



®

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Jiangsu Hengli Hydraulic Co., Ltd.

2023

Annual Social Responsibility Report

www.henglihydraulics.com

About this Report

Reporting Period

January 1, 2023, to December 31, 2023. In consideration of the continuity and comparability of disclosure matters, some information content is appropriately extended forward or backward.

Reference Standards

This report refers to the Listed Companies Environmental Information Disclosure Guidelines of Shanghai Stock Exchange.

Data Sources

The report uses data sources including publicly available data from government departments, relevant internal company statistical reports, administrative documents, and reports, etc.

Terminology Explanation

For ease of expression, Jiangsu Hengli Hydraulic Co., Ltd. is abbreviated as "Hengli Hydraulic," "the Company," or "we" in the report.



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Chairman's Address



Chairman of Jiangsu Hengli Hydraulic Co., Ltd.
Wang LiPing

The year 2023 is the first year to fully implement the spirit of the 20th National Congress of the Communist Party of China, and it marks a crucial year for the implementation of the "14th Five-Year Plan." Looking back, we have experienced extraordinary few years, from the peak of the construction machinery industry in 2021 to the current market downturn. We have expanded our product line to grasp both international and domestic markets, transitioning from a focus on excavator business to entering industries such as high-end machinery and agricultural machinery. With the collective efforts of all Hengli employees, we finally achieved growth against the odds last year, with significant improvements in product research and development, production quality, and market service systems.

Bold Exploration, New Chapters in Overseas Layout

In 2023, due to the continued downturn in the domestic market and the unpredictable international environment, Hengli accelerated its globalization layout. We promoted organizational changes overseas, formed a global elite talent team, and invested in building the largest overseas factory in Mexico, the region with the highest demand for hydraulic components globally. The Mexico factory will be a top priority for Hengli's overseas development in the coming decades.

Continuous Investment, Diverse Products Boost Growth

The company closely grasps industry technological trends and changes in customer demands, adhering to a management philosophy that combines applied and forward-looking research. We actively expand into diverse new product areas, with continuous breakthroughs such as hydraulic pumps, valves, motors, and new products like linear sensors, high-precision ultra-high-speed cylinders, high-pressure heavy-duty torque dual-screw swing actuators, and threaded cartridge valves, which have been mass-produced and applied in multiple industries such as industrial, agricultural machinery, aerial work vehicles, and cement pump trucks.

Strategic Vision, Building the Future with Green Electric Drive

To meet the trends of industrial automation and electrification of construction machinery, the company focuses on the development direction of "electrification, digitization, and intelligence." We have intensified our efforts in the linear actuator project, and in 2022, we established Hengli Precision, the largest domestic investment project in nearly 8 years. After two years of effort by the new team, it will officially start operation in March 2024. Hengli will have its first major factory producing non-hydraulic products, including precision ball screws, precision guides, and electric cylinders, contributing to the new era of industrial automation and electrification of construction machinery.

We define 2024 as the year of "management and R&D innovation breakthroughs" for Hengli. While continuing to improve lean production, we will devote full energy to management and innovation, establishing an enterprise operations management department to undertake group management responsibilities. The future of Hengli must rely on further development through research and development innovation and scientific management.

Despite our achievements, we must continue to strive on the path of development. We, the Hengli team, must dare to revolutionize ourselves, be courageous in breaking old habits and innovating, and bravely lead the way towards the great dream of creating a century-old Hengli.

Jiangsu Hengli Hydraulic Co., Ltd. was established in 2005, formerly known as Jiangsu Hengli High-Pressure Cylinder Co., Ltd., with its entrepreneurial history tracing back to the early 1990s.

Over the past 30 years, Hengli has always adhered to the corporate vision of "eternal foundation, aspiring future," and upheld the cultural concept that "social responsibility outweighs corporate interests." With a commitment to innovation and actively fulfilling social responsibilities, it has developed into a leading enterprise in China's high-end hydraulic manufacturing sector. In the future, the company will continue to create more value for the Chinese capital market.

As a socially responsible enterprise, while constantly growing and developing, we never forget the social responsibilities that the company should bear. We adhere to the win-win concept of achieving common prosperity for society, employees, customers, and investors, promoting the coordination, harmony, and sustainable development of the enterprise and society.

01 Preface



2.1 Corporate Overview



Company Profile

Has established **7** major research and development centers worldwide

Jiangsu Province's **Only** Research Center

Products are sold to more than **30** countries and regions

Jiangsu Hengli Hydraulic Co., Ltd. was founded in 2005 with a registered capital of 1,340.82 million yuan. It is a listed company on the A-share main board (SH601100). Hengli Hydraulic is a leading enterprise that integrates the research and development, production, and sales of series products including high-pressure hydraulic cylinders, hydraulic pumps, hydraulic valves, hydraulic systems, and high-precision hydraulic castings. It is a champion demonstration enterprise of the Ministry of Industry and Information Technology, a key project in the "One-stop" base project of the Ministry of Industry and Information Technology, a national high-tech enterprise, a national intellectual property demonstration enterprise, a Chinese green casting demonstration enterprise, and a unit for formulating national and industry standards.

Hengli Hydraulic has established seven major research and development centers worldwide, including the Hengli International Research Center (Changzhou, China), Hengli Chicago Research Center (USA), Hengli Berlin Research Center (Germany), Hengli Shanghai Research Center (China), Hengli France Research Center, Hengli Japan Research Center, and Hengli Mexico Research Center. The company has established Asia's leading hydraulic cylinder research center and Jiangsu Province's only "Jiangsu Provincial Ultra-high Pressure Cylinder Miniaturization and Lightweight Design Engineering Technology Research Center," as well as Jiangsu Province's high-pressure cylinder engineering center, enterprise technology center, and post-doctoral workstation, graduate workstation, and foreign expert workstation.

