotion at each level; based on the professional competence items collected from interviews, integrating them into the professional competence pool for each position group.



- Formulating qualification standards for technical positions, position maps for all sequences, career development channels, corresponding relationships of position systems, and simultaneously reviewing learning maps, professional competence libraries (competency model construction), *Position Management Measures*, and *Qualification Management Measures*.
- Setting up a system of qualification standards for employees

- For grades 4 and below, employees submit the "Application Form for Professional Talent Evaluation" and "Personal Score Sheet". After department recommendation and HR review, employees who meet the promotion conditions and competency requirements specified in the "Promotion Evaluation Form for Grades 4 and Below" submit to the Professional Talent Evaluation Committee for evaluation and approval by the general manager.
- For grades 5 and above, promotion requires meeting point value requirements and passing the professional skills certification defense by the evaluation committee.



The Company attaches great importance to the cultivation and development of research talents, and has established cooperative relationships with multiple universities and research institutions. Through the combination of industry, academia, and research, the Company promotes technological innovation and talent cultivation. Additionally, the Company actively participates in international scientific cooperation projects, providing employees with opportunities for international exchanges and cooperation. Encouraging employees to participate in various technical innovation activities further expands their perspectives and modes of thinking.

To strengthen the construction of the R&D talent team, the Company has formulated the Management Measures for the Cultivation of R&D Talent Production Line, aiming to continuously optimize and improve the research curriculum. This initiative aims to create an efficient and comprehensive R&D talent production line to ensure the continuous output of high-quality research talents. Furthermore, the Company focuses on the construction of an innovation system and the enhancement of innovation capabilities, inclining towards innovation capabilities in aspects such as selection, cultivation, appointment, and retention. This approach aims to enhance the Company's innovative capabilities in leading industry development, thereby promoting continuous innovation and excellence development.

In 2023, the Company initiated innovation and talent engineering projects in locations such as Hangzhou, as well as Binhai and Xinchang of Shaoxing. Through the construction of new research buildings and talent apartments, the Company improves the living support facility for R&D personnel, creating a comprehensive and favorable working and living environment for them.

The Company is committed to creating a vibrant and diverse working environment for all employees worldwide, fostering a healthy, positive, and collaborative atmosphere. Providing convenience and subsidies in areas such as housing, transportation, and meals, the Company strives to meet the needs of its employees. It also closely monitors employee difficulties and requirements, actively listens to their voices, and promptly addresses and resolves their issues.

The Company has formulated relevant regulations such as the Management Measures for the Evaluation and *Management of Professional Talents*, clarifying the responsibilities, evaluation, and application of professional talent evaluation management. By establishing the Professional Talent Evaluation Committee, the Company conducts specialized assessments and evaluations of the abilities of applicants, and provides relevant suggestions. The Company's human resources department fully participates in the certification defense of professional skills, supervises the evaluation process, and engages in the promotion evaluation of professional talents.

The Company extends warmth to employees facing family difficulties or sudden disasters and has established the "Sanhua Intelligent Controls Family" Employee Assistance Fund to aid those in need. This initiative aims to enhance employees' sense of belonging by providing financial assistance to employees and their families experiencing significant illnesses or accidents that result in financial hardship. The fund covers 100% of the assistance, and since its inception in 2016, it has aided a total of 183 employees.

Organizing events such as sports competitions, skills contests, and holiday parties, the Company showcases the sound spirit of its employees, fostering their identity and integration into the corporate culture. These activities facilitate a balance between work and life, enhance physical fitness, enrich spiritual well-being, and increase employee happiness and satisfaction with the Company. They also serve as platforms for employee interaction, effectively boosting sense of group honor and team cohesion.



On September 23, 2023, the 19th Asian Games Hangzhou kicked off, delivering to the world a great event that is distinctly Chinese, uniquely Asian and spectacular with over 10,000 athletes from across Asia. In the lead-up to the Asian Games, employees of the Company actively participated in a series of activities to welcome the event. From chess competitions to track and field events, from basketball matches to football games, from intellectual challenges to intense competitions, and even to the resilience shown on the marathon track, the employees of Sanhua Intelligent Controls were vibrant and energetic. With wisdom, sweat, and passion, they added a unique charm to the atmosphere of the Asian Games.

