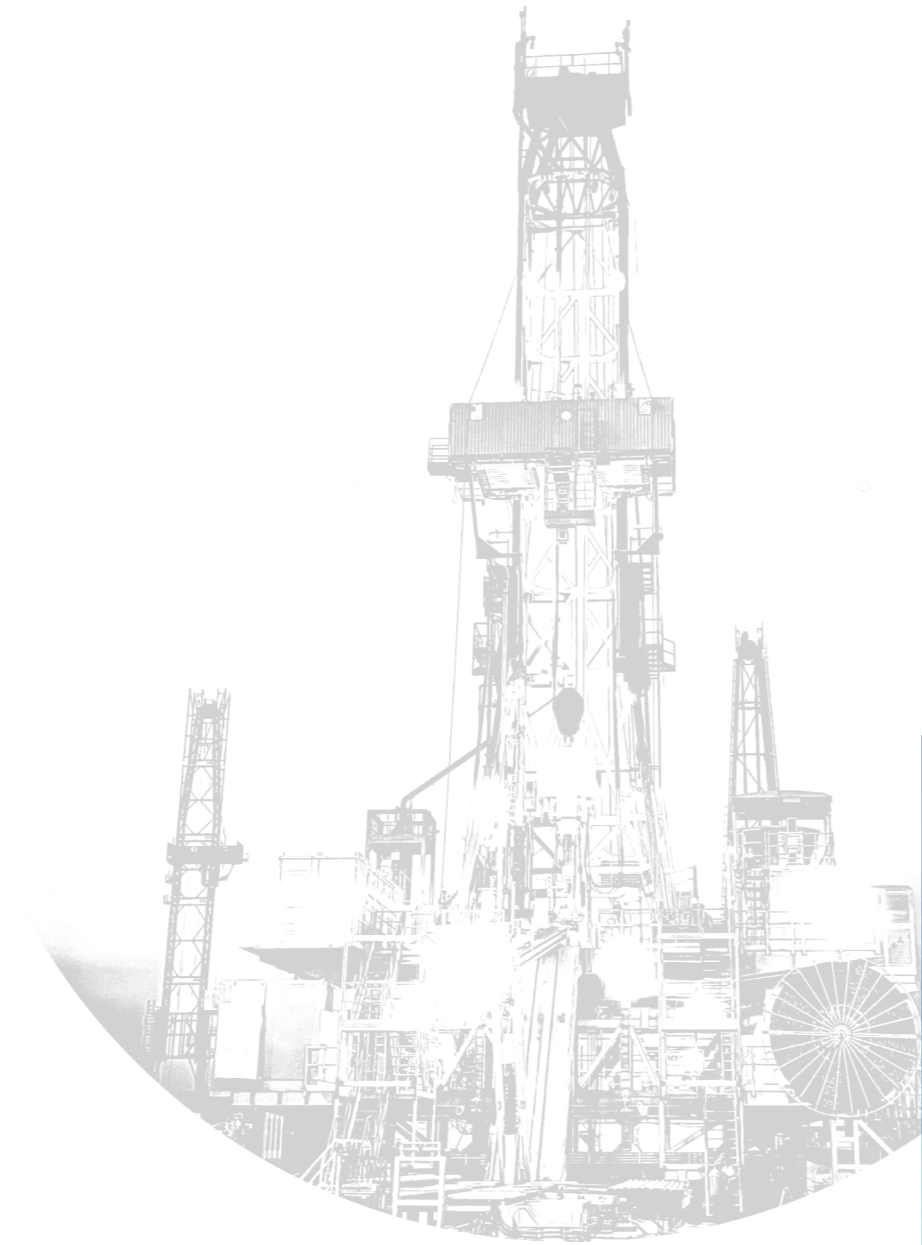


2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HONGHUA GROUP LIMITED



Honghua Group Limited

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ABOUT US

Honghua Group, listed on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") in 2008 (stock code: 00196), is an international enterprise specialized in manufacturing of oil and gas exploration and development equipment and rendering of drilling service. Honghua Group is always dedicated to building a world-class integrated energy development solution supplier and providing its customers with competitive, safe and reliable products in the fields of oil, gas and green energy. The Company upholds the concept of "focus on main business, and diversified development", keeps a foothold in the oil and gas industry, and firmly promotes the development of "platform industry" and "manufacturing service", constantly integrates the industrial resources, expands the market boundary and establishes a development pattern based on oil and gas equipment, service industry and related diversified industry. The main businesses of the Company cover the research, development, manufacturing and sale of core parts and components of a full range of onshore drilling rigs, complete electric fracturing equipment, drilling and completion equipment, the integrated drilling and completion service and the manufacturing of large steel structures for multiple industries, covering both onshore and offshore sectors.

Honghua Group headquartered in Chengdu, Sichuan Province of PRC has established its onshore equipment manufacturing base in Deyang, Sichuan Province, and set up its factories, sales and service bases in many countries all over the world. With its powerful R&D capacity, high-quality manufacturing facilities and mature international sales network, its products are mostly sold to Middle East, Russia, North America, South America, India, Africa and other oil producing regions. Now, there are nearly a thousand units of Honghua drilling rigs serving in the world.



ABOUT THIS REPORT

INTRODUCTION TO THE REPORT

The 2023 Environment, Social and Governance Report of Honghua Group Limited, as the 8th environmental, social and governance (“ESG” for short) report issued by Honghua Group Limited, truthfully discloses the fulfillment of Honghua Group’s responsibilities to shareholders, customers, partners, employees, environment, communities and other important affiliated parties, and reflects Honghua Group’s performance of its duties in aspects of ESG.

REPORTING SCOPE

Unless specially indicated, this report mainly describes the highlights and performances of Honghua Group Limited and its subsidiaries in aspects of environment, society and governance from January 1 to December 31, 2023. Partial information given in this report has traced the necessary historic data. All the data come from internal and external documents of Honghua Group Limited and its subsidiaries. All the financial data are measured in RMB.

DESIGNATION

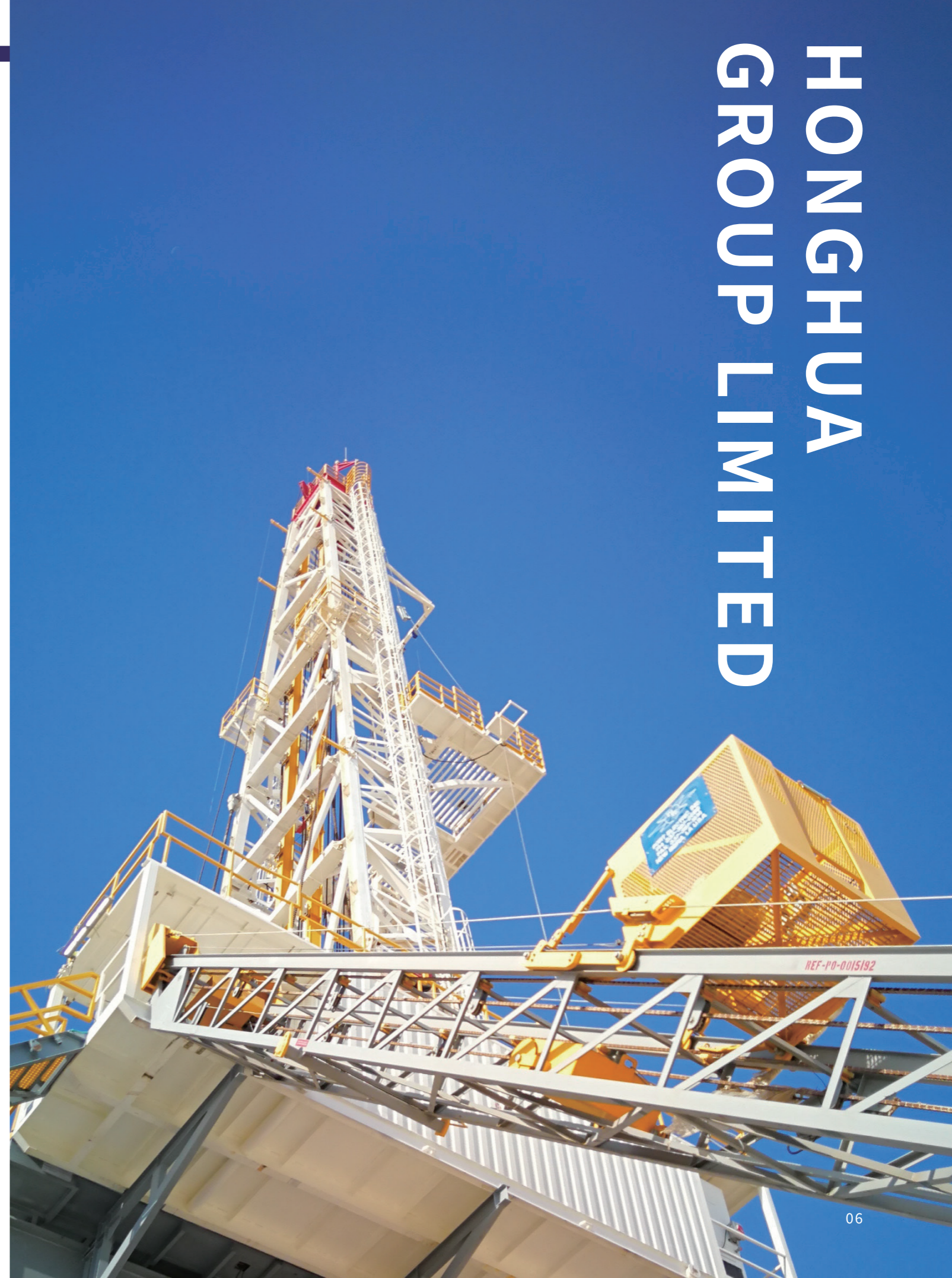
For ease of expression and reading, “Honghua Group Limited” is called “Honghua Group”, “Company” or “We” for short in this report.

PREPARATION BASIS

This report follows the Annex C2 *Guideline on Environmental, Social and Governance Report* of the Listing Rules of the Stock Exchange (hereinafter referred to as “Listing Rules”).

RELIABILITY ASSURANCE

The Board of Directors and all the directors of Honghua Group ensure no any false record, misleading statement or major omission in this report, and are individually and severally liable for authenticity, accuracy and integrity of the contents of this report.



MANAGEMENT SPEECH

Dear all the shareholders and all the friends caring about Honghua Group:

Looking back to 2023, Honghua Group comprehensively promoted the implementation of its sustainable development goals, actively boosted the positive development of its production and operation, and achieved the stable advancement and improvement of all the development indicators of the Company by making remarkable results in the technological innovation leadership, deepening the execution of reform, pushing the industrial transformation orderly, keeping all the risks stable and controllable and refreshing the spirit of all employees.

This year, we focused on the development of our main business by consolidating and strengthening the business foundation. Honghua Group adapted to the changes in the external environment timely, developed its main business deeply, took the smart drilling as platform and applied the big data, artificial intelligence and other methods to realize the automation and intelligence of exploration, development and drilling, provide its customers with green, safe and efficient energy equipment and strive to become a world-class and domestic-leading integrated energy development solution supplier. In 2023, the Company realized the business revenue of 5.473 billion Yuan, the total profit of 411 million Yuan, and the total asset of 12.52 billion Yuan, with its many operating indicators hitting the new high.

This year, we promoted the innovation breakthrough by insisting on the leading strategy. With reference to the industrial technology frontier, Honghua Group constantly strengthened its technological innovation mechanism, enhanced its technical innovation capacity, and accelerated the transformation of key technological achievements. By continuously strengthening the breakthrough in key fields, the Company made many domestic leading technical achievements such as smart drilling rig and permanent-magnetic VF direct-drive 5-cylinder pump. In the report period, Honghua Group's R&D expenditure reached 231 million Yuan, 98.1% higher than that in 2022, with the investment intensity up to 4.63%.

This year, we cooperated with our partners in mutual advancement and insisted on joint construction and sharing. Honghua Group cooperated with its employees, partners and interested parties in joint construction and sharing, insisted on publicizing its conscientious corporate culture, and continuously strengthened its industrial confidence, business confidence and career confidence. The Company constantly promoted the employee training and improvement and helped the employees to grow up by investing 2.98 million Yuan in employee training, conducting 225 employee training activities and realizing 100% coverage of employee training throughout the year. The Company carried out the quality guidelines of "observing rules and regulations, doing things right at the first time, keeping improvement and satisfying customers", and attached great attention to the customers' feedback. In the report period, the Company completed the compilation of supplier management regulation, carried out the supplier evaluation according to the guidelines of "welcoming the qualified suppliers and knocking out the unqualified suppliers through strict evaluation and dynamic adjustment", and organized 5 supplier training sessions throughout the year.

This year, we fulfilled our environmental protection commitments to build a low carbon future. Honghua Group made full efforts to promote the green, low-carbon and digital transformation. With focus on the technical breakthrough in new energies and the development of new products, the Company accelerated the deep integration of the emerging technologies such as artificial intelligence and big data with the green and low-carbon products, and actively advocated the green and low-carbon office and the reduction of waste water, waste gas and waste discharge to fully boost the Company's green and low-carbon sustainable development. In the report period, the Company invested 12,107,000 Yuan in environmental protection with 0 major environmental pollution incident throughout the year.