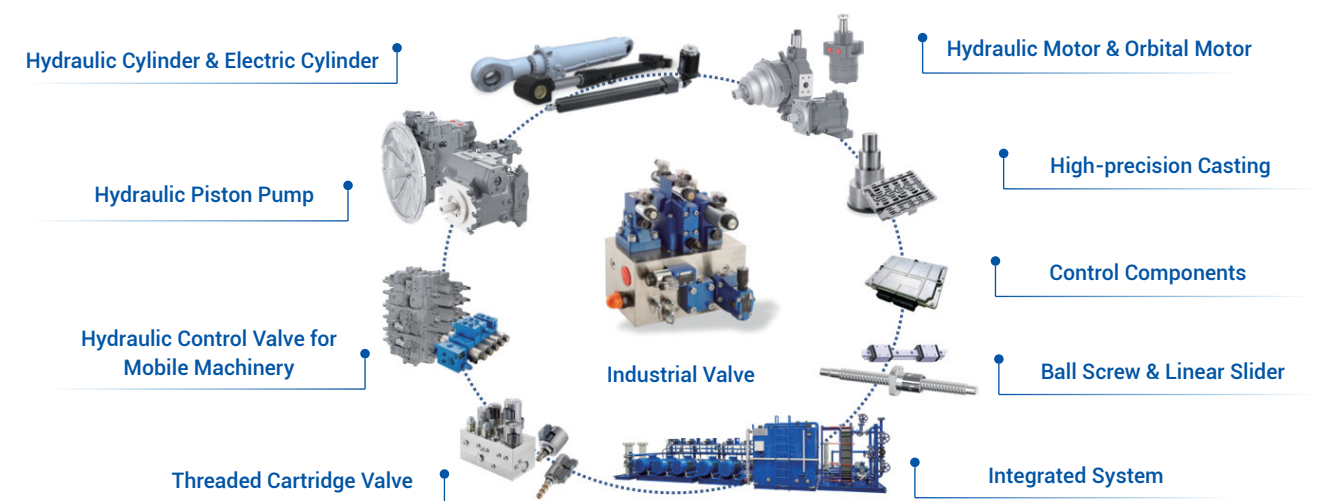
It has become a leading enterprise in the domestic hydraulic industry after more than 30 years of innovative development and is the first listed company on the A-share market with hydraulic components as its main business. Hengli Hydraulic is the only independent brand among the top four brands of excavator hydraulic cylinders in China. Currently, Hengli has built a leading global high-pressure cylinder production base and a special hydraulic cylinder production enterprise for shield machines. Its products have expanded from single cylinder products to extended industries such as hydraulic valves, hydraulic pumps, hydraulic systems, and precision castings. Hengli has invested in the construction of three major bases: Hengli Cylinder, Hengli Foundry, and Hengli Hydraulic, and has established overseas sales and service companies in Europe, the United States, Japan, India, and Indonesia to expand its overseas market. Hengli's products are sold to more than 30 countries and regions and serve more than 1,200 global units.

Corporate Strategy

The company will be driven by the vision of becoming a century-old shop with international influence in the field of hydraulic components and hydraulic systems. "Having international influence" is the corporate position we pursue, "hydraulic components and hydraulic systems" are the industrial directions we pursue, and "century-old shop" is the brand inheritance and accumulation we pursue.

In the future, the company will continue to deepen and consolidate the development strategy of the leading domestic brand of excavator high-pressure cylinders, increase research and development investment, maintain absolute advantages in technology and quality, strengthen and consolidate the company's leading position in domestic brand excavator high-pressure cylinders, gradually increase the company's market share in foreign brand excavator high-pressure cylinders, and accelerate internationalization. At the same time, the company will increase its efforts in R&D and investment in special cylinders, maintain technological leadership, ensure the continuous and steady growth of special cylinder production and sales, and rely on the company's high-precision hydraulic casting, hydraulic components, and system research and production bases to continuously increase the market share of main control pumps and valves for excavators.

At the same time, the company will increase its efforts in outbound mergers and acquisitions, fully implementing the "going global" strategy, and seeking international high-quality hydraulic resources for continuous integration. It will also enhance the construction of comprehensive integrated design and application capabilities in the fields of machinery, electronics, and hydraulics, especially focusing on the research and development of electromechanical-hydraulic integrated control technology and the application of intelligent motion control technology for complex electromechanical-hydraulic systems. The company strives to become a top-notch domestic and globally renowned high-end hydraulic equipment supplier and provider of hydraulic technology solutions.





2.1 Corporate Overview —Industrial Layout

Hengli has always invested a large amount of energy and capital in technology and product research and development and has set lofty development goals: focusing on the main business, with hydraulics as the core, and expanding into various categories of hydraulics. After stabilizing the development of high-pressure cylinders, Hengli began to enter the pump and valve sector, which has high technical difficulty and added value, aiming to master the "key" technology of high-end hydraulic components monopolized by foreign brands.

In the year of listing, Hengli invested **594 million yuan** to build the first domestic scale production base for high-precision hydraulic castings, aiming to grasp the key core points of high-end hydraulic components. This also echoes the saying "Those who have hydraulics have casting."

With the formal production of the foundry company in December 2012, Hengli met the quality and capacity requirements of high-precision hydraulic castings required for high-pressure cylinders and hydraulic pumps and valves. It also indicates that Hengli has gradually possessed the industrial foundation for the large-scale production of pumps and valves. Therefore, in **2013**, the company established Jiangsu Hengli Hydraulic Technology Co., Ltd., focusing on high-performance hydraulic piston pumps and multi-way control valves.

Hengli Hydraulic has successively hired dozens of experts in the field of hydraulic pumps and valves from Germany, Japan, the United States, and other countries. It has invested in equipping globally leading research facilities and technological processes. After more than two years of efforts, it successfully developed 6T/8T excavator-specific high-pressure axial piston pumps and multi-way control valves. This achievement revitalized the Chinese construction machinery industry market, making the localization of high-end hydraulic components a reality. After supplying batch orders to supporting units such as Sany Heavy Industry, XCMG Group, and LiuGong Group, the product performance has met and exceeded the level of international mainstream products according to customer feedback.

In **2015**, with the establishment of the Hydraulic System Division, Hengli gained the capability to independently design and manufacture high-performance

hydraulic test benches. In early 2017, the Shanghai LiXin Hydraulic System Division was merged into the Changzhou production base, opening a new journey of system integration design and manufacturing. The division has also achieved remarkable results in various fields:

- ① Providing various types of TBM and shield machine hydraulic system assemblies for domestic and international markets.
- ② In the marine engineering field, it has the capability to integrate a 2800T offshore platform pin-lifting hydraulic control system and develop a 450T-class dredger hydraulic system.
- ③ The successful development of EHA system integration demonstrates the strength in developing high-precision servo actuators.