The Company provides channels for employees to provide feedback, report issues, and lodge complaints. We strictly implement the Quota Employee Management Measures for Staff and ensure the independence, confidentiality, and safety of the process. We encourage employees to speak up proactively. Employees can communicate their feedback through channels such as the "Director's Mailbox," "Employee Complaint Form," and the Sanhua Intelligent Controls Employee Service Platform. Through democratic participation, employees can fully express their opinions and suggestions, actively exchange ideas with management, and deliver sound teamwork and common growth.

disadvantaged groups in targeted communities, and engaging in various charitable activities in the fields of

We regularly organize voluntary blood donation activities to encourage employees to contribute to society by donating blood voluntarily, promoting the spirit of caring for life while fulfilling their job responsibilities.

Sanhua Holding Group has established the "Sanhua Intelligent Controls Education Fund" and pledged to donate RMB 2 million annually from 2022 to 2026. This fund aims to reward outstanding teachers in the education sector of Xinchang, promoting the high-quality development of the education industry.

Since 2019, Sanhua Holding Group has sponsored the Xia Anshi Fund for five consecutive years, rewarding outstanding professors and students in the Chinese refrigeration and air conditioning industry. In April 2023, the 27th Xia Anshi Education Foundation Fund — Award Ceremony of the "Sanhua Award" was held at Sanhua Intelligent Controls Hangzhou Industrial Park. A total of 18 nominees from renowned institutions nationwide received the award, including one professor, 13 undergraduate students, and 4 graduate students (both master and PhD students), who were respectively awarded the "Outstanding Professor Award" and the "Excellent Student Award."

Scope of statistics for the reporting period

The scope of economic statistics is consistent with the scope of the Company's consolidated financial statements.

Economic Statistics		
Total asset	RMB 100 million	318.91
Revenue	RMB 100 million	245.58
Net benefit	RMB 100 million	29.34
Total tax paid	RMB 100 million	12.83

Scope of statistics for the reporting period

The scope of economic statistics is consistent with the scope of the Company's consolidated financial statements.

Board Meetings		
Number of board meetings held throughout the year	Time	10
Average attendance during the year	%	100

Anti-corruption and Integrity Training		
Number of anti-corruption and integrity training sessions	Time	5
Number of employees covered by anti-corruption and integrity training	Person	493
Anti-corruption and integrity training coverage	%	100

Supplier Training and Review		
Number of social responsibility training sessions for suppliers	Time	2
Supplier review coverage rate ¹⁰	%	42.20

⁹Among them, the data related to anti-corruption initiatives only cover the Company's procurement system (Sanhua Automotive and Sanhua Household)

¹⁰Supplier review data only covers Sanhua Automotive.

Air Pollution Emissions		
Total sulphur dioxide emissions	Kg	2,729
Total nitrogen oxide emissions	Kg	30,059
Total soot emissions	Kg	43,468

Greenhouse Gas Emissions		
Direct (Scope 1) GHG emission	Tonnes of CO ₂ equivalent	22,780
Direct (Scope 2) GHG emission	Tonnes of CO ₂ equivalent	233,439
Total amount of GHG emission	Tonnes of CO ₂ equivalent	256,219
380 T502		

Total amount of water consumption	Cubic meter	3,316,957.40
Total amount of recyclable water	Cubic meter	1,303,787.41
Percentage of recyclable water in total water use	%	39.31
Total amount of water discharge	Tonne	1,926,189.85
Total amount of sewage	Tonne	1,755,207.44
Water pollutant (COD)	Tonne	107.41
Water pollutant (ammonia)	吨 Tonne	23.50

Number of cardboard boxes	10,000	1,810.00
Number of pallets	10,000	11.84
Number of plastic boxes	10,000	8.19
Number of recyclable packages	10,000	1.90

Electricity generation from new energy facilities	MWh	33,727.60
Comprehensive energy consumption ¹²	MWh	525,259.04
Total oil used for production	Tonne	164.54
Total petrol volume	Tonne	281.26
Total diesel volume	Tonne	246.10
Natural gas consumption	10,000 standard cubic meters	965.67
Total amount of purchased heat power ¹³	GJ	60,705.88
Total amount of purchased electricity	MWh	397,617.65
Total amount of purchased green power	MWh	18,000.00