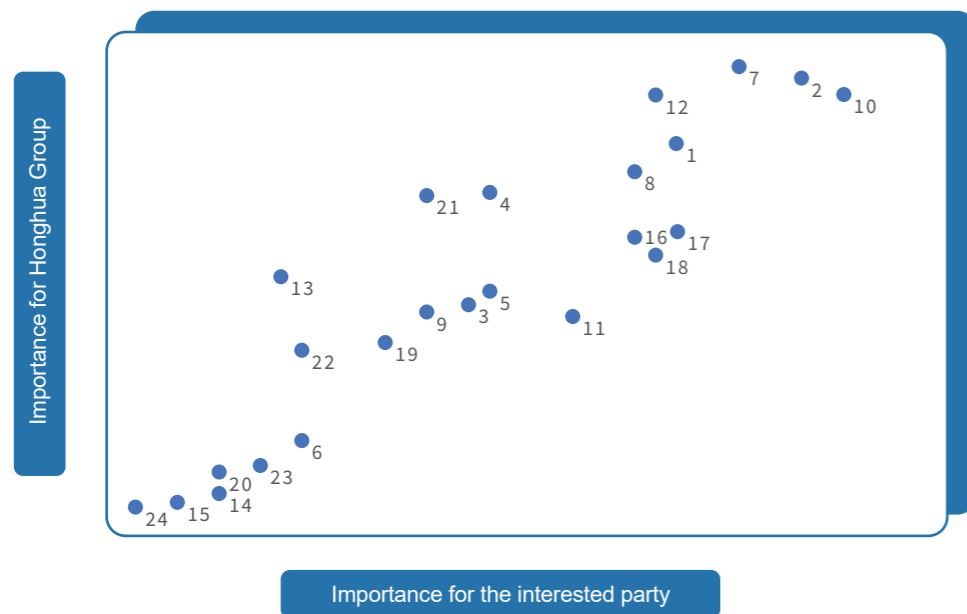
This year, we strengthened the work safety and insisted on guaranteeing the safety by technological measures. Following the working concept of "reducing the number of workers with mechanized, automated and intelligent equipment", Honghua Group strove for promoting the support and guarantee of technologies for safe production, actively explored the advanced intrinsic safety of intelligent management systems, equipment and facilities, combined the work safety with the digital transformation, intelligent manufacturing and core capacity enhancement effectively, and promoted the practice and application of modern technological achievements such as "internet+ work safety" to improve the safety management efficiency by technological measures. In the report period, the Company invested 20,122,700 Yuan in work safety, and organized 1,134 work safety training activities attended by 66,087 trainees throughout the year.

This year, we actively fulfilled our responsibilities and boosted the rural revitalization. With the full use of its advantages, Honghua Group actively participated in rural revitalization and development, and conducted various support activities such as industrial support, consumption support and talent support. In the report period, the Company purchased the high-quality agricultural products worth 56,571 Yuan in total from the supported county (Zhaojue County) for the Mid-Autumn Festival by replacing donation with purchase, in order to help the local farmers increase their sales and revenues.

Keep forging ahead for a promising future. Year 2024 will be a crucial year for Honghua Group to implement its leading strategy so we will continue to uphold the spirit of keeping improvement and striving for excellence, observe the higher standards and the stricter requirements, and insist on the sustainable high-quality development goals to make advancements during the stable development, highlight strengths and address weaknesses, promote both breakthroughs and creations, and take a firm step back to top-class enterprise.

IDENTIFICATION OF MATERIAL ISSUES

In combination with its strategic plan and current ESG management, Honghua Group has drafted 24 subjects related to environment, society and governance with reference to the domestic, foreign and industrial ESG (environmental, social and governance) disclosure framework. Before preparing this report, the Company conducted the substantive subject analysis facing the management staff, employees and external interested parties such as suppliers and communities in the form of questionnaire. Honghua Group will carry out the management and communication related to social responsibilities and ESG according to the above results to form the priority subjects and matters and actively respond to the appeals of the interested parties.



S/N	SUBJECT	S/N	SUBJECT
1	Lawful and compliant operation	7	Employee recruitment
2	Risk management and internal control	8	Staff development and training
3	Business ethics	9	Occupational safety and health
4	Anti-corruption	10	Innovative R&D
5	ESG governance	11	Intellectual property protection
6	Board governance	12	Product quality and safety

S/N	SUBJECT	S/N	SUBJECT
13	Supplier management	19	Renewable energy opportunity/ green energy technology
14	Public benefit and charity	20	Response to climate change
15	Community development	21	Emissions
16	Environmental compliance management	22	Green office
17	Resource utilization	23	Environmental public welfare
18	Green manufacturing	24	Biological diversity protection

BOARD STATEMENT

The Company acknowledges that the leadership and participation of the Board of Directors are vital for the implementation of its sustainable development strategy. Therefore, the Board of Directors regularly discusses and adjusts the business plans, risk management policies, annual budgets and action plans, etc. of the Company, and is responsible to lead the Company to take opportunities to cope with the risks caused by the sustainable development.

Considering the green and low-carbon development trend, the Company has set up a work safety committee led by the Board Chairman, established a series of environmental goals about emission reduction and resource utilization, and regularly held the committee meetings to supervise and review the progress and performance every year.

Led by the Board of Directors of the Company, the board office has taken the lead in establishing the ESG working group to deploy the ESG work as a whole, coordinated the work of every department, center and subsidiary, held the regular ESG work communication meetings, and evaluated the priority of the ESG-related subjects and the execution of ESG work objectively for the constant improvement of the sustainable development management efficiency.

SAFEGUARD THE RIGHTS AND INTERESTS OF SHAREHOLDERS

Honghua Group insists on promoting the improvement of the corporate governance system, constantly improving the standardized operation of the Company, continuously strengthening the construction of risk management and compliance management system, building the honest enterprise operating environment, and maintaining the shareholders' interests by different measures, in order to guarantee the long-term development of the Company.

Corporate Governance
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Environmental



Social



Governance

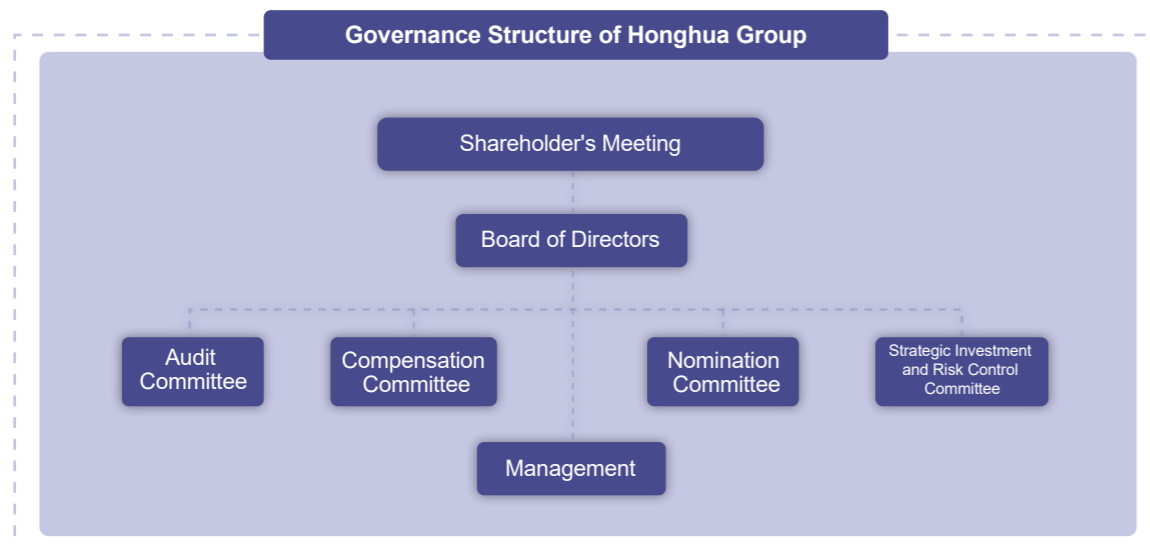
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CORPORATE GOVERNANCE

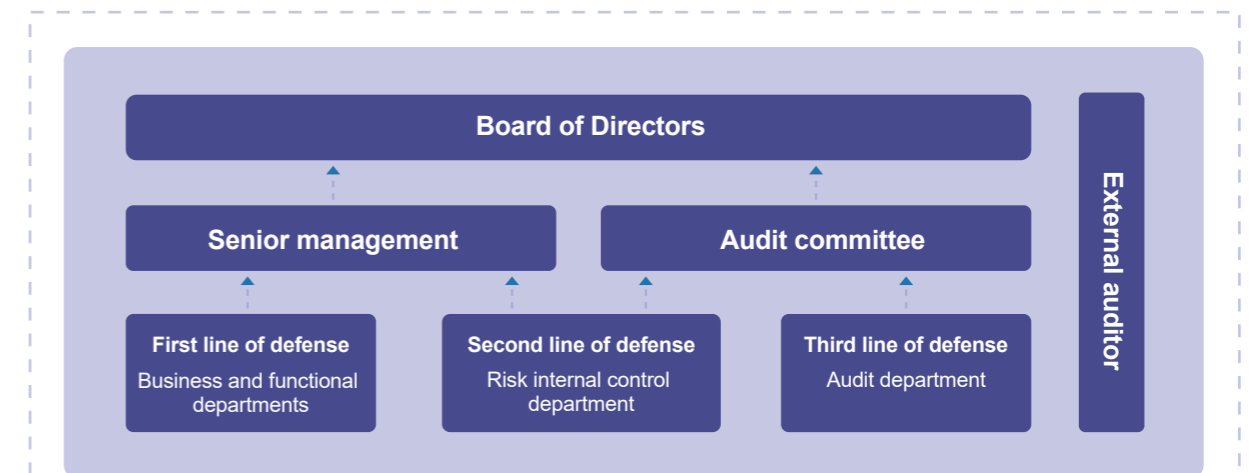
In strict accordance with the laws and regulations such as *Cayman Islands Companies Law and Listing Rules*, Honghua Group has set up the Board of Directors, Board Committees, and held Shareholder's Meetings and established the modern corporate governance mechanism with transparent powers and responsibilities and effective check and balance. The Shareholder's Meetings as the top decision-making body, is mainly responsible to review and approve the revision of the Articles of Association, the increase or decrease of registered capital, the annual report, the appointment of auditor and other matters; the Board of Directors is responsible to review and approve the important matters which are not in the charge of the General Meeting of Shareholders according to the Articles of Association and the rules of procedure of the Board of Directors; under the Board of Directors, four committees, including audit committee, compensation committee, nomination committee and strategic investment and risk control committee, are established, and they perform their duties according to their own authority and rules.

By the end of 2023, the Company had 8 directors, including 2 executive directors, 1 non-executive director and 5 independent non-executive directors.



RISK MANAGEMENT AND INTERNAL CONTROL

Honghua Group has established a risk management and internal monitoring system with clear work division and effective control, and formed a risk management structure with clear responsibility level and reasonable reporting procedure and consisting of three lines of defense. In 2023, the Company conducted 23 law-abiding and compliance training sessions attended by 4,692 trainees.



“Three lines of defense” risk management mode of Honghua Group

First line of defense: consisting of every business management and internal monitoring department and every subsidiary. As the first unit in contact with risks, they actively collect the initial information of risks, identify the risks, carry out the risk response plan, participate in the risk management culture construction, and receive the guidance and supervision of the risk internal control department.

Second line of defense: consisting of the risk internal control department and the legal construction and risk control compliance leading group. They are mainly responsible for planning, constructing, maintaining and improving the risk management and internal control system, reviewing and evaluating the normalization, rationality and risk control of the Company and its subsidiaries, and establishing the risk control and internal control system and management measures.

Third line of defense: consisting of the audit committee and the audit department. They are mainly responsible for the post-event examination, audit and supervision of the work of first and second lines of defense, and the reporting to the Board of Directors.

In 2023, by revising a series of management measures such as the *Internal Control System Management Regulation* and the basic compliance management regulation, Honghua Group formed the “1+N” internal control system and improved the compliance management system to comprehensively enhance the risk control and compliance management awareness and ability of all staff.

INVESTOR RELATIONS

Honghua Group pays much attention to the reasonable returns on investments of its shareholders, practically maintains the shareholders' rights and interests, and actively holds the general meeting of shareholders and the performance release conference to introduce its performance and important matters to its investors. In the report period, the Company held 2 general meetings of shareholders and 2 performance release conferences.

2022 performance release conference held by Honghua Group in Hong Kong

On April 18, 2023, Honghua Group held the 2022 performance release conference in Hong Kong to disclose its performance in 2022. Mr. Wang Xu, the Board Chairman shared the strategic development direction and the key industrial layout of Honghua Group with the investors attending the conference on site and online, and exchanged the strategic layout of Honghua Group, the coordination with large shareholders, the competition of fracturing industry, the offshore wind power industry and other problems in future with its investors.



2022 performance release conference held by Honghua Group in Hong Kong

ANTI-CORRUPTION

With the spirits of honesty, integrity and fairness, Honghua Group always adheres to the concept of "cooperation in integrity, honest conduct for bright future", stands for none of corrupt behaviors, promotes the awareness of "not dare to, not able to and not want to be corrupt", to constantly improve the construction of the anti-corruption system. In the report period, the Company organized more than 260 people to visit and view Integrity Culture Education Base in Deyang City, Jintang Prison and court trials, etc.

Anti-corruption system

The Company has established the discipline inspection office to be fully responsible for supervising the discipline enforcement and accountability, reviewing the investigation and disposal, and supervising and guiding the subordinate discipline inspection agencies, and formulated a series of regulations and rules such as Working Rules of Discipline Inspection Committee, Working Rules of Party Conduct and Integrity Construction and Anti-corrupt Work Coordinating

Group, Regulation on Honest Employment of Employees and Integrity Interview Measures according to the national laws and regulations such as Criminal Law and Law of Anti-money Laundering of the People's Republic of China, which are applicable to all the procedures of procurement, manufacturing, marketing and communication, etc

Reporting and complaining channel

The internal and external interested parties of the Company can report the fraudulent, corrupt and other fraud conducts through the email (jubao.hhgp@hhcp.com.cn) or the hotline (028-68176829), and the identity of every informer will be kept secret. Upon verification, the reporting clues will be handled according to the relevant laws and regulations.

2023 Party conduct and integrity construction & warning education conference held by Honghua Group

On November 3, 2023, Honghua Group held the 2023 Party conduct and integrity construction & warning education conference in the form of "site + video", and more than 350 people attended this meeting. With the cases as mirror and the alarm bell ringing, this conference took the typical cases of violation of disciplines and laws as negative examples to promote the extension of strict Party-based enterprise governance the grassroots, and provide the firm discipline guarantee for the high-quality development of the Company. The Board Chairman of the Company attended the conference and introduced the special Party course on Party conduct and integrity under the title of *Keep the Alarm Bell Ringing with Cases as Mirror*.