Hengli has successively overcome the technical difficulties of core components such as high-pressure cylinders and hydraulic pumps and valves, establishing the R&D and manufacturing capabilities of high-end hydraulic components and systems, and becoming a domestic leading enterprise capable of competing with foreign brands. In order to highlight the nature of the main business, since **2016**, the parent company's name has changed from "Jiangsu Hengli High-Pressure Cylinder Co., Ltd." to "Jiangsu Hengli Hydraulic Co., Ltd.," demonstrating the determination to become an excellent supplier of high-end hydraulic components and system integration.

Currently, the excavator-specific cylinder series products developed by Hengli are widely matched with well-known construction machinery manufacturers such as Caterpillar, Hitachi Construction Machinery, Sany Heavy Machinery, and XCMG Excavator, making Hengli the only enterprise in Asia to win the Platinum Quality Award from Caterpillar for five consecutive years. Hengli's non-standard cylinders are also used in the construction of the hydraulic actuator supporting the construction of the National Astronomical Observatory's FAST (Five-hundred-meter Aperture Spherical radio Telescope) super-large spherical radio telescope project. The corrosion-resistant and wear-resistant composite coating cylinders are used in the construction of the "Wanshan" wave compensation power generation device and the "Nanhai 8" offshore oil drilling platform.

2.2 Corporate Governance

During the reporting period, the company continuously improved its corporate governance structure and enhanced its internal control management level in accordance with the requirements of the Company Law, Securities Law, Guidelines for Articles of Association of Listed Companies, Corporate Governance Guidelines for Listed Companies, Shanghai Stock Exchange Listing Rules, Basic Norms for Enterprise Internal Control, as well as other relevant regulations of the China Securities Regulatory Commission and the Shanghai Stock Exchange, ensuring the company's standardized operation and steady and rapid development.

Shareholders and Shareholders' Meeting

During the reporting period, the company held one shareholders' meeting. The company convened and held shareholders' meetings in accordance with relevant regulations and requirements such as the Company Law, the Company's Articles of Association, and the Rules of Procedure for Shareholders' Meetings, combining on-site voting and online voting to ensure that all shareholders, especially small and medium-sized shareholders, enjoy equal rights and fully exercise their voting rights. The shareholders' meeting strictly reviewed related-party transactions in accordance with the prescribed procedures, with related parties abstaining from voting, ensuring that related-party transactions comply with the principles of fairness, impartiality, and transparency, and do not harm the interests of small and medium-sized shareholders. The company's lawyer witnessed the shareholders' meeting and issued relevant legal opinions; the resolutions of the shareholders' meeting were promptly and fully disclosed after the meeting.

Supervisors and Supervisory Board

The company currently has three supervisors, with two of them serving as employee representatives, in compliance with legal regulations and the company's Articles of Association regarding the number and composition of supervisors. During the reporting period, the company convened a total of four supervisor meetings, primarily discussing regular reports and profit distribution. The members of the supervisor board diligently fulfill their duties, demonstrating a responsible attitude towards shareholders by overseeing the performance of the company's directors and senior management, as well as ensuring the legality and compliance of the company's operations. The procedures for convening and conducting supervisor meetings adhere to the Company Law, the company's Articles of Association, and the Rules of Procedure for Supervisor Meetings, ensuring that meetings are conducted according to specified procedures.

Internal Control Construction

The company effectively implements the provisions of the Basic Norms for Enterprise Internal Control and its supporting guidelines, as well as the internal control system established by the company. The supervisory board oversees the establishment and implementation of internal controls by the board of directors, while the management is responsible for organizing and leading the daily operation of internal controls to ensure lawful and compliant business operations, as well as to enhance the company's management level and risk prevention capabilities.

Controlling Shareholders and Listed Companies

The controlling shareholder of the company is Changzhou Hengyi Intelligent Equipment Co., Ltd. It exercises shareholder rights through shareholders' meetings in accordance with the law and assumes corresponding obligations without interfering in the company's normal production and operation. The company has independent business and operational autonomy, completely separate from the controlling shareholder in terms of business, personnel, assets, organization, and finance. Related-party transactions between the controlling shareholder and the company strictly followed the approval procedures of the board of directors and the shareholders' meeting in accordance with relevant regulations. Independent directors expressed their pre-approval opinions and consented to opinions, and related directors and related shareholders abstained from voting. Major related-party transactions were subject to review opinions by the audit committee; related-party transactions meeting disclosure standards were disclosed in accordance with the law. During the reporting period, the company did not have any instances of the controlling shareholder or its affiliates improperly using the company's funds.

Senior Management

All senior management members of the company diligently performed their duties in accordance with shareholder mandates, relevant regulations, and company rules and regulations during the reporting period.

Integrity Management and Anti-Corruption

To promote lawful operation and uphold the integrity of employees, safeguarding the interests of the company and the legitimate rights of employees, the company has established various anti-corruption measures, including the Employee Integrity System, Anti-Corruption and Anti-Bribery Control Procedures, Fair Trade, Advertising, and Competition Management System, Whistleblower Management Measures, and Sensitive Transaction Gift System. These measures enhance compliance management in behavior standards, gift acceptance, and whistleblower rewards. Additionally, the company organizes integrity and self-discipline training for departments such as procurement, outsourcing, marketing, finance, and warehousing at least once a year. The training covers common types of corporate crimes, such as bribery of non-state personnel, bribery of non-state personnel, embezzlement, misappropriation of funds, infringement of trade secrets, and breach of trust harming the interests of listed companies, supported by specific case studies to analyze the triggering factors and legal consequences of corporate crimes. This training serves as a warning and enhances employees' awareness of integrity and anti-corruption.

Directors and Board of Directors

The company currently has seven directors, three of whom are independent directors, complying with legal requirements regarding the number and composition of directors. During the reporting period, the company convened a total of four board meetings, primarily discussing regular reports, profit distribution, related-party transactions, and changes in accounting policies. The directors of the company have demonstrated diligence, integrity, and familiarity with relevant laws and regulations, effectively safeguarding the interests of the company and all shareholders. The procedures for convening and conducting board meetings adhere to the Company Law, the company's Articles of Association, as well as relevant regulations such as the Rules of Procedure for Board Meetings and the Independent Directors' Work System. The board of directors has established four specialized committees: the Strategic Committee, the Nomination Committee, the Compensation and Assessment Committee, and the Audit Committee. Each committee operates according to its respective rules of procedure, ensuring that the company's decision-making processes are more efficient, standardized, and scientific.