¹¹GHG emissions (Scope 1) mainly come from energy consumption for production and vehicles, etc., and natural gas, while GHG emissions (Scope 2) mainly come from consumption of purchased electricity and heat. For the GHG emission factor of electricity, refer to the *Notice on the Management of Greenhouse Gas Emission Reporting for Enterprises in the Power Generation Industry in 2023-2025* issued by the Ministry of Ecology and Environment of the People's Republic of China; Refer to the National Development and Reform Commission (NDRC) Guidelines on Accounting Methods and Reporting of Greenhouse Gas Emissions by Enterprises (Trial) for the emission factor of purchased heat; refer to the IPCC 2006 Guidelines for the Preparation of National Greenhouse Gas Inventories (Trial) for the emission factor of other energy sources, and so on..

¹²Calculated with reference to the *General Rules for Calculation of Comprehensive Energy Consumption* (GB/T2589-2020), the types of energy consumed by the Company include petrol and diesel consumption for production and vehicle use, purchased heat and natural gas.

¹³The scope of the data for purchased heat only covers Sanhua Household and Sanhua Commercial Refrigeration

Scope of statistics for the reporting period

The scope of social performance data covers the listed body of Zhejiang Sanhua Intelligent Controls Co., Ltd. and includes the overseas part, but the total number of employees data therein does not include dispatched employees.

Total number of employees on duty	Person	17,732
Number of female employees	Person	6,551
Number of Male employees	Person	11,181
Number of employees aged below 30	Person	6,220
Number of employees aged 30 to 50	Person	10,091
Number of employees aged above 50	Person	1,421
Number of employees educated in high school or less	Person	7,801
Number of Employees with bachelor's degree and vocational degree	Person	8,972
Number of employees with master's degree or above	Person	959
Number of female employees in middle management	Person	215
Number of female employees in senior management	Person	28
Number of newly recruited employees	Person	2,872
Number of college graduates	Person	740

Number of trained employees	Person	20,000
Number of trained female employees	Person	5,000
Number of trained male employees	Person	15,000
Number of trained senior management	Person	200
Number of trained middle management	Person	2,000
Number of trained primary employees	Person	17,000

Training expenses	RMB 10,000	2,000.00
Training expenses per employee	RMB	1,000.00
Training hour per employees	Hour	10
Training hour per senior management	Hour	21
Training hour per middle management	Hour	15
Training hour per primary employee	Hour	15
Training hour per female employee	Hour	10
Training hour per male employee	Hour	15
Number of trainers (including in-house trainers and externally hired faculty)	Person	200

Labor contract signing rate	%	100.00
Social insurance coverage rate	%	100.00

Number of employees on maternity leave during the year	Person	21
Number of timely returns from maternity leave	Person	18
Female post-natal return rate	%	96.00
Union building rate	%	90.00
Labor union coverage rate	%	91.50
Number of employees in difficulty receiving help	Person	10

Number of intellectual property rights	/	3,792
Number of utility model patents	/	1,495
Number of invention patents	/	1,879
Number of design patents	/	418
Number of trademarks	/	169

Number of customer factory inspections	Time	292
Customer Factory Inspection Pass Rate	%	98.00
Number of participants in quality management training	Person	3,797
Number of quality management trainings	Time	306

Number of cars	/	58
Mileage on cars	Km	2,524,637
Number of trucks	/	15
Mileage on trucks	Km	498,075.5
Number of electric forklifts	/	252

Donation expenditure throughout the year	RMB 10,000	637.9
Amount of targeted support donations (charitable donations)	RMB 10,000	343.2
Donations for rural revitalization	RMB 10,000	52
Donations for education	RMB 10,000	215
Donations for disaster relief	RMB 10,000	27.7

Number of Volunteers ¹⁵	Person	258
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¹⁴The scope of the social welfare data is from the parent company, Sanhua Holding Group Co., Ltd.

¹⁵ The scope of the data on the number of volunteer only covers Sanhua Domestic, Sanhua Commercial Refrigeration and Sanhua Automotive.