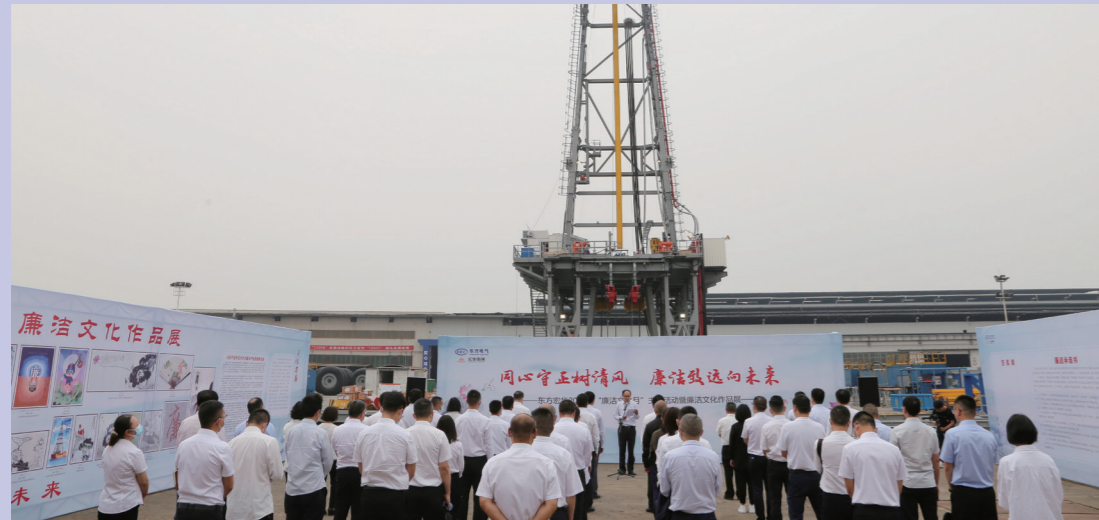
Through this conference, Honghua Group enhanced its Party conduct integrity and anti-corruption construction, and improved the all staff's integrity awareness of "not dare to, not able to and not want to be corrupt".



Integrity education conference held by Honghua Group

Integrity culture month activities on the subject of “cooperation in integrity, honest conduct for bright future”

In June 2023, to enhance the integrity culture construction in the new era, Honghua Group collected the works on the subject of integrity culture, and more than 90 calligraphy, painting, poem, photo and video works were collected. This activity fully mobilized the enthusiasm of all staff to study and carry out the integrity concept and practice the integrity culture, and effectively promoted the deep integration of the integrity culture of “cooperation in integrity, honest conduct for bright future” with the enterprise spirit.



Exhibition site of integrity culture works



The Company organized the discipline inspection cadres to visit the integrity culture education base in Deyang City

STAY UNITED IN UPHOLDING INTEGRITY, AND STRIVE FOR DISTANT GOALS WITH INTEGRITY



PURSUIT OF EXCELLENCE AND DEVELOPMENT

Honghua Group always brings the customers with the high-quality products and the excellent service, constantly improves the user service system, enhances the customer information protection, reasonably responds to the customers' complaints, and provides the customers with the careful and high-quality service.



Response to the UN's sustainable development goals (SDGs)

Persisting in Technological Innovation
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Solidify Lean Management
/ 25

Improving Product Quality
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Providing Excellent Customer Service
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PURSUIT OF EXCELLENCE AND DEVELOPMENT

PERSISTING IN TECHNOLOGICAL INNOVATION

Honghua Group always takes the lead in science and technology, focuses on the technological challenges and market opportunities, and accelerates the transformation of technological innovation achievements to enable the industrial development with technological innovation achievements. In 2023, Honghua Group's R&D expenditure reached 112 million Yuan.

Deepening of innovation management

Honghua Group insists on innovation driving, accelerates the reform of technological system, carries out the technological innovation, makes the technological innovation serve the enterprise development and the economic and social development better, and gives full play to the dominant role of the technological enterprise in decision making, R&D input and achievement transformation of technical innovations.

Optimization of technological innovation system

In 2023, the Company actively built a vigorous technological innovation organization management system and completed the top-level planning and actual implementation of the technological innovation organization system through organization and mechanism innovations.

The establishment of the technological committee represents the improvement of the Company's unified and specialized management framework from technological decision making to execution.

System

The Technological Project Management Measure of Honghua Group, the Management Regulation on Technological Project of Honghua Group under the Technological Reward System, and the Patent Management Measure of Honghua Group formulated by the Company take the technological outputs as the final development goal of technological project to complete the closed loop management centered at "technological output", build a technological innovation atmosphere in which "whoever is competent can win the competition, regardless of origin", fully protect and use the technological achievements, and urge the employees' enthusiasm for invention and creation.

Mechanism

Through the actual implementation of monthly regular meeting, monthly project control mechanism and chief auditor review mechanism of the Technological Committee, the Company ensures the orderly transformation from technological plan to final achievement, and establishes a normalized mechanism under which the high-level strategic discussion and decision making is conducted regularly.

- ▶▶ The smart drilling rig and offshore equipment technology is used in the building of the world-second oceanic research ship "MENG XIANG".
- ▶▶ Actively undertake two future industry startup action breakthrough tasks of the State-owned Assets Supervision and Administration Commission.
- ▶▶ Participate in the construction of Tianfu Yongxing Geothermal Exploration and Development and Comprehensive Utilization Research Center.
- ▶▶ Actively promote the collaborative innovation of every level, cooperate with the universities to apply for 1 major scientific research instrument project based on the national natural science foundation and 3 provincial projects, and carry out 1 university-enterprise cooperation project.

Strengthening of technological talent construction

For the talents of different levels and types, the Company takes different measures to enhance the talent team construction:

- ① Enhance the technical talent training to make them become the vital force in the corporate development
- ② Tutorial system + intensive teaching to accelerate the training of new employees
- ③ Specialized cross training of high-level talents to expand their knowledge and set up a foundation for training of leading talents
- ④ Major project and task authority given to middle backbones to promote the learning and growth in work.

Performance data

12 top-level technical talents were introduced throughout the year. Through the return of talents, 13 excellent technical talents came back to the Company. By enhancing the industry-university integration, the Company trained 1 engineering doctor and 3 masters jointly with Ocean University of China, and cooperated with 5 universities including Chongqing University to conduct the excellent engineer cultivation program for the purpose of cultivating 3 doctors and 11 masters.

Strengthening of technological capacity

Honghua Group insists on its independent innovation road, and is driven by the national strategies and the industrial demands to strive for technical mining and patent layout, promote the breakthroughs in key and core technologies, constantly improve the corporate intellectual property management system, and strengthen the technological capacity.

Successful release of integrated full-electric fracturing solution of Honghua Group

The electric fracturing of Honghua Group is deeply based on the shale gas field of China to develop the complete fracturing equipment with electricity as core energy and motor as power source and present the overall solution centered at the electric fracturing pump and integrating the complete automatic equipment and the digital command control together.

Based on the mature model, the Company developed the new HH6000R electric fracturing pump. The weight of this pump is reduced by 12%, while its connecting rod force is increased by 37%, the performance with 4.5" fluid end is up to 140MPa and that with 4" fluid end is up to 175MPa, and its long-term continuous loading capacity is above 80% so that it can adapt to the large displacement, high pressure and long-term continuous operating requirements of deep-well construction, and make breakthroughs in fracturing reformation technology and key equipment.



HH6000R electric fracturing pump

Improvement of intellectual property management

Following the path of independent innovation, Honghua Group respects and protects the intellectual property rights, and establishes a series of rules and regulations including *Intellectual Property Management Measure of Honghua Group*, *Patent Management Measure of Honghua Group* and *Business Secret Protection Management Measure of Honghua Group*, which are applicable to all the procedures related to the intellectual property management of the Company. Led by national strategies and industrial demands and according to relevant national laws and regulations and their implementation rules such as *Patent Law*, *Trademark Law*, *Anti-unfair Competition Law*, *Copyright Law* and *Advertising Law*, the Company focuses on the technical mining and intellectual property distribution, promotes the breakthroughs in key technologies, and constantly improves the corporate intellectual property management system, and strengthens the technological innovation ability to create values for the whole industry and the whole society.

Performance data

The Company has 803 valid patents including 315 patents for invention accounting for 39.2%, and 72 newly granted patents including 45 patents for invention, and has applied for 8 new foreign-related patents, and obtained 1 US patent license, 3 national patent excellence awards and 3 second prizes of patent award of Sichuan Province.

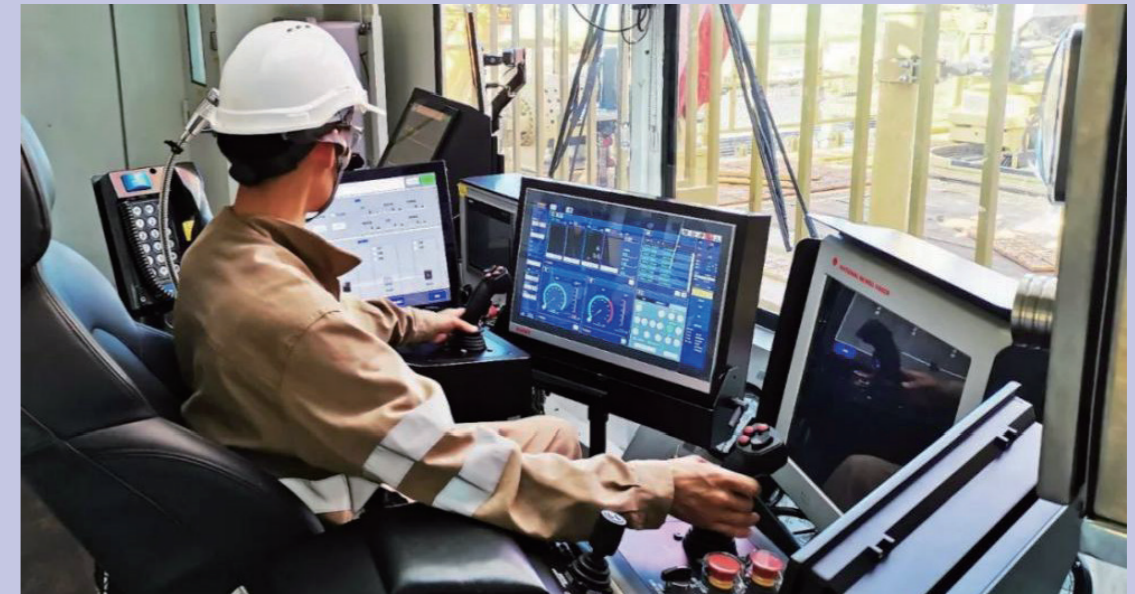
Strengthening of industry-university-research collaboration

Honghua Group makes full use of the innovation platforms of Zhejiang University, Sichuan University Joint Research Institute, DEC Fujian Research Institute and Dongchang Research Institute, etc. for collaborative innovation, and cooperates with them to promote the rapid development of emerging industries.

- ▶ Enhance the joint R&D cooperation with scientific research institutions, and conduct the technical breakthrough in “wireless sensor for measurement of torque turns” jointly with Sichuan University;
- ▶ Conduct the technical breakthrough in the “smart multi-robot automation system of deep oil and gas drilling string” under the 2023 significant technology and equipment breakthrough project of Sichuan Provincial Economic and Information Department jointly with Sichuan University and Southwest Petroleum University;
- ▶ Conduct the technical breakthrough in “OPERA smart drilling control platform demonstration application and industrialization” jointly with Chengdu University of Technology.

Deployment of smart drilling system OPERA for the “automatic operation” of drilling rig

Now, there are many difficulties in oil and gas drilling, such as repeated manual operation, identification and optimization of drilling parameters. With such technologies as drilling equipment automation, edge computation, big data, virtual and reality, Honghua Group developed a set of digital drilling control system OPERA and realized the efficient and safe automatic drilling to increase the drilling efficiency greatly.



Application of OPERA platform system

Promotion of innovation culture construction

Honghua Group carried out the “technical leading” strategy comprehensively, held the 2023 science and technology conference successfully, and completed its 2023-2025 technological development plan.



Honghua Group held the 2023 “Starting from DEC and Smart Innovation for Future” technological innovation conference ceremoniously

Transformation of significant technological achievement

Focusing on key fields and making great breakthroughs in many technological achievements:

- ▶ The smart drilling rig of the Company has reached the world advanced level. The Company held the release conference of the first smart rig 1.0 in China, and obtained the good response in the industry and the attention of many oil companies. Some key technologies have been successfully included in the bidding requirements.



- ▶ The first permanent-magnetic VF direct-drive 5-cylinder pump in China was successfully used in the completion of many wells in Xinjiang;
- ▶ The lifting-type "one-key automation system" obtained the US patent license, and the rapid tripping in and out technology was upgraded constantly to take the industrial leadership;
- ▶ Breakthroughs were made in the key technologies of the ultrahigh fracturing system, and the 130MPa pilot test and the "one-key" automatic fracturing system deployment were implemented successfully;
- ▶ The rapid moving technology of drilling rig was optimized and used in the lightweight trailer rig;
- ▶ In the aspect of downhole data transmission, the Company is developing towards the high-temperature field based on the breakthrough in the rated speed MWD.

SOLIDIFY LEAN MANAGEMENT

Honghua Group constantly carries out the lean and core concept of "all staff participation, collaboration, high efficiency, waste elimination and constant improvement" to promote the lean management, solve the outstanding conflicts and problems that restrict the transformation and development of the Company, and boost the high-quality development of the enterprise. The Company has successfully passed the review of ISO 9001 and API Q1 quality management systems and various product certifications, and obtained licenses of three certified products, namely API 7K rotary bushing & slip bowl and API 8C deadline anchor.