Information Disclosure and Transparency

The company adheres to the relevant regulations such as the Measures for the Administration of Information Disclosure of Listed Companies of the China Securities Regulatory Commission, the Listing Rules of the Shanghai Stock Exchange, the company's Articles of Association, and the company's Information Disclosure Management System for information disclosure. It designates the Shanghai Securities News and the Shanghai Stock Exchange website as the newspapers and websites for information disclosure. The company conducts insider information recipient registration in accordance with the provisions of the Management System for Registration of Insider Information Recipients to ensure that all shareholders have equal opportunities to access information.

Investor Relations Management

The company places great importance on investor relations management, providing a dedicated investor mailbox, responding to shareholder emails, and directly communicating with investors through methods such as on-site surveys, brokerage forums, hotline calls, and online exchanges, receiving over a thousand investors throughout the year.

To establish a fair, just, and transparent cooperative environment, the company requires suppliers and outsourcing partners to sign a Responsibility Pledge at the beginning of cooperation. During the reporting period, the signing rate of suppliers and outsourcing partners reached 100%.

The company has established official channels such as the integrity hotline and integrity email for reporting, conducts integrity publicity through various means, and encourages employees, suppliers, and other business partners to participate in the integrity compliance supervision system. The company strictly follows the investigation and handling mechanism of reported matters stipulated in the Employee Integrity System, Anti-Corruption and Anti-Bribery Control Procedures, and Whistleblower Management Measures, with the General Administration Office being the sole department responsible for handling reports of fraud and complaints, ensuring the independence and impartiality of investigation results. The company advocates and encourages all employees to supervise and report violations, providing rewards for substantiated reports while ensuring confidentiality.

3.1 Major Events of the Company in 2023

Expansion of Subsidiaries and Steady Progress in Globalization Strategy

The construction of Hengli's factory in Mexico made new progress, with the hydraulic component production factory nearing completion after the topping-out ceremony on March 18. It is about to enter full trial operation. Additionally, Mexican university students who came to China for studies completed their programs and returned to Mexico on September 23. With their contribution, Hengli Mexico is expected to have a brighter future.

In the South American market, Hengli successfully established Hengli Brazil Ltd. in 2023, further improving the company's customer service network in the Americas and demonstrating the localization of the company's global strategy.

In the Southeast Asian market, Hengli established Hengli Singapore Company to further enhance its business coverage in the region.

Multi-point efforts in corporate infrastructure construction have solidified the foundation for development

In March 2023, the Compact Hydraulic Division's new factory was completed and began production in April. In September, the intelligent warehouse project was completed. Advanced automated production lines and high-performance testing benches ensure product quality, with an annual capacity of 12 million thread-inserted valves, 2 million flange-inserted valves, and 600,000 plate valves.

Construction of the new factory for Jiangsu Hengli Precision Industry Co., Ltd. entered its final stage in December, with a total area of 118,000 square meters. It will have the capacity to produce 660,000 meters of standard ball screws, 422,000 meters of precision ball screws, 10,000 meters of planetary ball screws, 1 million meters of linear guides, 104,000 standard ball screw electric cylinders, 25,000 heavy-duty ball screw electric cylinders, and 1,750 planetary ball screw electric cylinders annually.

The Research and Development Building successfully topped out, fostering domestic and international innovation collaboration:

Hengli now boasts over 1200 global research personnel, with an annual research investment exceeding 650 million RMB. The Hengli International Research Center project, initiated in February 2023, successfully topped out on November 8, with a building area of nearly 82,000 square meters and expected completion by the end of 2024. This comprehensive research building integrates research innovation, small-batch trial manufacturing, product performance testing centers, and comprehensive service centers. It will conduct applied research in hydraulic pumps, valves, and motors while delving into foundational and forward-looking research, contributing to industry theoretical research and establishing a solid innovative technology advantage. The Hengli International Research Center will work in clear collaboration with research centers in the United States, Germany, France, and others, forming a synergistic force.

In the fields of basic materials and processes, the company has established substantial industry-academia-research cooperation with expert teams from Tsinghua University, Yanshan University, Qingdao University of Science and Technology, among others. In the future, efforts will continue to strengthen the development of cutting-edge foundational technologies and further solidify the industrial foundation.

Continuous introduction of new products to support diversification strategy

In the field of hydraulic cylinders, 2023 witnessed a surge of new products. For example, in the field of construction machinery, a new type of sensor cylinder capable of real-time collection of the position and speed of working devices has emerged. This cylinder enables auxiliary driving and remote precise control, and has already been validated on a 20-tonnage construction vehicle. Moreover, ultra-high-speed cylinders, characterized by lightweight design and produced with high machining precision, have been delivered to customers. In 2023, three new series of high-pressure heavy-duty double helical swing actuators, namely "HBM-95, HBH-180, HBK-105 series," developed by the company, successfully passed the new product production appraisal organized by the Jiangsu Provincial Department of Industry and Information Technology. The expert panel appraised that these products broke the monopoly of foreign companies in this field, achieved import substitution, and overall technology reached international advanced levels. Performance indicators such as output torque and comprehensive energy consumption are leading internationally. Aligned with the trend of industrial automation and the electrification of mobile machinery, Hengli has launched eight series of electric cylinders and numerous series of controllers. These products, harnessing the achievements of electrification and digitalization, efficiently empower various mechanical equipment to embark on a new era of electric drive. To cater to different industries, customers, and working conditions, Hengli has developed six major series of spiral swing cylinders with over a hundred specifications, significantly improving the technological level of domestic swing cylinder processing.

In April 2023, Hengli's CAN bus electro-hydraulic drive obtained the TÜV Süd Greater China Functional Safety Certification after rigorous testing.

Integrated with Hengli's multi-way valve, this drive provides more precise and intelligent digital control solutions, enhancing product competitiveness and signaling Hengli's commitment to technical innovation and providing customers with superior and reliable products and services.

The newly developed V90C series closed-circuit double pumps by Hengli offer a wide range of control options and can be combined with DA valves and emergency brake valves. Building upon the mature application experience of the original series, the HM7XE series axial piston quantitative motors provide even stronger shock resistance capabilities.

In 2023, Hengli Transmission launched 6 new axial piston motors, 4 radial piston motors, and 1 brake, with several being industry-first designs with independent intellectual property rights. These products focus on emerging application areas to consolidate Hengli's advantages and expand into global markets.