Statement of use	Zhejiang Sanhua Intelligent Controls Co., Ltd. has reported the information cited in this GRI content index for the period from January 1, 2023, to December 31, 2023 with reference to the GRI Standards.
GRI 1 used	GRI 1: Foundation 2021

GRI 1: Foundation 2021		
1: Foundation 2021	Report foundation, including GRI content index, report description, etc	
GRI 2: General Disclosures 2021		
The organization and its reporting practices		
2-1	Organizational details	Report Description
2-2	Entities included in the organization's sustainability reporting	Report Description
2-3	Reporting period, frequency and contact point	Report Description
2-4	Restatements of information	Not applicable
2-5	External assurance	Not applicable
Activities and workers		
2-6	Activities, value chain and other business relationships	About Us
2-7	Employees	About Us
2-8	Workers who are not employees	Not applicable
Governance		
2-9	Governance structure and composition	Corporate Governance Structure
2-10	Nomination and selection of the highest governance body	Corporate Governance Structure
2-11	Chair of the highest governance body	Corporate Governance Structure
2-12	Role of the highest governance body in overseeing the management of impacts	Corporate Governance Structure

Governance		
2-13	Delegation of responsibility for managing impacts	Corporate Governance Structure
2-14	Role of the highest governance body in sustainability reporting	Corporate Governance Structure
2-15	Conflicts of interest	Not applicable
2-16	Communication of critical concerns	Not applicable
2-17	Collective knowledge of the highest governance body	Not applicable
2-18	Evaluation of the performance of the highest governance body	Not applicable
2-19	Remuneration policies	Not applicable
2-20	Process to determine remuneration	Not applicable
2-21	Annual total compensation ratio	Not applicable
Strategy, policies and practices		
2-22	Statement on sustainable development strategy	Message from Chairman
2-23	Policy commitments	Supply Chain Management Strengthening Environmental Protection Ensuring Employee Rights Occupational Health and Safety Quality Products Creating Sustainable Value
2-24	Embedding policy commitments	Supply Chain Management Strengthening Environmental Protection Ensuring Employee Rights Occupational Health and Safety Quality Products Creating Sustainable Value
2-25	Processes to remediate negative impacts	Risk Management System
2-26	Mechanisms for seeking advice and raising concerns	Integrity and Compliant Operation
2-27	Compliance with laws and regulations	Integrity and Compliant Operation
2-28	Membership associations	Not applicable

GRI 304: Biodiversity 2016

304-1

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403-10	Work-related ill health	Occupational Health and Safety
GRI 404: Training and Education 2016		
404-1	Average hours of training per year per employee	Optimizing Training System
404-2	Programs for upgrading employee skills and transition assistance programs	Optimizing Training System
404-3	Percentage of employees receiving regular performance and career development reviews	Optimizing Training System
GRI 405: Diversity and Equal Opportunity 2016		
405-1	Diversity of governance bodies and employees	Talent Recruitment and Introduction
405-2	Ratio of basic salary and remuneration of women to men	Not applicable
GRI 406: Non-discrimination 2016		
406-1	Incidents of discrimination and corrective actions taken	Talent Recruitment and Introduction
GRI 407: Freedom of Association and Collective Bargaining 2016		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Not applicable
GRI 408: Child Labor 2016		
408-1	Operations and suppliers at significant risk for incidents of child labor	Talent Recruitment and Introduction
GRI 409: Forced or Compulsory Labor 2016		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	Talent Recruitment and Introduction
GRI 410: Security Practices 2016		
410-1	Security personnel trained in human rights policies or procedures	Not applicable
GRI 411: Rights of Indigenous Peoples 2016		
411-1	Incidents of violations involving rights of indigenous peoples	Not applicable
GRI 413: Local Communities 2016		
413-1	Operations with local community engagement, impact assessments, and development programs	Not applicable
413-2	Operations with significant actual and potential negative impacts on local communities	Not applicable

GRI 414: Supplier Social Assessment 2016		
414-1	New suppliers that were screened using social criteria	Supplier Access Mechanism
414-2	Negative social impacts in the supply chain and actions taken	Supplier Risk Management
GRI 415: Public Policy 2016		
415-1	Political contributions	Not applicable
GRI 416: Customer Health and Safety 2016		
416-1	Assessment of the health and safety impacts of product and service categories	Consumer Health and Safety
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Consumer Health and Safety
GRI 417: Marketing and Labeling 2016		
417-1	Requirements for product and service information and labelling	Product Quality Management
417-2	Incidents of non-compliance concerning product and service information and labelling	Product Quality Management
417-3	Incidents of non-compliance concerning marketing communications	Product Quality Management
GRI 418: Customer Privacy 2016		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Not applicable