In 2023, the Company had 13 major and significant lean management tasks, and completed them all. Throughout the year, Honghua Group took the following measures to promote the lean management:

- ▶ **System construction:** Based on the deep reform leading group and the deep reform office, a lean management promotion leading group was established, under which a lean management promotion group responsible for lean management was set up;
- ▶ **Team cultivation:** 5 backbones were elected to participate in the lean management training of promoters, and 3 department executives were elected to participate in the lean management training of sponsors, to prepare for lean-level talents;
- ▶ **Indicator improvement:** Around such goals as "quality loss rate", the quality control was implemented in the whole course;
- ▶ **Foundation consolidation:** In the aspects of 6S construction and SOP management, some improving and planning preparations were made exploratively.

In 2023, Honghua Group made the following achievements in the lean management:

Increase of productivity

From January 2023 when the production line started construction to March 2023 when the first batch of products started trial production and then to August 2023 when the production capacity reached the standard, the heliostat stand production line realized the transformation "from none to existence" and "from existence to excellence",

with the product qualification rate over

97%

and the monthly production capacity up to

2,000/ units

Data performance

With the 100% coverage rate of assembling tools, the consistency of riveting accuracy is guaranteed; the 100% robot UT inspection pass rate is realized; the new technologies such as zero positioning, automatic replacement of workpiece and cutter, and automatic detection of cutter and workpiece were used for the first time in the machining process; the machine tool could maintain the 24h continuous machining, the automatic UT welding pass rate is up to 100%, the machining precision reaches 0.02mm, the automatic welding coverage rate is over 90%, and the utilization rate of machine tool is over 90%.

Cost reduction and efficiency increase of supply chain

- ▶ By carrying out the organization reform, optimizing the personnel allocation and improving the working mechanism, Honghua Group and its subsidiaries have taken a series of management measures for honest procurement.
- ▶ The cost is reduced at the time of improving the procurement efficiency, and the procurement business is centralized to increase the procurement efficiency.
- ▶ By implementing the supplier expansion program, the materials of Honghua Group supplied by a sole supplier are reduced by 26 kinds, lowered by 47%, and the materials supplied by fewer than three suppliers are reduced by 67 kinds, lowered by 58%.

Rapid growth of overseas service

Honghua Group constantly develops the overseas service market, deeply explores the overseas drilling service by signing multiple new drilling contracts with domestic and foreign famous companies, expanding its "circle of friends" in the industry and establishing the service system centered at Honghua Golden Coast which has the obvious incremental of sales of spare parts and has its total amount in the contracted spare parts and technical service 90% higher than last year.

IMPROVING PRODUCT QUALITY

The Quality, Safety and Environmental Protection Department of Honghua Group carries out the quality and safety management. In accordance with the laws and regulations related to products including *Products Quality Law*, *Industrial Product Quality Liability Regulation and API SPEC Q1 Quality Management System Requirements for Organizations Providing Products for the Petroleum and Natural Gas Industry*, and in combination with the practices of quality management system of Honghua Group, *Management Regulation on Quality Assessment*, *Management Regulation on Quality Event*, *Management Regulation on Quality Responsibility Investigation* and other quality management regulations have been established for the constant improvement of the product quality management.

In 2023, the Company conducted 42 quality training activities attended by 2,104 people, without major quality accident or quality management problem; in accordance with the *Work Safety Law of the People's Republic of China* and other relevant laws and regulations, and in combination with the actual conditions of the Company, the safety, environmental protection and occupational health management regulations including *Work Safety Management Regulation of Honghua Group Limited* were established. In 2023, the Company had no serious work safety accident with casualties.

Data performance

In 2023, the quality loss rate was 0.12%, NCR (external) per 10,000 Yuan revenue was 82.08% lower than last year, completing the dual reduction indicator; the application and promotion rate of QMSS system module was up to 100%.

In the aspect of product quality management, Honghua Group takes the following measures:

Establish the normalized working mechanism and promote the orderly implementation of quality work.

The monthly quality information data reporting mechanism of Honghua Group was established to collect and analyze the quality information of every subsidiary and dynamically control the quality work implementation of every subsidiary. The regular quality meeting of Honghua Group was held every quarter to control the quality work of every subsidiary. The quality work implementation of every subsidiary was supervised and inspected regularly to put forward the problem to be improved and follow up the closure of the problem.

Comprehensively diagnose the quality system and improve the management weakness.

The quality management maturity evaluation was conducted, and the improvement plan was established to specify the improving direction and promote the increase of quality management maturity of every subsidiary.

Carry out the quality culture of Honghua Group and unify the quality management concept.

The core concept of quality culture, quality culture and the quality redline were publicized and implemented throughout the Company. The implementation plan was established, every subsidiary was required to establish and carry out the specific quality culture construction implementation plan, and various activities such as quality lecture, "rule and regulation compliance" governance, quality evaluation and quality knowledge contest were carried out to improve the overall quality culture construction of Honghua Group.

Integrate the management process and promote the launching of information system.

The Company took a lead in launching the QMSS system, specified the staged targets, and timely solved the problems and obstructions of every subsidiary during the test. The QMSS system of every subsidiary was formally put into service from July 1.

Enhance the construction of quality management team and solidify the talent foundation.

To improve the level and ability of the quality management team of every subsidiary of Honghua Group, the implementation plan was established in the aspects of professional skills, product structure, basic technical knowledge and production management, in order to firmly improve the overall ability and professional skill of quality management staff.

Product certificates obtained by Honghua Group (partial)



API Certificate 4F product certificate



API Certificate 16C product certificate



API Certificate 8C certificate



API Certificate 6A product certificate



API Certificate 7-1 product certificate



API Certificate Q1 quality management system certificate

Quality month activity held by Honghua Group to enhance the quality awareness

In September 2023, Honghua Group held the 2023 “quality month” kickoff meeting on which Mr. Wang Xu, the Board Chairman made a speech under the title of Conduct the Quality Control and Promote the Implementation of “Quality Leading” Strategy, explained the “quality leading” standard and connotation of Honghua Group, and put forward the “1+3+1” working concept (namely to set up a top-level quality management framework, hold the three key directions of quality management, and improve a quality management guarantee mechanism) to set up a foundation for the achievement of the quality leading target.



2023 “Quality Month” kickoff meeting of Honghua Group

PROVIDING EXCELLENT CUSTOMER SERVICE

Honghua Group always pays great attention to the customers’ demands, practically protect the customers’ rights and interests, optimizes and improves the after-sales service management measures, and constantly improves the customer service quality. In 2023, the customer satisfaction of Honghua Group was up to 98.78% without any major customer complaint.

Improvement of after-sales service system

Honghua Group is always dedicated to providing the high-quality and perfect after-sales service and putting the customer satisfaction first to ensure the continuous improvement of after-sales service quality and customer satisfaction with a complete after-sales service response mechanism.

Customer complaint feedback flow and service systems (partial)

- ▶ *After-sales Service Management Regulation on Oil Drilling Equipment*
- ▶ *Management Regulation on Service Quality Evaluation and Service Staff Election of After-sales Technical Service Department*
- ▶ *Rapid Response Mechanism of After-sales Service*
- ▶ *Management Regulation on Site Problem Feedback and Solution*



Establishment of full process of after-sales service system

- ▶ **Normalize the internal process:** The organization structure was adjusted, and the work division of every department was specified to increase the overall working efficiency; 18 department operation system processes were sorted out to ensure the normalized operation of every business; the service staff election and appointment mechanism was established and improved to appoint the service staff fairly, justly and reasonably to attend the site implementation of every project.
- ▶ **Make clear the external service responsibilities:** The service responsibilities and working interfaces of after-sales technical service department, final assembly and commissioning department and subsidiary GCE were specified, signed by three parities and put on record to ensure that every party performs their duties properly on the site.
- ▶ **Construct the service sites:** Chuanyu, Dongying and Xinjiang service sites have been built in China to open the third-party employment channel, realize the diversified employment mode, realize the 2h service site coverage, and effectively increase the service response efficiency; on the overseas market, Saudi Arabia service site has been built while Oman, Kuwait and Eurasia service sites are being prepared actively.
- ▶ **Improve the product quality:** The NCR ledger was established, and the solution and improvement of site quality problem was promoted jointly with the quality, safety and environmental protection department to guarantee the continuous optimization of product reliability.
- ▶ **Customer satisfaction:** The customer visit system was established, and the regular after-sales meeting was held periodically to timely know the after-sales quality and product quality and thus improve the customer satisfaction.



Establishment of good customer relations

Honghua Group insists on enabling its customers and providing its customers with high-quality service, and is oriented by meeting the customers' demands to obtain the customers' recognition.

With highly favorable reviews, Honghua Group often receives the customers' letters of praise

In 2023, Honghua Group often received the customers' letters of praise in which its customers highly praised and recognized the excellent service quality, exquisite professional skills and responsible working attitudes of its engineers, and the exquisite skills of its motor servicemen on the work site were highly recognized.

The full recognition and trust of the customers drive the high-quality development of Honghua Group. A better cooperative relationship can be established with the customers only by insisting on enabling the customers, providing the high-quality and promoting the efficient collaboration.

By solving problems of the customers, Honghua Group is well recognized by the customers

The desert fast-moving drilling rig used by a customer in Kuwait has been in service for 9 years from the time of purchase. To ensure the normal operation of the drilling rig, the customer decided to maintain the drilling rig comprehensively. Two engineers of the after-sales technical service department of Sichuan Honghua actively undertook this task to serve the customer. With their professional skills and rich knowledge, the service of the two engineers guaranteed the normal production of the customer, and made the service team of Honghua fully recognized and trusted by the customer.



Group photo taken on the site

PROTECTION OF ENVIRONMENTAL SAFETY

Honghua Group deeply carries out the strategic decision and deployment about carbon peaking and carbon neutrality, incorporates the carbon peaking and carbon neutrality into the overall development consideration, and strives for the green and low-carbon transformation to make its contributions to the comprehensive high-quality and sustainable development of the society.



Response to the UN's sustainable development goals (SDGs)

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PROTECTION OF ENVIRONMENTAL SAFETY

STRENGTHENING ENVIRONMENTAL MANAGEMENT

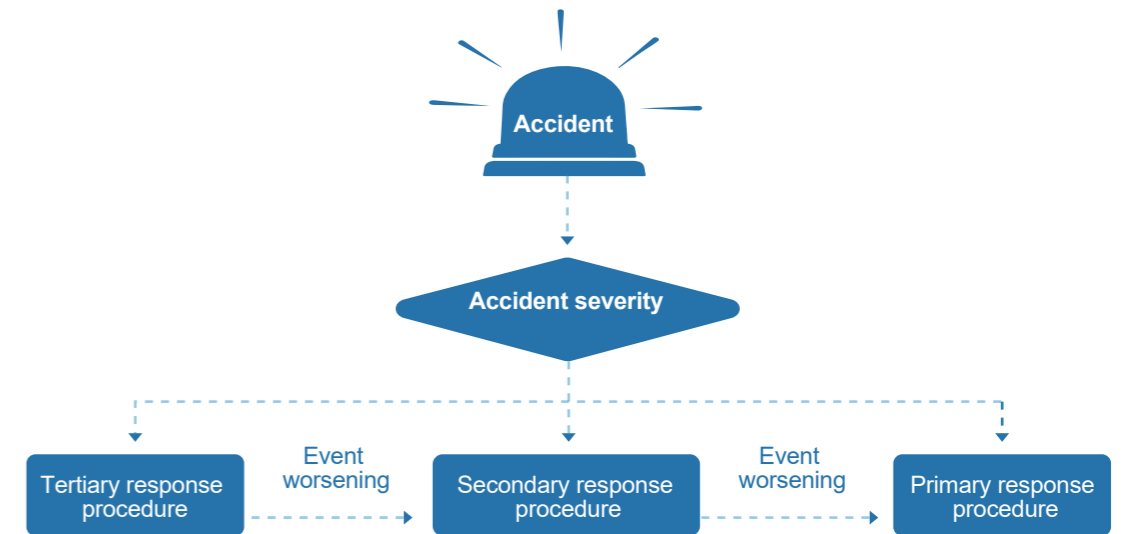
Honghua Group constantly enhances the environment management by establishing the green system, advocating the green office and fostering the green culture, to set up a green foundation for the sustainable development of the enterprise.

Green system

Pursuant to the relevant laws and regulations such as *Environmental Protection Law of the People's Republic of China*, *Air Pollution Prevention and Control Law of the People's Republic of China* and *Water Pollution Prevention and Control Law of the People's Republic of China*, Honghua Group has established the management regulations on prevention and control of air, solid waste and water pollution, established and improved the *Emergency Plan for Environmental Incidents*, specified the responsibilities and management requirements of every department, regularly organized the monitoring and management of various pollution sources in the Company, specified the environmental monitoring tasks, monitoring control indicators and monitoring methods, conducted the emergency exercises related to emergent leakage of oils and waste water, constantly improved the ability to handle the environmental incidents, and fulfilled the environmental protection management level by level.



Environmental management system certificate of Sichuan Honghua Petroleum Equipment Co., Ltd.



According to the controllability, severity and influence of environmental incidents, the possibility of special major environmental pollution event is almost negligible, and the emergency responses of environmental incidents are divided into three levels: significant (primary response), major (secondary response) and ordinary (tertiary response).

Honghua Group constantly carries out the special environmental protection and occupational health inspection

In the report period, Honghua Group organized its subsidiaries to carry out the special environmental protection and occupational health inspection every month, announced the special inspection implementation plan and the environmental protection and occupational health regulation that should be specially noticed in the current month, gave the solutions and rectification opinions on the environmental protection and occupational health problems, required the responsible department to complete the rectification within the stipulated time according to the rectification requirements, and included the completion of rectification into the monthly performance examination data of every department, in order to constantly solidify the environmental governance ability of the Company and its subsidiaries.



Hazardous chemical treatment



Green office

Honghua Group actively carries out the idea of sustainable development, promotes the green office, and pays much attention to the energy conservation and consumption reduction in the daily work to build the more environment-friendly and energy-efficient office environment jointly.