The Industrial Valve division also introduced several new products, notably the 4WRPE10 servo performance direct-acting proportional valve, catering to industries such as wind power and injection molding that demand precise speed and position control while also being suitable for pressure control.

In 2023, the Casting Technology division developed 411 new products, including 103 non-engineering machinery products, mainly distributed across industries such as industrial, new energy, automotive components, and high-speed rail.

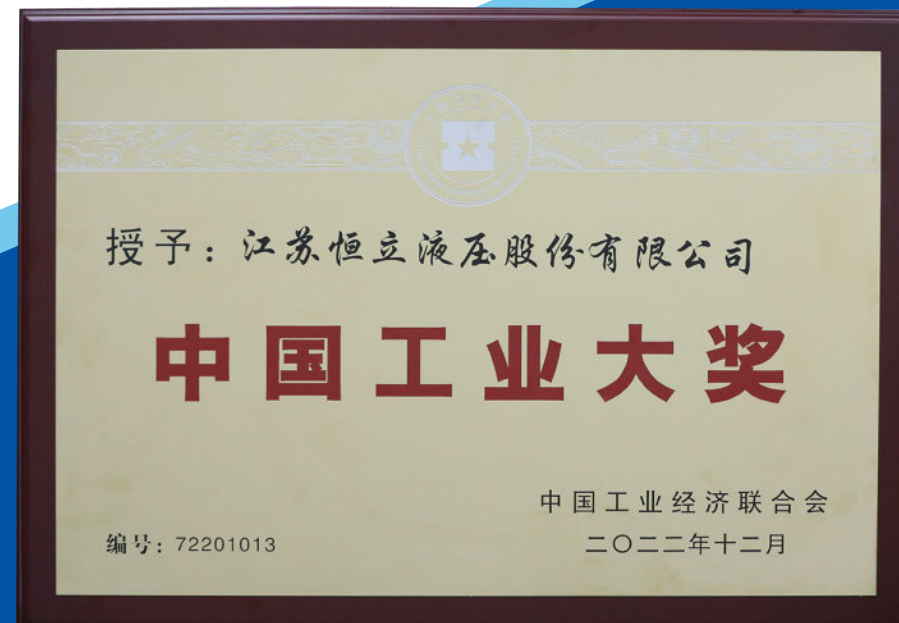
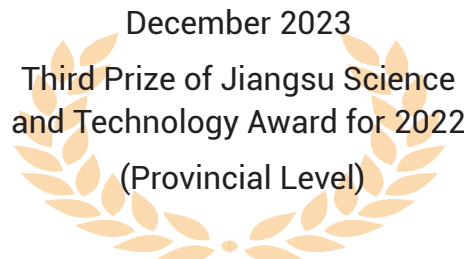
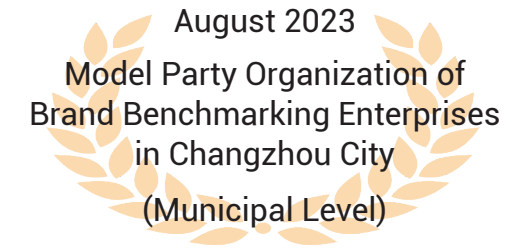
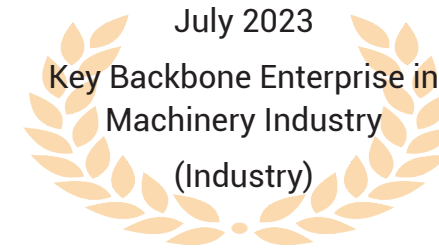
Emphasis on research and development investment and enhanced intellectual property management

The company closely follows industry technological trends and changes in customer demands, adhering to a management philosophy that combines applied and forward-looking research. While continuously improving and upgrading existing leading products, it is increasing investment in research and development for new products and technologies to break foreign monopolies on relevant hydraulic technologies. In 2023, research and development investment reached 694 million RMB, accounting for 7.73% of operating income.

As of December 2023, Hengli Hydraulic has 681 valid patents in China, including 99 invention patents, 12 international invention patents, and has received 3 China Patent Excellence Awards, 1 Changzhou Patent Gold Award, and 5 Changzhou Patent Excellence Awards. Hengli Hydraulic also holds 71 valid registered trademarks, with the trademark "hengli" registered under registration number 7675837 and protected in over 30 countries via the Madrid route. The main Hengli trademark was shortlisted in the first batch of "Thousand Enterprises Hundred Cities" trademark brands by the National Intellectual Property Administration and was also shortlisted in the Jiangsu Provincial Department of Commerce's list of key cultivated and developed international famous brands for 2023-2024, earning the title of Jiangsu Provincial High Well-known Trademark.

In 2023, the company actively invested resources to conduct comprehensive patent searches and analyses. We systematically conducted patent searches tailored to our business direction and technological fields, followed by detailed analysis of the retrieved patent information. From patent application trends, technological hotspots, to application areas, we delved into the value of patent information from multiple dimensions. These analyses not only provided insights into the latest industry technology trends but also uncovered potential market opportunities and competitive risks. The results of these analyses served as important references for the company in formulating market strategies and optimizing product layouts.

3.2 Corporate Honors



4.1 Shareholder Responsibility

Interacting with investors in a positive manner to enhance market transparency. Hengli Hydraulics attaches great importance to investor relations management, facilitating effective interaction with investors to enhance the company's transparency.

During the reporting period, the company placed significant emphasis on communicating with investors, patiently addressing daily inquiries from investors through emails, investor hotlines, and other channels. It strengthened communication with shareholders, regulatory authorities, analysts, securities service agencies, media, and the public to convey the company's investment value and maintain the company's image in the capital market.



First Financial Radio led a research team for discussions



Investors participating in on-site research visits

4.2 Supplier Responsibility

Hengli Hydraulic adheres to the long-term cooperative concept of "co-creation, sharing, win-win, and prosperity" with suppliers, helping suppliers overcome difficulties, sharing resources, optimizing costs, and maintaining a steady and positive development trend with suppliers.



Mutual Assistance with Suppliers for Sustainable Growth

- Organizing departments such as quality, safety, and internal audit to visit suppliers regularly to provide on-site guidance on quality control, safety management, and site management.
- Faced with the continuous increase in market raw material and labor costs, the company, together with some suppliers, strictly controls internal costs to achieve cost reduction and efficiency improvement.

Shared Environmental Responsibility to Build a Green Supply Chain

The company continues to adopt new technologies, new processes, and innovative management methods to achieve resource conservation and environmental friendliness. Energy conservation and environmental protection are one of the most important factors for evaluating suppliers and building a supply chain ecosystem.

Incorporating Suppliers into Synchronized Management for Precise Control and Optimization of the Supply Chain

From March to June 2023, according to the service agreement signed by the company and the Wujin District Human Resources and Social Security Bureau, the company organized two batches of supplier safety management training, with more than 100 suppliers participating in on-site safety management training. Specialists were sent to the suppliers' companies to conduct hazard investigations and safety training.



4.3 Social Responsibilities

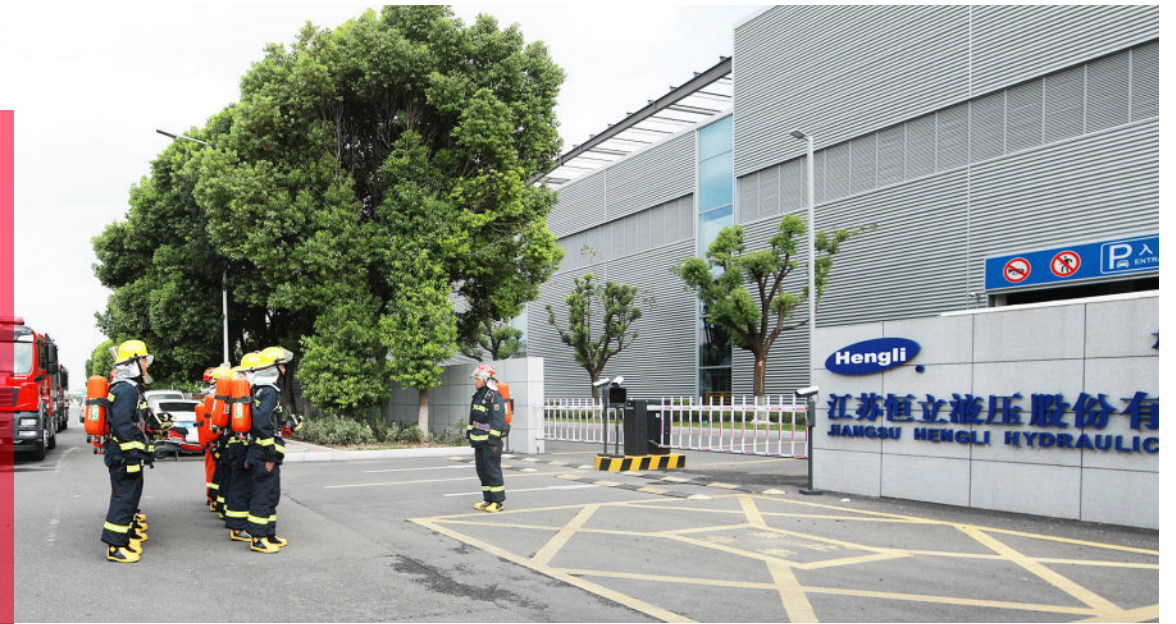
For many years, Hengli Hydraulic has adhered to the ideal of serving the country with industry and the spirit of hard work and innovation, never forgetting the social responsibilities that the company should bear, and actively participating in various public welfare activities.

Demonstrating Responsibility, Dedicated to Public Welfare

While pursuing its own development, the company actively engages in public welfare undertakings, adhering to a high sense of social responsibility and gratitude to give back to society. Continuously expanding the radiation of corporate culture, Hengli Hydraulic contributes its strength to promote social development.

Public welfare activities are an important part of corporate culture. By participating in such activities, companies can demonstrate their sense of social responsibility and care for employees, embodying corporate values and social missions. Through public welfare activities, the company can cultivate employees' sense of teamwork, innovation spirit, and social responsibility, thereby enhancing the overall competitiveness of the enterprise.

Hengli Hydraulic is always full of love and actively carries out various public welfare charity undertakings. Adhering to the concept of "giving back to society and sustainable operation," Hengli Hydraulic never forgets to give back to society and benefit the masses. Through organizations such as the Guangcai Fund and Charity Association, the company has long been donating money and goods to support impoverished students and contribute to local education. In 2023, it paired up with Wujin Special School and communities for assistance, with a cumulative value exceeding 50 million yuan. At the same time, the company organizes a series of public welfare activities among employees, such as blood donation drives, community volunteering, and activities to honor the elderly on the Double Ninth Festival, which have received enthusiastic responses from employees.



Safety in Production, Training for Prevention

The company strictly abides by laws and regulations such as the People's Republic of China Production Safety Law and the Jiangsu Province Production Safety Regulations, taking safety production as the basic starting point for fulfilling social responsibilities. It has established a special safety management department and safety committee to implement the concept and action of safety production in all aspects of production and operation through perfecting systems, strengthening management, and enhancing training. By conducting regular inspections and rectification of safety hazards, it effectively prevents and avoids safety accidents caused by hidden dangers. The company also arranges firefighting drills in various factory areas to improve employees' ability to respond to safety accidents. In 2023, a total of 10 firefighting training sessions and 2 special training sessions for team leaders were conducted, as well as activities such as Safety Month, gas safety lectures, and dormitory fire safety lectures. In 2023, the company's safety production situation was relatively stable, with no major labor safety accidents occurring.



Team leader specialized training on workplace safety



Fire drill training



Blood Donation Drive



Community Anti-Fraud Volunteer Activity

Community Free Medical Consultation and Volunteering Activities



4.5 Environmental Responsibility

In recent years, Hengli Hydraulic has focused on the national dual-carbon plan and the process of green, low-carbon, and high-quality development. It has actively promoted the deep integration of intelligence, digitization, and greening, using environmental innovation as the driving force and the industrial chain as the carrier. It aims to enhance the green content of industries to boost the quality of development, accelerate the formation of new productive forces, and stimulate the dynamic energy of high-quality development.

Practicing Low-Carbon Energy Conservation and Introducing Photovoltaic Power Generation Systems

In 2023, a large-scale rooftop photovoltaic canopy was built on the top floor of the company's super-large hydraulic cylinder production workshop, fully utilizing the roof space to achieve the dual value of vehicle parking and the development of clean energy. The project started in August and was delivered in November, with a photovoltaic system installed capacity of 5.5MW. It is expected to generate an average of 4.88 million kWh per year and reduce CO2 emissions by approximately 4869 tons annually. The annual electricity generation revenue is estimated to reach 3.85 million yuan. As of March 31, 2024, the total photovoltaic power generation was 1,339,100 kWh, saving approximately 993,000 yuan in electricity costs.