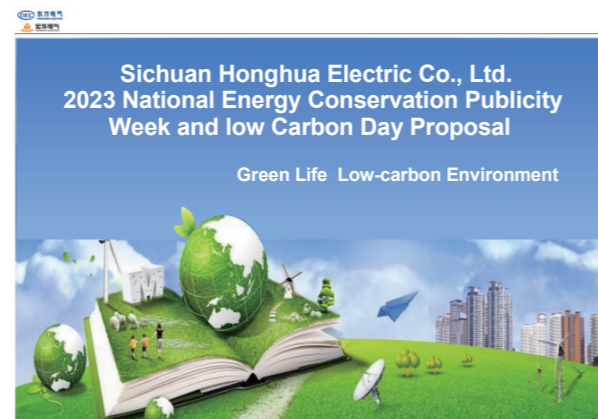
- ▶ **Enhance the energy consumption data statistics:** Set up the cost control concept and analyze the reasons of differences and changes to control all the expenses within the reasonable and expected range.
- ▶ **Select the energy-efficient facilities and equipment:** Use the energy-efficient lamps to reduce the power consumption under the condition that the production workshop illumination meets the operating requirements.
- ▶ **Strengthen the daily inspection management:** Eliminate all unnecessary wastes.
- ▶ **Intensify the environmental protection publicity and education:** Improve the awareness of all the staff, such as advocating the double-side printing in order to save paper.



Installation of solar street lamps on the production base to reduce the power consumption

Green culture

Honghua Group drives its subsidiaries to learn and implement the *Management Regulation on Supervision and Management of Energy Conservation and Ecological Environment Protection* and fulfill their responsibilities for special ecological environment protection regulation level by level; the Company conducts the energy conservation and carbon reduction publicity and education activities, and prepares the energy conservation proposal and uses the LED panels for publicity and education, in order to improve the responsibility consensus and foster a culture atmosphere for green work and green life.



Environmental protection publicity activity of Honghua Electric

RESPONDING TO THE “DUAL CARBON” STRATEGY

Honghua Group carefully implements the national carbon peaking and carbon neutrality strategy, strives for the green, low-carbon and digital transformation, increases the utilization efficiency of energy resources, improves and optimizes the industrial structure and market layout, continuously invests in R&D, and accelerates the building of green and low-carbon industry with high-quality development.

Emission reduction and efficiency increase

The carbon emission of the Company is mostly produced by the energy consumption during the production and operation. According to the statistics in 2023, 90% of consumed energy came from the natural gas and grid electricity with a low carbon emission coefficient, and the annual targets, namely the year-on-year decrease over 4% of comprehensive energy consumption per 10,000 Yuan revenue and the year-on-year decrease over 4% of CO2 emission corresponding to 10,000 Yuan revenue, were achieved successfully.

In addition, the Company took the energy conservation and emission reduction measures actively on the enterprise’s production base and the wellsites in the customer’s oil-gas fields, increased the utilization efficiency of water resources and reduced the pollutant discharge by adding the exhaust gas treatment device, modifying the diesel-driven equipment to electrical equipment, and purifying and circulating the wastes and waste water, in order to eliminate the illegal discharge and realize the clean production.

Optimization of low-carbon industry

The green and low-carbon industrial layout of Honghua Group is mainly to promote the new energy/source-network-load-storage integration service to the target customers of domestic and foreign oil-gas fields.

- Seize the energy conservation, emission reduction and green transformation requirements of domestic and foreign oil field customers, and conduct the product R&D and technical innovation pertinently according to the actual conditions of the natural resources such as wind and sunlight and the oil field equipment on the local site, to add the energy storage devices onto the traditional petroleum equipment, realize the green transformation and undertake the wind and PV EPC project of oil-gas field;
- Expand the overseas new energy market in order to enhance the ability to resist the periodic fluctuation of the oil and gas industry gradually. The continuous investment is made into the manufacturing of new energy equipment, and the offshore wind power products such as jacket and booster station are mainly developed to constantly expand and strengthen the base of offshore new energy equipment, greatly increasing the orders and revenues in 2023;
- The heliostat stand production line was constructed and put into production in Gansu, and made contributions to the delivery of the Akesai photo-thermal project.

Special promotion of green transformation

As mentioned in the *Oil and Gas Exploration and Development and New Energy Integration Development Acceleration Action Plan (2023-2025)* issued by the National Energy Administration in March 2023, it is necessary to vigorously drive the oil and gas exploration and development and new energy integration development and actively expand the green electricity development and utilization scale of the oil and gas enterprises by 2025.

Honghua Group established the oil-gas field new energy working group in April 2023 to integrate the advantageous resources of the whole company together, and actively seek for the market opportunity to make breakthroughs in the “source- network- load- storage” direction of the oil-gas field.

Through the preliminary exploration and attempt over nearly half a year, the Company realized the implementation of the 40MW wind power EPC project in Jixian, Shanxi Province of Sinopec East China Oil & Gas Company this year, making a good start for the development of distributed wind power and PV EPC market of the oil-gas field. Besides, Honghua Electric Co., Ltd., a subsidiary of Honghua Group, took a lead in promoting the PetroChina Panzhihua 5-6MW PV Project and Qinghai wind and PV integration project, striving for contracts from new customers. In the energy storage business, the batched sale of overseas top-level drilling rig energy storage system was realized for the first time, setting up a foundation for the development of subsequent energy storage products and business.



The Company follows the power grid leading concept on the oil-gas field and focuses on the special power engineering and the clean energy power engineering of oil-gas industry to realize the energy conservation and high efficiency of drilling rig power supply system and electric fracturing power supply system.

Promotion of carbon peaking action

As a listed company, Honghua Group makes active responses to the requirements of Stock Exchange to deal with the climate changes. *In 2023, the Carbon Peaking Action Plan of Honghua Group was prepared.*

The overall strategic route of carbon peaking of the Company surrounds the development goals of “becoming the important support of national energy safety and green and low-carbon development” and “becoming the leading enterprise of top-level oil and gas equipment”, and is implemented according to the position and role of the enterprise in the process of achieving the carbon peaking target and the features of the energy equipment and service industry that the enterprise belongs to.

- **Seven aspects:** Deploy the key tasks in seven aspects selected from the *Guideline on Compilation of Carbon Peaking Action Plan of Central Enterprise* according to the actual conditions of the Company, which shall relate to every work in the process of realizing the carbon peaking target accurately and comprehensively to guarantee the smooth realization of carbon peaking effectively.
- **Three major projects:** According to the actual conditions of the Company’s business, three major projects are arranged: smart manufacturing project, green factory construction project, and green, low-carbon and efficient energy equipment R&D project.

Carbon peaking of Honghua Group supported by “three major projects”

- ▶ **Smart manufacturing project**
The Company details the requirements on acceleration of digital transformation of central enterprises, insist on digital drive, enhances the deep integration of the new information technology with the manufacturing industry, and vigorously implements the smart manufacturing project according to the dual drive of “smart product service and smart manufacturing process” and the national and industrial standards, to basically realize the digitization of main workshops of manufacturing enterprises and also the digitization of main manufacturing enterprises.
- ▶ **Green factory construction project**
Considering the features of energy equipment manufacturing industry and the energy conservation and carbon reduction requirements of production, and with focus on the green workshop, the Company vigorously implements the green factory construction project, and drives every subsidiary to increase the utilization efficiency of energy resources and the clean production level, in order to reduce the CO2 emission from the source, build a green supply chain, and realize the efficient, clean and low-carbon circulation and sustainable development of the enterprise.
- ▶ **Green, low-carbon and efficient energy equipment R&D project**
Facing the national significant strategic demands and the industrial high-quality development requirements, the Company focuses on the green and low-carbon transformation in the energy equipment field, carries out the technical research on and breakthrough in the key energy equipment such as top-level oil and gas equipment, drives the technical advancement, forms the demonstration application, enhances the innovative technology layout and breakthrough, and strives to implement the green and low-carbon energy equipment R&D project, in order to support the national major project implementation and major engineering construction.

PRACTICING GREEN OPERATIONS

Honghua Group constantly increases the R&D investment to enhance its innovation capacity of key and core technologies, actively drive the deep integration of the emerging technologies such as artificial intelligence and big data with the green and low-carbon products, promote the use of energy-saving and efficient technologies and products, increase the proportion of green energy consumption in production, and jointly build and share the green and low-carbon development ecosystem.

Green manufacturing

Honghua Group adheres to the idea of “digital drive, green and low carbon, smart operation and maintenance”, and is oriented by smart manufacturing, in order to promote the digital product, digital industrialization, smart equipment and green industry and strive to build a green and low-carbon innovative technology source.



On August 28, 2023, Honghua Group released the first smart drilling rig made in China - HH Smart Rig1.0. The energy storage and management system used on the HH Smart Rig1.0 can identify the working conditions of the drilling rig intelligently, and start and stop the generator automatically with the internal strategy algorithm to effectively increase the operating efficiency of generator, reduce the operating time of generator, and realize the green and environment friendly drilling operation.

Green digital

In 2023, Honghua Group set up the digital transformation promotion leading group to promote the digital transformation orderly, deploy and carry out all the tasks effectively, and further drive the green transformation.

Construction of digital simulation laboratory

In the simulation environment, the digital drilling control and fracturing control products were deeply tested, and their conditions, functions, designs, loads, parameters, system functions, man-machine interaction and software strength were tested and verified. The simulation laboratories include the digital drilling simulation laboratory and the digital fracturing simulation laboratory. The involved main functional modules include digital simulation module, 3D digital simulation module, drilling rig operating system, drilling instrument system, fracturing operation system, fracturing parameter simulation module, fracturing data acquisition system and 3D animation module. Through the active simulation of specific conditions, the long-term presence of industrial test personnel on the site, the commissioning pressure and test risk in the industrial test, and the economic loss are reduced.



Digital simulation laboratory

Striving for the best and the new force, green drilling rig “made in China”

Honghua Group has established the Uganda drilling rig project breakthrough team to fully carry out the technical development and manufacturing of Uganda drilling rig project, and successfully manufactured the first ultra-silent smart drilling rig developed independently by China - Uganda 1500HP low-emission automatic silent drilling rig. The Uganda full-silent automatic smart drilling rig is one of the most quiet models among the similar products in the world, is featured with automation, smart, environment friendly and animal friendly, and is a powerful practice of “made in China” and “green manufacturing”.



Delivery ceremony of Uganda 1500HP low-emission automatic silent drilling rig



Green production

Honghua Group adheres to the principles of harmless raw materials, clean production, waste reclamation and energy decarbonization to accelerate the building of green manufacturing system and promote the demonstration creation of green workshop, green factory and green park.

Clean production

- ▶ Use a lot of clean energies, replace the traditional diesel oil with electricity, and use the diesel oil for emergency purpose only on the work site, to reduce the CO2 emission fundamentally.
- ▶ Cooperate with a third-party environment protection service company to provide the waste and waste water purifying, recycling and disposal service, in order to increase the utilization efficiency of water resource and eliminate the illegal discharge.

Emission and pollution reduction

- ▶ Add the waste gas treatment devices for the hazardous waste storage and the paint waste storage room, to reduce the unorganized discharge of volatile organic compound.
- ▶ Upgrade the tail gas treatment facility of painting room to RTO regenerative combustion, to enhance the handling efficiency of tail gas and reduce the emission of pollutants.
- ▶ Replace part of fueled forklifts with electric forklifts, to reduce the consumption of diesel oil and the impact on the environment.

Indicator	Unit	Year 2021	Year 2022	Year 2023
Comprehensive energy consumption	KWH	36,781,030	25,728,538	65,576,000
Electricity	KWH	18,293,322	13,945,385	47,669,600
Natural gas	Cubic meter	110,223	1,098,201	1,453,900
Gasoline	Liter	27,403.25	73,275.00	37,005.00
Diesel oil	Liter	2,783	28,309	1,239,504
Water resource consumption per 10,000 Yuan revenue	Ton/ 10,000 Yuan	/	0.82	0.712
Consumption density of packaging materials	Ton/ 10,000 Yuan	/	/	0.0020

Construction of green workshop

Honghua Group actively conducts the environment-friendly reconstruction of its production base, performs the status comparison and the internal exchange and evaluation according to the actual conditions of the Company, and has prepared the *Report on Creation of Green Factory*, in order to construct the shale gas workshop as Grade B green workshop. In November 2023, the green shale gas workshop was successfully accepted by Honghua Group, and met the acceptance conditions of Grade B green workshop according to the relevant national standards.

MAINTAINING GREEN EMISSIONS

Honghua Group constantly enhances the pollutant management, pays much attention to the hazardous waste discharge in the key field, and ensures the satisfying discharge of pollutants by “one factory and one policy”, equipment modification, regulation inspection and other methods.

- ▶ **Management improvement:** Establish the management regulations on air pollution, water pollution, solid wastes and environmental protection equipment and facilities, etc., to specify the management requirements, and strictly prevent the occurrence of pollution incidents.
- ▶ **Monitoring enhancement:** Complete the networking of hazardous wastes, and enhance the monitoring and control of key fields such as waste production, storage, handling and transfer, etc.
- ▶ **Special treatment:** Establish and carry out the “one factory and one policy” implementation plan for emergency emission reduction in the heavily polluted weather, and take the effective treatment measures for such operations as cutting, welding, grinding, sand blasting and painting.
- ▶ **Equipment modification:** Conduct the painting modification project, and promote the upgrading for the treatment of volatile organic compound.
- ▶ **Regular inspection:** Regularly conduct the environmental protection inspection, strictly carry out the maintenance of painting equipment, and increase the activated carbon desorption frequency to ensure the satisfying discharge of pollutants.