The company has implemented multiple measures to promote energy conservation and emission reduction, such as analyzing, discussing, and verifying narrow-gap welding processes, and controlling the opportunity for secondary protective gas injection in narrow-gap welding to reduce the use of welding gas and thereby reduce greenhouse gas emissions. After various efforts, the total greenhouse gas emissions in 2023 were 250,675 tons of carbon dioxide equivalent, a decrease of 2% compared to 2022 despite an increase in company production.

Actively Practicing Environmental Protection Concepts

The company has always taken energy conservation, consumption reduction, safety, and environmental protection as its responsibilities, continuously advancing environmental protection work. In terms of production, in 2023, the company obtained environmental impact assessment approvals for projects such as the technology insertion valve project, Hengli Precision 110kV substation, and Hengli Precision Industrial Integrated Project. The annual environmental protection investment exceeded 19 million yuan.

From promoting green production to implementing green management and building energy-saving and environmentally friendly green factories, Hengli Hydraulic, guided by the new development concept, relies on industrial layout and professional advantages to actively promote the integration of environmental protection, efficiency, intelligence, and scientific research and development, production, and operation management.

Carefully Managing Water Resources

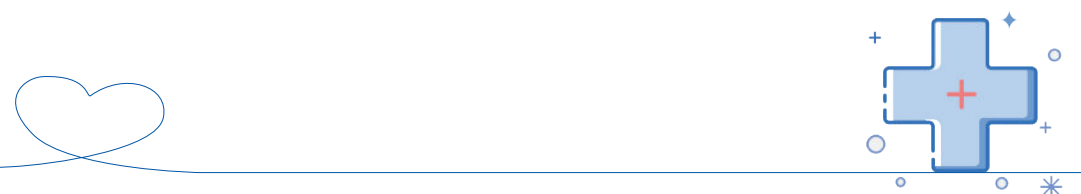
In 2023, the company improved its water balance work, investing 150,000 yuan in purchasing third-level water metering equipment to promote the rational use of water resources. Additionally, the company invested 500,000 yuan in purchasing testing equipment such as ICP and Hash, conducting daily tests on various indicators of wastewater and strictly controlling wastewater discharge. Various measures were taken to dispose of hazardous waste, outsource work, and promote the standard discharge of wastewater and the reduction of hazardous waste.

4.4 Employee Responsibility

The company has always adhered to the concept of "people-oriented, building bridges of communication with trust, and letting employees feel at ease," taking the realization and maintenance of the interests of all employees as the starting point and foothold of its work. It safeguards the various rights and interests of employees, promotes the realization of employee value and comprehensive development, protects the physical and mental health of employees, enhances the cohesion of the enterprise, and achieves common growth of employees and the enterprise.

Focusing on Humanized Management, Providing Differentiated Corporate Benefits

In recent years, Hengli Hydraulic has continuously improved employee welfare projects to enhance the happiness index of employees and strengthen internal cohesion. In addition to providing free meals, four sets of work clothes per year, shuttle services, health check-ups, family visit subsidies, wedding bonuses, holiday allowances, talent apartments, and employee dormitories, the company provides a million-dollar medical insurance project for all employees. The premium is borne by the company, and employees can enjoy zero deductible medical insurance, eliminating worries about medical expenses and improving both the safety and happiness indices of employees. The claims ratio increased in 2023, and the claims threshold was lowered again. According to statistics, 167 employees had accidents in 2023, with a total payout of 740,700 yuan. In 2023, the company's trade union also purchased employee mutual aid insurance for all employees as another supplement: in 2023, 144 people successfully applied for employee mutual aid insurance, receiving a subsidy of 209,000 yuan. With three layers of guarantees including medical insurance, million-dollar medical insurance, and employee mutual aid insurance, the issue of employee hospitalization expenses was comprehensively resolved, fully realizing the principle of "not spending a penny when getting sick."



A total of 1 million yuan was invested in the early stage to establish an employee childcare center in the employee dormitory area, truly helping employees achieve the ideal state of "sending children to the nursery before work and picking them up after work." The park is operated by a third-party professional childcare institution commissioned by the company. The childcare class does not charge any fees to enterprise employees, and all expenses related to caregiving, education, and daily meals are borne by the company, with annual operating costs exceeding 1.5 million yuan.

In August 2023, 40 full-time daycare children successfully graduated from the childcare center and entered kindergarten. However, they did not completely leave the childcare center. They continued to enjoy this service as temporary students every Saturday.

invested in the early stage
1,000,000 yuan

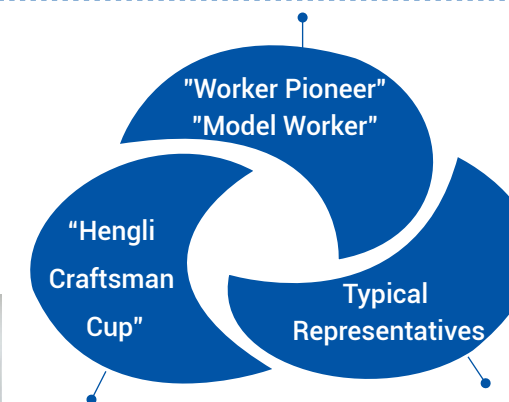
Annual operating costs exceeding
1,500,000 yuan



Strengthening Cultural Construction Efforts to Enhance the Leading Role of Culture

The methods for enterprise cultural construction are becoming increasingly diverse, including the selection of role models such as model workers, skill competitions, and popular employee sports events. Through these forms, with the efforts of cultural coordinators, more and more employees are participating in enterprise cultural construction.

As of 2023, Hengli Hydraulic has held the "Worker Pioneer" and "Model Worker" selection activities for up to the third session, selecting 16 Worker Pioneer teams and 36 model workers. They are distributed in various positions of the company, influencing their colleagues with the power of example to move forward together. Among the selected "Hengli Model Workers," there are craftsmen rooted in the front line, as well as technical leaders who adhere to innovation-driven development and brave the peaks of technology. There are also "breakthroughers" who won the district-level competition championship for the company for the first time and are indispensable pillars in their departments. They are practicing their original mission with action and interpreting dedication with practical responsibility.



As of 2023, the Hengli Craftsman Cup skill competition has been held for up to the fifth session. Over the past five years, Hengli Hydraulic has solidly promoted the reform of the construction of industrial workers' teams, continuously promoted the construction of high-quality technical and skilled talents in the new era. The 2023 skill competition set up seven projects, including forklift, CNC, welding, painting, product inspection, flaw detection, and fitter. The fitter competition is a new addition this year. Nearly 320 people signed up to participate in this session, a 63% increase from last year's registration number. In the end, 66 skilled talents were awarded first, second, and third prizes.

The company not only nurtured a large number of typical representatives who can represent the company's advanced culture internally but also sent out outstanding talents such as Ma Yandong, a delegate to the 18th National Congress of the Chinese Trade Union, and Pan Hongbo, a delegate to the 14th Jiangsu Provincial People's Congress, showcasing the company's social image.



Establishing Training Systems to Support Talent Growth

Creating Career Advancement Channels, Strengthening Talent Development, and Facilitating Employee Growth.

Hengli's talent philosophy is: "Virtue and talent are used regardless of seniority," "Fair competition appoints the capable," "Matching talent to positions," and "Reasonable personnel deployment." To build a talent development pipeline for Hengli employees, especially to cultivate "excellent" talents, the company has conducted a series of systematic projects through a combination of internal and external training. For example, there's the "Innovation Unlimited" design capability enhancement project for technical personnel, the team leader training program for team leaders, and skill enhancement programs for front-line employees. The company has also established the Liangjian Cloud University, providing exclusive courses tailored to Hengli's needs.

For newly hired employees, the company conducts targeted university student training programs and "Hengli Class" vocational college student training programs. In terms of employee career development planning, the company has established different promotion channels for different groups of people. Employees in functional departments and production departments can choose between management and technical promotion channels, while sales personnel enjoy a unique promotion channel. This comprehensive approach helps employees achieve personal growth.

School-enterprise cooperation is also an important means of talent cultivation and input. Our company has deeply collaborated with prestigious universities such as Zhejiang University and Yanshan University. In 2023, we held the 21st edition of the university recruitment and training program. Now, there are students from various departments of these universities in our company, and many of them have grown to become department heads or technical backbones. Additionally, in 2023, the company jointly organized two sessions of the "Hengli Class" recruitment and training program for vocational college students with the School of Light Industry and the School of Mechanical and Electrical Engineering. This initiative has cultivated more than 90 high-quality production line workers for the manufacturing site, infusing fresh blood into grassroots management personnel.

Enriching Cultural Activities to Demonstrate Care for Employees

In 2023, various cultural activities at Hengli continued to be carried out, with highlights in cultural work. Activities such as the Spring Festival series, Women's Day celebrations, heat wave condolences, and employee sports meetings were diverse, ingenious, and commendable, creating a cultural feast for employees.

These cultural activities enriched the cultural life of the employees, demonstrated their spirit of learning, unity and hard work, which further promoted corporate culture, making everyone feel more fulfilled, proud, and happy.



2024 marks the 75th anniversary of the founding of the People's Republic of China, a crucial year for achieving the goals of the "14th Five-Year Plan," and a critical year for Hengli Hydraulic to firmly advance its internationalization, diversification, electrification, and greening strategies, as well as management and R&D innovation.

Facing a new year full of opportunities and challenges, Hengli will adhere to its original aspiration, persist in revitalizing the company's vitality with technological innovation, firmly follow the path of independent innovation, adapt to the situation, seize the opportunity, and become one of the most competitive companies in the global hydraulic industry, contributing to global sustainable development.

At the same time, adhering to the business philosophy of "focusing on customer needs and creating value for customers, shareholders, employees, and society in the hydraulic industry," continuously enhancing core competitiveness, and making the company stand out in the fierce market competition, striving to build itself into a high-quality, cost-effective, and internationally leading enterprise trusted by investors.

05 Future Prospects



Economic Performance

Major Accounting Data	Unit	2023	2022	2021
Operating Income	10,000 yuan	898,464.04	819,671.39	930,921.81
Net Profit Attributable to Shareholders of Listed Companies	10,000 yuan	249,872.91	234,272.22	269,360.00
Net Profit Attributable to Shareholders of Listed Companies after Deducting Non-recurring Gains and Losses	10,000 yuan	244,653.35	223,154.28	255,750.05
Net Cash Flow from Operating Activities	10,000 yuan	267,714.71	206,362.68	279,565.04
Basic Earnings per Share	yuan/share	1.86	1.79	2.06
Weighted Average Return on Net Assets	%	18.69	22.60	32.83

Corporate Governance Performance

Quantitative Performance Indicators	Unit	2023	2022	2021
Number of Board Members	person	7	7	7
Number of Independent Directors	person	3	3	3
Number of Male Directors in the Board	person	7	7	7
Number of Female Directors in the Board	person	0	0	0
Number of Board Meetings	time	4	5	4
Number of Audit Committee Meetings	time	4	3	4
Number of Strategy Committee Meetings	time	4	4	4
Number of Shareholders' Meetings	time	1	3	3
Number of Supervisory Board Meetings	time	4	5	4

Research and Development Performance

Quantitative Performance Indicators	Unit	2023	2022	2021
Amount of Research and Development Investment	10,000 yuan	69,436.99	64,995.34	63,606.18
Ratio of Research and Development Expenses to Operating Income	%	7.73	7.93	6.83
Number of R&D Personnel	person	1265	1203	736
Proportion of R&D Personnel	%	19.42	19.85	12.69

Resource Utilization Performance

Quantitative Performance Indicators	Unit	2023	2022
Electricity Consumption	MWh	289,525.07	269,372.54
Natural Gas Consumption	m ³	10,514,397	10,951,101
Water Consumption	m ³	946,810	935,210

Greenhouse Gas Emission Management Performance

Quantitative Performance Indicators	Unit	2023	2022
Total Greenhouse Gas Emissions	tCO ₂ e	250,675.16	256,524.74
Scope 1 Greenhouse Gas Emissions	tCO ₂ e	34,572.95	31,759.73
Scope 2 Greenhouse Gas Emissions	tCO ₂ e	216,102.21	224,765.01

*Note: Total greenhouse gas emissions include both scope 1 and scope 2 greenhouse gas emissions, where scope 1 represents direct emissions and scope 2 represents energy indirect emissions.



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