Storage and management of hazardous wastes

Indicator	Unit	Year 2021	Year 2022	Year 2023
Greenhouse gas emission	Ton	15,921.96	10,852.00	34,582.00
Direct emission in Range 1				
Natural gas	Ton	224.52	2,372.00	3,140.00
Gasoline	Ton	72.89	166.00	84.70
Diesel oil	Ton	7.65	75.00	3,320.00
Liquefied petroleum gas	Ton	3,707.31	0	0
Indirect emission of energy in Range 2				
Purchase of electricity	Ton	11,212.82	7,953.00	27,186.00
Other indirect emission in Range 3				
Aircraft journey	Ton	341.77	282.00	846.00
Disposal of waste paper	Ton	67.07	4.00	5.28

Note: The emission coefficient used for calculating the CO2 emission in the above table is the same as the one used in the energy conservation and ecological environment protection monitoring statistics of Dongfang Electric Corporation.

ADDRESSING CLIMATE CHANGE

The climate changes may cause the frequent extreme weather events, such as flood, drought, hurricane and other natural disasters which may bring the enterprise with the physical risks of direct damage to facilities and assets. Along with the global low-carbon economic transformation, the enterprise may face the transformation risks in the aspects of policies, laws, technologies and market, etc. Meanwhile, due to the increasing of the customers' attention to environmental protection and sustainability and the changing of market requirements, the enterprise shall adjust its products and service to meet the customers' requirements of environmental protection and sustainability development. To cope with the risks caused by climate changes and the changes in market requirements, the enterprise shall take the measures to strengthen the risk management, increase the energy efficiency, and develop the low-carbon products and services, and also pay attention to the opportunities brought by climate changes to actively cope with the climate changes, improve the competitiveness and realize the sustainable development. The main climate risks and countermeasures identified by the Company are as follows:

Risk type		Risk description	Countermeasure
Physical risk	Continuous high temperature, drought, etc.	High temperature and drought may cause electricity rationing to factory and project site, affecting the normal production	Deploy the energy storage and new-energy power generation devices to main the production as much as possible under the extreme condition

Risk Categories		Risk description	Countermeasure
Transformation risk	Market risks	Main oil field customers adjust their business structure, and reduce the investment in the traditional oil and gas exploitation business, reducing the revenue of the Company	Deploy the new energy and relevant equipment manufacturing industry, and actively participate in the comprehensive integration of oil and gas on domestic and foreign oil field with new energy
	Policy and legal risks	The government may establish the laws and regulations to limit the carbon emission, or collect the carbon taxes, affecting the production and operation costs of the Company and its customers	Use the energy-saving and environment-friendly equipment and the clean energy to reduce the carbon emission of the Company; promote the electrification of oil and gas exploitation, i.e. replace the fossil energy with the electric power to drive the drilling and exploitation equipment, to reduce the carbon emission of the customer during the exploitation

Along with the global consensus on the energy structure reform and transformation, the clean and low-carbon natural gas and non-conventional natural gas markets are expected to increase exponentially. China has the rich commercially recoverable shale gas reserves and also the advanced horizontal drilling and hydraulic fracturing technologies so that it is easier to exploit the natural gas in the shale. The Company seizes this opportunity to quicken the development of shale gas exploitation service.

Honghua Group has launched the first "one-key automation" automatic tool system, electric coiled tubing and other new equipment in China, and been widely recognized on the market so that its leading position on the drilling fracturing market is solidified. The Company provides the electrification of shale gas exploitation industry chain with the key equipment and the comprehensive power supply service to boost the green exploitation of shale gas. According to the data released by PetroChina News Center, the current non-conventional oil and gas output accounts for 20% of total oil and gas output of China so it is significant for the achievement of carbon peaking and carbon neutrality [3060 target] to reduce the carbon emission in the process of non-conventional oil and gas exploitation. The shale gas is an important part of the non-conventional oil and gas. The core competitiveness of the Company in the green exploitation of shale gas can be expanded into the domestic and foreign green development activities of other non-conventional oil and gas resources.

Under the background that energy conservation, emission reduction, cost reduction and benefit increase become the main theme of the oil and gas exploitation industry, the replacement of diesel drive with electric drive has become the main measure to realize the industrial decarbonization and the targets of carbon peaking and carbon neutrality. This is consistent with the constant strategic positioning and development direction of the Company.

As the first and leading electric fracturing equipment manufacturing and comprehensive service enterprise in China, Honghua Group has taken the market opportunity in the electric exploitation field of shale gas, and through the hardworking over the years, established the complete product and service system and accumulated a lot of excellent talents and service experience to greatly promote the green exploitation of shale gas. The shale gas working zones are mostly located in the sparsely-populated remote area. Power shortage or no power becomes the key problem restricting the electrification of shale gas exploitation. The construction of local power network is vital to solving the power problems in the shale gas working zone.

The Company has seized the historic opportunity of electric reform of shale gas exploitation; centered at the comprehensive power supply service of whole exploitation industry chain, the Company energetically develops the local power network of shale gas, and expands the coverage gradually to every main shale gas exploitation zone; in combination with the patented product of the Company - high-power electric fracturing pump and the professional service team, the Company has effectively reduced the shale gas exploitation cost, completely solved the problems of conventional shale gas exploitation such as high cost and low efficiency, and promoted the development of green and electric exploitation of shale gas. According to the statistics, the Company has reduced the CO2 emission significantly for the oil field users.

The rapid development of the wind power which is a kind of low-carbon energy can effectively reduce the emission of greenhouse gas. Through the reasonable planning and development of wind resource, such renewable resource can be used constantly to guarantee the energy supply in future. The Company pays much attention to the offshore wind power, and is dedicated to the offshore wind power generating equipment.

The offshore wind power has many advantages such as high power utilization efficiency, occupation of no land resource, suitable for large-scale development, convenient waterway transport of wind turbines, and near the costal power load center, etc. The rich offshore wind energy resource and the great development potential in China are significant for guaranteeing the energy safety, promoting the green and low-carbon development and realizing the targets of "carbon peaking and carbon neutrality". The offshore booster station and the wind turbine foundation jacket manufactured by the Company are used in the offshore wind power generation.

TOGETHER WITH PARTNERS FOR WIN-WIN

Honghua Group actively communicates with the interested parties including partners and suppliers, establishes a harmonious and healthy relationship, jointly creates win-win with partners, builds an ordered and good industry development atmosphere in the form of exchange, share and business cooperation and promotes the overall industry development.



Respond to the sustainable development goals (SDGs) of the United Nations

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TOGETHER WITH PARTNERS FOR WIN-WIN

SUPPLY CHAIN MANAGEMENT

In 2023, Honghua Group gave full play to its own advantages, firmly took on primary responsibility, persisted in problem-oriented, normalized the administrative procedure for suppliers at various levels, and prepared and published the Administrative Procedures for Suppliers of Honghua Group Limited which increases the access evaluation and the minimum number of suppliers (3) for each category of material, defines the evaluation of source evaluation and the management requirement of agents and distributors and covers to the management of non-production suppliers.

Supplier performance data		
Indicator	Unit	2023
New supplier	Numbercount	203
Number of suppliers	Numbercount	526
Number of suppliers inside Sichuan	Numbercount	221
Number of suppliers outside Sichuan	Numbercount	305
Number of potential suppliers who are rejected due to non-compliance in social responsibility	Numbercount	0
Number of potential suppliers who are terminated due to non-compliance in social responsibility	Numbercount	0
Number of suppliers reviewed within report period	Number	0
Number of penalized suppliers	Numbercount	245
Training frequency of suppliers	Numbertimes	62

Optimization of supply chain

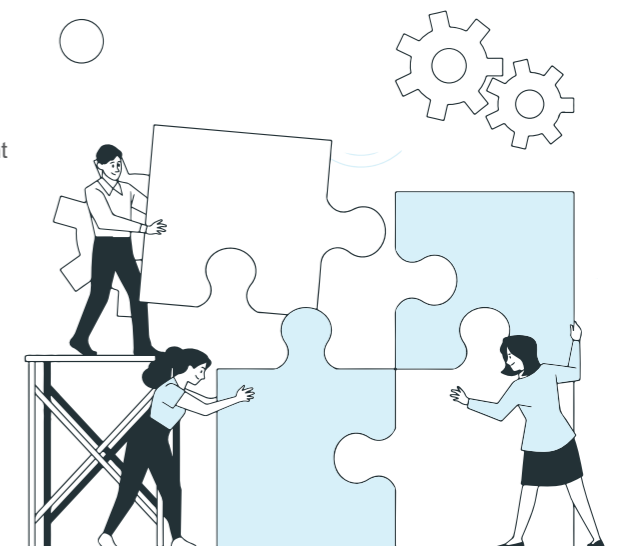
Honghua Group establishes the Honghua Group Supply Chain Construction Integration Plan to focus on "six integrations" to implement the reform of supply chain system and the integration construction of supply chain and achieve the phased development and the phased result in four aspects inducing "separation", "centralization", "improvement" and "reduction".

Complete supply chain rectification to 100%

- Achieve the overall completion rate of 94.5% and the periodical completion rate of 100% for 36 rectification tasks in relation to the supply chain management of subsidiaries;
- Achieve the overall completion rate of 87.5% and the periodical completion rate of 100% for 40 rectification tasks in relation to the supply chain management in internal inspection of Honghua Group;
- Complete 24 of 26 special rectification problem items (including 21 items to be inspected and corrected by supplier; in these 21 items, 19 items have been completed and the remaining 2 items are in progress as planned);
- Complete 4 key inspection items of supplier;
- Complete 1 project self-inspection item to achieve the overall completion rate of 92.3% and the periodical completion rate of 100%.

Promote "six integrations"

- **Supply chain management system integration**
 - Set enterprise management department as supply chain management department
 - Define the purchasing, storage and transport department as purchasing business department
 - Define the quality, safety and environment department for supplier management
- **Supply chain management regulations integration**
 - Set up basic management regulations
- **Purchasing business integration**
 - Comprehensively implement the primary centralized purchasing of the group
 - Comprehensively promote the secondary centralized purchasing
 - Comprehensively promote the E-commerce purchasing





Achieve phased result in four dimensions

- Implement the institutional reform, realize the result of “separation”**
 - Optimize and improve organization, adjust department responsibility, comprehensively realize the “separation of supervision from day-to-day operation, of bidding from purchasing and of evaluation from determination”.
- Strengthen the centralized management, expand the effect of “centralization”**
 - Collect and collate the secondary centralized purchasing list, promote the purchasing work as planned;
 - Centralize the purchasing authority, and centralize purchasing of non-productive goods.
- Actively coordinate, promote the effect of “improvement”**
 - Quantity increase: accumulatively realize the purchasing amount up to 177 million Yuan since the implementation of purchasing by invitation to bid.
 - Quality improvement: improve the purchasing by invitation to bid to 21%; Honghua Group is gradually realizing public bidding (if applicable) in its subsidiaries.
- Focus on the implementation of system, intensify the effect of “reduction”**
 - Implement the special work to reduce 26 goods from exclusive supplier by 47% and 67 goods from less than 3 suppliers by 58%;
 - Purchase directly from manufacturers, cut 208 distributors and agents to realize overall reduction by 73% (excluding imported component distributor and agent);

Raw material management

Honghua Group established a *Raw Material Site Acceptance Specification* to specify the purchasing and acceptance of raw materials.

In 2023, the raw material percent of pass reached

98.98%

Performance data

In 2023, the Company reduced 341 sampling bathes, thus saving 341h for sample preparation, 170.5h for inspection, 75,020 Yuan for sample processing, 15,643 Yuan for labor cost and 185,800 Yuan for inspection expense. Totally, 310,563 Yuan was saved and the wait time of the user was reduced by 852.5h.

Supplier training

In order to strengthen basic capacity of suppliers and maintain a good supplier ecosystem, Honghua Group provides training for suppliers, gives guidance for typical problems and proposes relevant rectification requirements.

Provide site guidance for supplier, strictly adhere to quality safety redline

Honghua Group provided suppliers with site guidance and cultivation to strengthen quality risk prevention in the form of quality disclosure to suppliers, site explanation, site guidance, supervision and inspection, including site training for supplier for two batches of rivet welding components, quality disclosure to 60 suppliers and cultivation for 36 suppliers. Through training, 21 suppliers reached the good and above level, of which 7 suppliers were high-quality suppliers. Honghua Group also carried out the supervision of key working procedure, completion and acceptance. In 2023, the 1,970 man-day supervision was made to effectively avoid the reworking of disqualified products.



Site communication with supplier



Provide site guidance for supplier



Communication and training for supply chain construction integration

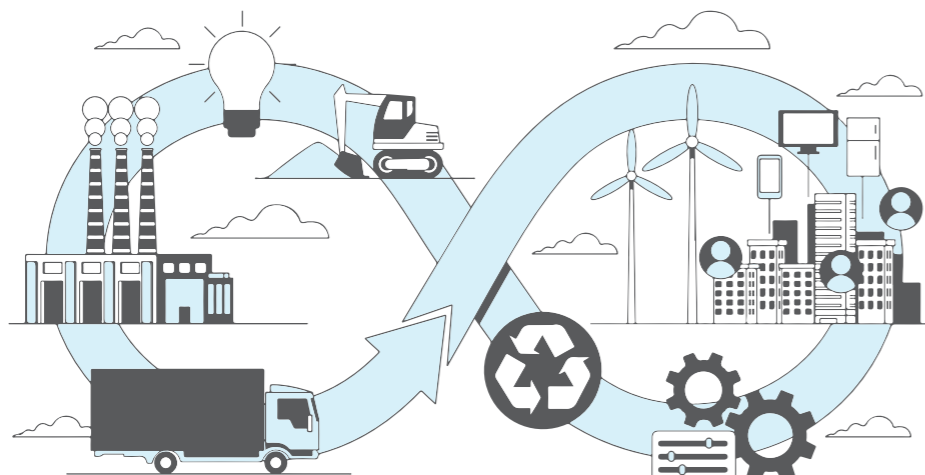
Centralized training for rivet-welding suppliers

INDUSTRY EXCHANGE

In 2023, Honghua Group further collected strategy from each industry party, helped enterprise business development, strengthened industry vitality, adhered to cooperate with industry partners, continued to deepen exchanges and mutual learning and jointly led high-quality industry development.

Assist industry development

In 2023, Honghua Group made a visit to Shengli Petroleum Administration Co., Ltd, Shengli Petroleum Engineering Company, LS Group and other enterprise for friendly exchange in terms of new technology application and deep cooperation. When moving into a new era, Honghua Group wishes to continue strengthening cooperation mechanism in the direction of equipment and supply chain, expand cooperation field, intensify technical exchange and promote sound industry development.



The Three Major “electrified, digitalized and new energy” Solutions for Well Drilling and Completion appear in CIPPE

In 2023, Honghua Group carried the Three Major “electrified, digitalized and new energy” Solutions for Well Drilling and Completion to attend the 23th China International Petroleum & Petrochemical Technology and Equipment Exhibition (CIPPE 2023).

- ▶ Full automatic fracturing equipment integrated solutions: it is an ideal choice for economical, efficient and safe development of unconventional oil and gas resources because it integrates power supply and distribution system, sand conveyance and liquid supply system, electric fracturing system and intelligent control system and has 6 years of scale operation verification, more than 20 service teams, 1,200,000 HHP above equipment and 20,000 sections of construction performance;
- ▶ Digital well drilling and completion integrated solutions: it focuses on digital transformation of oil-gas well drilling and completion, provides digital well drilling and digital fracturing integrated solutions, and realizes the “automatic operation” in well drilling field and the “one-key fracturing” in the well completion field;
- ▶ Oil-gas field new energy integrated solutions: it relies on the new energy industry advantages of the group and its 20 years of precipitation in the field of oil-gas well drilling and completion to provide the “source- network- load- storage” integrated solutions for well drilling and completion and help the oil-gas field user to realize the carbon peaking and carbon neutrality goal in a high-quality manner.



The 23th China International Petroleum & Petrochemical Technology and Equipment Exhibition

Honghua Group gorgeously appears in ADIPEC 2023

From October 2 to 5 (Abu Dhabi local time), Honghua Group appeared in 2023 Abu Dhabi International Petroleum Exhibition Conference (ADIPEC 2023) with its high-end products including polar drilling rig, desert fast-moving drilling rig and 10,000m drilling rig to show the leading technology and product of Honghua Group, seek for more cooperation opportunities and promote international business development.

The sand table model appearing in the conference is a multi-landform sand table with polar drilling rig, desert fast-moving drilling rig and 10,000m drilling as the subject, showing the comprehensive strength of Honghua drilling rigs throughout the world and the strong geographical adaptability and technical strength of products. The polar drilling rig can overcome extreme cold and carry out operation in Arctic Circle; the desert fast-moving drilling rig can make drilling not restricted by climate and geographical conditions by aid of its speed and convenience; the 10,000m drilling rig is the first show of Honghua to enter scientific drilling field, showing Honghua continuous pursuit for technological innovation and quality.



Honghua Group appears in ADIPEC 2023

Honghua Group is invited to attend the Conference of China Three Gorges Offshore Wind Power Industry Chain

On December 8, 2023, China Three Gorges Corporation held an annual supplier conference with “Co-chain accommodation, Innovative Development, Construction of High-quality Offshore Wind Power Industry Chain” as the subject in Beijing Hotel, and Honghua Group, as the important strategic partner of China Three Gorges Corporation, was invited to attend the grand industry event and the signing ceremony of China Three Gorges offshore wind power supplier.



Conference of China Three Gorges Offshore Wind Power Industry Chain

Build “the Belt and Road Initiative”

Opening up and cooperation are the key for enterprise growth and the background for sustainable development. Honghua Group has always implemented the policy of “international marketing”, brought the efficient and economical Chinese approach for those countries along “the Belt and Road Initiative”, and brightened the gold card of China high-end oil-gas equipment.

The first–locally-manufactured oil rig of Egypt is launched

On June 26, 2023, in order to promote the further and high-quality development of “the Belt and Road Initiative”, the first Egypt locally-manufactured 2000 HP automatic trailer-mounted land rig of Honghua Group was assembled and launched successfully. The successful localized manufacturing of the equipment in Egypt was a vivid practice of Honghua Group to continuously promote the international cooperation and exchange under “the Belt and Road Initiative”, filling in the gap of Egypt in the local-manufacturing field of oil-gas equipment and producing an important influence on Egypt oil-gas industry development.



The first–locally-manufactured oil rig of Egypt is launched

10-year “cultural integration” and “heart interconnection”

Since the proposal of “the Belt and Road Initiative”, Honghua Group has always adhered to the principle of win-win cooperation, actively promoted the construction of local projects and benefited local people over the past years, driving the high-quality development of local petroleum industry and achieving rich results in performing overseas social responsibility.

In terms of promoting local employment, Honghua GCE, since its establishment, had solved the employment for more than a thousand of local people and paid them the higher wage than local market to enable that they can increase income and learn advanced technology; the Company also actively participated in the organization of local culture and sports activity, invited local partners to participate in various festival activities, strengthened cultural exchange and interaction and practically driven the Chinese culture to go global.

For Honghua Group, it is a foreword to draw the outline of the businesses along “the Belt and Road Initiative”, and each step is new start and for success on the way to build “the Belt and Road Initiative” in a high-quality manner.



EPHH employee on the job

University-enterprise cooperation

In 2023, Honghua Group continued to strengthen university-enterprise cooperation and maintain close communication with Ocean University of China, Southwest Petroleum University, Chengdu University of Technology, Chongqing University of Science and Technology and so on.

Honghua Group and Chongqing University of Science and Technology reach an consensus

On February 15, 2023, Chongqing University of Science and Technology headed a delegation to visit Honghua Group and both parties made deep exchange and reached consensus for further strengthening university-enterprise cooperation.

Both parties took the opportunity of this exchange activity to strenuously build the industry-university-research cooperation new platform, further improve the university-enterprise cooperation depth and breadth, practically implement the innovation-driven development strategy, and jointly look forward to both parties' prospect and win-win new situation in terms of talent introduction, training and scientific research.



Exchange meeting

Honghua Group and Southwest Petroleum University sign a strategic framework agreement for university-enterprise cooperation

On February 16, 2023, Honghua Group led a team to visit Southwest Petroleum University and both parties carried out deep exchange in deepening the integration of university, enterprise, production and education, cooperation in scientific research project, and high-level talent introduction and education and signed a strategic framework agreement to powerfully drive Honghua Group to return its leading position in the industry quickly.

Honghua Group and Southwest Petroleum University will focus on major national strategy to deepen both parties' cooperation, practically utilize their superior resources, build a scientific research cooperation platform and a talent cultivation platform, energetically promote the transformation of technological achievements to real productivity, make powerful combination on the journey to push first-class energy university and first-class enterprise and jointly contribute to the national energy construction.



Honghua Group and Southwest Petroleum University sign a strategic framework agreement for university-enterprise cooperation

Honghua Group and Chengdu University of Technology sign a strategic cooperation agreement

In the first half of 2023, Honghua Group and Chengdu University of Technology signed a strategic cooperation agreement and made deep exchange and cooperation in talent cultivation, special presentation and recruitment, practice and training base and establishment of communication mechanism and feedback mechanism to boost the sustainable and high-quality development of Honghua Group.

Facing the national demand for major strategy and the frontiers of science and technology, both parties will give full play to their respective advantages, carry out intensive, stable and comprehensive cooperation in terms of industry-university- research cooperation, talent cultivation and development, talent resource guarantee and support, and technological exchange and cooperation, construct a high quality Sichuan Oil-Gas Well Drilling and Completion Intelligent Equipment Engineering Research Center, build a new model of “university-enterprise cooperation, industry-university win-win”, and jointly make technological contributions in pushing the green and high-quality development, quickening the national clean energy transition and realizing the “carbon peaking and carbon neutrality” goals.

This signing marks the both parties' cooperation into a high-level stage, having the significance of milestone. In future, both parties will continue intensive cooperation.



Honghua Group and Chengdu University of Technology sign a strategic cooperation agreement

EMPOWER EMPLOYEE DEVELOPMENT

Honghua Group has always put the employee interest first, firmly protected various legitimate rights of employees, built employee development system, provided broad space for employee growth, cared employee life, cherished employee health, industriously created a good workplace and devoted itself to creation, sharing and development with employees.



Respond to the sustainable development goals (SDGs) of the United Nations

Labor Standards
/ 59

Training and Development
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Employee Benefits
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Attract Talent
/ 70



Environmental



Social



Governance



EMPOWER EMPLOYEE DEVELOPMENT

LABOR STANDARDS

Honghua Group sticks to people-orientation, firmly protects various legitimate rights of employees, and adequately defends employees' rights to democratic management, democratic participation and democratic supervision in corporate affairs.

Equal employment

Honghua Group strictly abides by *Labor Law*, *Labor Contract Law* and appropriate regulations, and establishes the Company regulations and systems concerning labor contract management, holiday and vacation and makes implementation and supervision in daily management. At present, the Company has no any forced labor.

Indicator	Unit	2021	2022	2023
Number of male employees	Person	2,307	1,918	2,235
Number of female employees	Person	531	492	573
Percentage of male employees	%	81.30	79.60	80.00
Percentage of female employees	%	18.70	20.40	20.00
Percentage of minority employees	%	1.70	1.60	1.60
Mainland employee	Person	2,828	2,400	2,796
Overseas employee	Person	10	10	12

Democratic management

Honghua Group held the second meeting of the second workers and employees' congress and the 2024 annual working meeting. On the meeting, Honghua Group summarized the working condition of the Company in 2023, analyzed the current situation, and planed the key work (taking the theme education result to push the reform of Honghua Group to a new step, and anchoring the sustainable and high-quality development goal) of the Company in 2024.

Honghua Group holds the second meeting of the second workers and employees' congress

This meeting was held in Chengdu, Gansu and Jiangsu in the form of site + video conference. More than 200 persons including the middle-level leaders of Honghua Group, responsible persons of subsidiary company, secretaries of league organizations at basic level, staff representatives and award-winning representatives attended the meeting.



A staff representative of Honghua Group is speaking on the meeting

Occupational health

Honghua Group has established the comprehensive occupational health management systems including *Administrative Measures for Occupational Health, Safety and Environment Accidents*, *Administrative Measures for Occupational Health, Safety and Environment of the Interested Party*, *Administrative Measures for Confined Space Operation Safety and Administrative Measures for Occupational Health Surveillance Archives in accordance with the Law on the Prevention and Treatment of Occupational Diseases of the People's Republic of China*.

By establishing the occupational health surveillance archives, periodically conducting the occupational health examination, providing employees with appropriate labor protection articles and effective supporting equipment and facility, minimizing the risk of occupational disease, regularly carrying out the monitoring and evaluation of occupational hazard factors, strengthening training, supervision and inspection of occupational disease prevention and control, and improving employees' awareness of self-protection, Honghua Group realized zero occupational disease in 2023.

Within the year, the Company acquired the license renewal approval for occupational health and environmental management system. In terms of ensuring the occupational health of employees, the Company:

Carried out the occupational disease control act week activity, strengthened the publicity and education, periodically supervised and checked the implementation of occupational disease prevention measure, implemented the detection of occupational hazard factors and the occupational health examination, and followed up the re-examination, job transfer and occupational disease diagnosis for those employees who were found abnormal in health examination.

Completed the hazardous waste network construction project, strengthened the monitoring and control on key areas including production waste, storage, handling and transfer, established and implemented "one policy for one factory" plan for emergency emission reduction in case of heavy-pollution weather, took effective control measure for cutting, welding, grinding, sand blasting and paint spraying operations, strictly implemented the environmental control measure before and after the Chengdu Universiade, urged the maintenance of painting equipment, improved the desorption frequency of activated carbon, and actively pushed the paint spraying modification and the VOCS treatment upgrading.



Occupational health management system certificate of Honghua Group

Work safety

Honghua Group focuses on the mainline of "controlling risk, removing hidden danger, reinforcing workplace safety foundation and ensuring safety" to continuously strengthen safety risk management and practically improve workplace safety management level. In 2023, the Company had no work-related injury accident, severe accident, fatal accident, major and above fire accident and major and above work safety accident.

Work safety related indicator data in 2021-2023

Indicator	Unit	2021	2022	2023
Investment on work safety	10,000 Yuan	963.41	2,435.87	2,012.27
Frequency of work safety training	Times	371	792	1,134
Number of work safety trainees	Person	13,973	33,670	66,087
Percentage of work safety training	%	100	100	100
Percentage of safety training for new employees	%	100	100	100
Number of safety/emergency exercises	Times	764	2,095	1,776
Number of safety exercise participants	Person-times	9,106	10,633	18,247

Major safety protection measures of the Company in 2023

Strengthen safety management, improve responsibility system

Organize and improve two HSE management revisions, revise 82 safety and environment procedure documents and management systems, improve 153 safety operation procedure items, normalize safety operation of each job, promote safety management of the Company after integrated operation, pass the review of work safety standardization level II and acquire relevant certificate.



Work safety standardization certificate

Further identify and manage potential risk, promote intrinsic safety

Honghua Group periodically conducted routine safety inspection, monthly safety inspection and various special inspections, carried out special rectification works including high-place operation, hoisting operation, confined space, fire and explosion prevention, gas safety, electrical safety, fire safety and pressure test, and strengthened the inspection and implementation of labor protection, material prevention and technical prevention. In 2023, the Group conducted 83 special safety inspections and 11 comprehensive inspections, identify and address 5,027 potential risks and provide education to 347 individuals who fail to comply with safety rules.



Honghua Oil & Gas Service organizes the identification of potential risk on site

Strengthen exercise, improve emergency capacity of all staff

Honghua Group organized and conducted the evaluation and revision of HSE integrated contingency plan and emergent environmental incident contingency plan, further improved the information of emergency organization and emergency resource investigation, optimized emergency response procedure, organized to check the completeness and effectiveness of materials, and strengthen storage and periodical maintenance, and arranged for each department and subsidiary to conduct 1,769 emergency rescue drills including well control, fire protection, crane injury, gas station liquid oxygen leakage, improving their emergency handling ability.



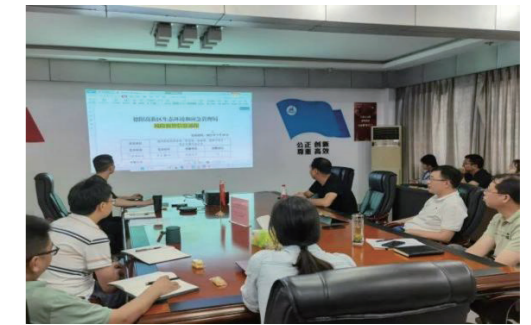
Honghua Electrical organizes fire exercise



Honghua Oil & Gas Service organizes fire and well control exercise



Honghua Offshore organizes all staff to attend meeting



Hanzheng Testing organizes the risk early warning education

TRAINING AND DEVELOPMENT

Honghua Group roundly helps employee to grow up and provides training for new employees to enable that they can thoroughly understand the development history, institution and policy and enterprise culture of the Group, know and accept the development strategy and enterprise culture of the Group, and build their uniform enterprise value and behavior pattern. Meanwhile, the Company maintains the employee development channel unobstructed and makes efforts to build a high-quality professional cadre team.

Employee training

In 2023, Honghua Group organized the new employee orientation training for new employees on their first day to work and the irregular vocational skill and safety training for employees based on actual business requirement to improve their quality and skill.

Employee training performance data

Indicator	Unit	2023
Employee training participation count	Number of trainees	17,257
Frequency of employee training	Times	225
Investment on employee training	Employee training input	10,000 Yuan
Employee training coverage	%	100
Male employee training coverage	%	100
Female employee training coverage	%	100
Ordinary employee training coverage	%	100

Deepen warning education, carry out safety training

Learn lesson from accident, implement work safety experience feedback activity.

Organize learning and sharing of the typical work safety accident examples in workshop and team, carry out inspection and improvement activities.

Provide all staff with the training on work safety law, Sichuan work safety regulations and relevant national standards and industrial standards.

Focus on job classification to carry out safety skill training, provide safety management training for managers at various levels around management responsibility, use accident examples to conduct early warning education on crane injury, falling accident, object strike and mechanical injury for all staff. Provide special safety training for 65,722 person-times, improve their knowledge and skill on safety management, and enhance their awareness of red line

Actively plan the activities including "work safety month" and "fire safety month", broadly carry out publicity activity for all staff.

Carry out the safety propaganda in team and the action that "everyone talks about safety, everyone knows safety and everyone familiar with safe working skills", and share the safety experience of entire production system on safety morning meeting.



Safety warning education in workshop



Safety propaganda in workshop, on site and in team

Mid-level employee training coverage	%	100
Managerial level training coverage	%	100
Per capita annual average training hours of all employee	Hour	58
Per capita annual average training hours of male employee	Hour	62
Per capita annual average training hours of female employee	Hour	54
Per capita training hours of ordinary employee	Hour	48
Per capita training hours of mid-level employee	Hour	56
Per capita training hours of managerial-level employee	Hour	62

Build a dream in Honghua, provide new employee orientation training

This training included four parts, new employee orientation discussion, pre-job cognitive training, mentor and apprentice agreement signing ceremony, and quality development activity, with a purpose to let new employees understand the enterprise, know well the working environment, gradually deepen their feelings in mutual understanding, and enhance cohesion.

The cognitive training mainly included the situation analysis of corporate strategy and main business areas, corporate culture promotion, product introduction, quality and safety training, integrity and compliance training, company process training and human resources training in the form of centralized training by the heads and business backbone of relevant departments. The main purpose of the cognitive training was to accelerate the new employees' learning of Honghua Group's strategic planning, business idea and business knowledge, help them to understand rules and regulations, improve general skills, correct vocational psychology, strengthen team consciousness, and quickly integrate into the enterprise.



New employee orientation training site of Honghua Group in 2023

Enhance quality and skills by training, improve cadre ability

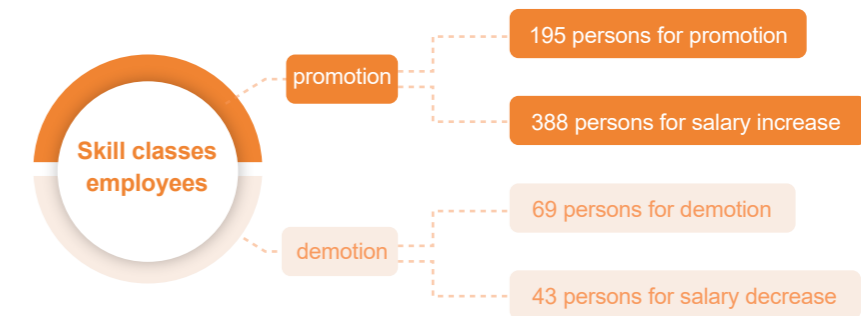
The Company provided various special trainings including enterprise governance ability improvement, risk prevention ability improvement, and cadre ability improvement for more than 250 persons in the form of "centralized rotation training + special training + group training + network academy", built a high-quality professional team in a full chain, and enhanced cadres' ability in reform, innovation, management decision, implementation and risk solution.

Development channel

Honghua Group industriously builds a high-quality talent team, lays a profound foundation for employee growth, realizes four major empowerments for employees, and provides powerful talent support for the Company.

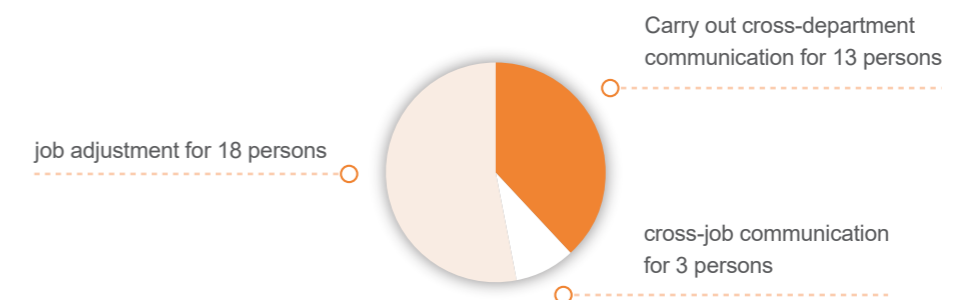
Stepped empowerment, all-staff job and rank adjustment

Break the job and rank adjustment limits in age, qualification and other factors, realize the all staff job rank adjustment on the scale of ability level and performance contribution for other employees than skill-based employee,



total demotion and salary decrease proportion up to 11% for each level, and adequately stimulate the vitality and power of employee team.

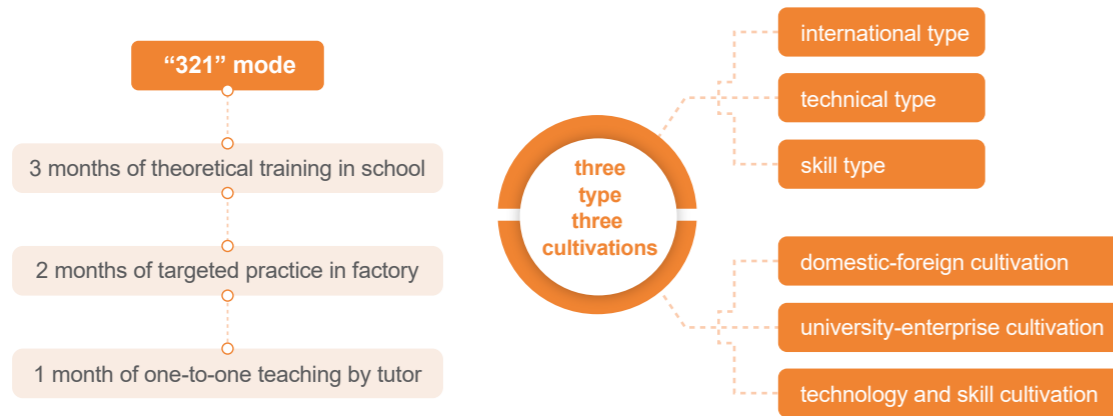
Communication empowerment, multi-job composite cultivation



Make 95 persons involved in employee cross-job and cross-company communication and composite cultivation

Job empowerment, technology and skill cultivation

Based on the actual job requirement of the Company and the "321" mode, complete three type and three cultivations of international technical service engineer (ITSE) team, and preliminarily connect the cultivation of the talents based on technology and skills.



Pressure empowerment, push market withdrawal

Strictly perform "two contracts", make stringent assessment and implementation, and increase the dismissal of low-performance personnel.



EMPLOYEE BENEFITS

Honghua Group provides employees with five social insurance and one housing fund, annual physical examination, paid annual leave and other benefits. In the meantime, the Group advocates a healthy and harmonious working atmosphere, carries out a variety of employee activities, and enhances emotional connection between employees and the Company.

Remuneration and benefits

Honghua Group cherishes the physical health and occupational health of employees, and insists on regular physical examinations for all employees, and purchases and maintains endowment, medical, maternity, industrial injury and unemployment insurances for all employees.

Indicator	Unit	2021	2022	2023
Social insurance coverage	%	100	100	100
Employee health examination coverage	%	100	100	100

Employee activity

Honghua Group attaches more importance to humanistic care, cares and loves employees, and sends care to employees on important holidays. For example, the Company carried out heart-warming activity in the Spring Festival, celebrated the Mid-Autumn Festival with Chinese and foreign employees, and organized the badminton game to enable that all employees can feel the care and love from the Company, consider the Company as a "home", gather their strength, and enjoy their work and life with a relaxed attitude.

Honghua Group organizes employee badminton game

In June 2023, the labor union of Honghua Group and the Badminton Association organized the first employee badminton game of the Group. In the badminton game, there were five items, men's singles, women's singles, men's doubles, women's doubles and mixed doubles. Each item was grouped by draw and included group round robin quarter finals. In each department and unit, more than 40 employees participated in the game.



The first employee badminton game of Honghua Group

The leading group of Honghua Group carries out the “heart-warming” condolence activity

During the Spring Festival from January 16 to 18, 2023, the leading group members of Honghua Group paid visit to the experts, talents, model workers, vulnerable party members and employees, staff members assigned to prolonged overseas assignments, had a cordial talk with them and sent the New Year greeting and affectionate care to them.



Chairman Wang Xu of Honghua Group pays a visit to Ma Shuangfu (an expert sponsored by special allowances from the State Council, academic and technical leader of Sichuan Province) and Xie wei (an electrical director of Honghua Electric)



Chairman Yang Yong of Honghua Group labor union pays a visit to Tian Yu (the chief engineer of Sichuan Honghua and a candidate of Deyang “Talents Program”) and a working couple of Tian Ya and Feng Qiang of Honghua International

Carry out “cool summer heart-warming” activity, build a happy Honghua

In order to vigorously promote the volunteer service spirit of “dedication, friendship, mutual assistance and progress”, on August 18, 2023, the Product Digital Collaboration Party Branch of Honghua Group and the Joint Youth League Branch of the Product and Technology Institute carried out the “cool summer heart-warming” volunteer service activity, providing air conditioner cleaning service for each department office and ensuring a safe and cool “healthy wind” from these air conditioners in summer. In the activity, the volunteers cleaned the air conditioning outlet and filter screen in strict accordance with standard cleaning procedure and division of work, showing the rigorous and serious work attitude and work style of technical staff, and winning high praise from all employees.



“Cool summer heart-warming” activity team



Air conditioner cleaning service site

ATTRACT TALENT

Honghua Group put talent first to “attract talents” for career development, combined with the current situation of talents to optimize the “14th Five-Year” human resources plan of Honghua Group, developed the 2023-2025 sub-plans of technical talent, management talent and skill talent, and formed a systematic “1+3” talent development three-year plan to condense new momentum for transformation and development.

In terms of the introduction of high-level talents, the Company established the 2023-2025 Industry Elite and High Potential Talent Introduction Program, and formed the supporting policy of high-level talent introduction to successively introduce high-level talents from domestic and foreign universities and famous companies on the principle of “three prominent”, and established an external expert database to push development with crowd wisdom.

- **Campus recruitment:** the campus recruitment target in 2023 was 58 persons but 87 persons were actually recruited. With “four accurate” talent measure, the recruitment plan was fulfilled by 150%, of which, the graduates based on engineering technology, skill and operation occupied by 70% above, and the postgraduates occupied by 50% above.
- **Social recruitment:** in 2023, the social recruitment plan was 174 persons, and 206 persons were actually recruited for filling vacancies due to employee turnover, including 75 persons for management, 57 persons for technology, 33 persons for market, and 41 persons for skill. In addition to substitute for dimission, 140 persons were increased actually.

In 2023, the Company revised the Administrative Measures for Talent Attraction and relevant human resource procedure documents to require strict review, complete data, clear process and openness and transparency during personnel selection and employment. During the implementation, the qualification of candidate was strictly reviewed and the reemployment result was disclosed periodically for public supervision. At present, there is no employment of child labor.

Talent introduction system

High-level Talent Attraction and Cultivation Plan of Honghua Group

Talent Introduction Management Procedure of Honghua Group

Annual Campus Recruitment Manual of Honghua Group

Implement the introduction of high-level talents, push the sustainable high-quality development

By relying on the channel advantages of technology and market front end, overseas subsidiaries, strategic partners and headhunting to introduce high-level talents from leading enterprises at home and abroad, overseas returnees and domestic universities, total 12 high-level talents were introduced in 2023.

Improve talent introduction mechanism, maintain good university-enterprise cooperation

Broaden recruitment channels from local portal website and recruitment website to high-end headhunting, from Deyang local colleges to key universities outside the province. Based on the current development situation, form a good communication with the key channels and schools to achieve rapid feedback on demand.

ENHANCE SOCIAL WELFARE

The fundamental objective of development is to increase the well-being of the people. Honghua Group has always actively devoted to the construction of social well-being, public charity and rural revitalization, and energetically fulfilled its social responsibilities and built a harmonious society while developing and strengthening its main business.



Respond to the sustainable development goals (SDGs) of the United Nations

Rural Revitalization
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Public Welfare and Charity
/ 74



Environmental



Social



Governance

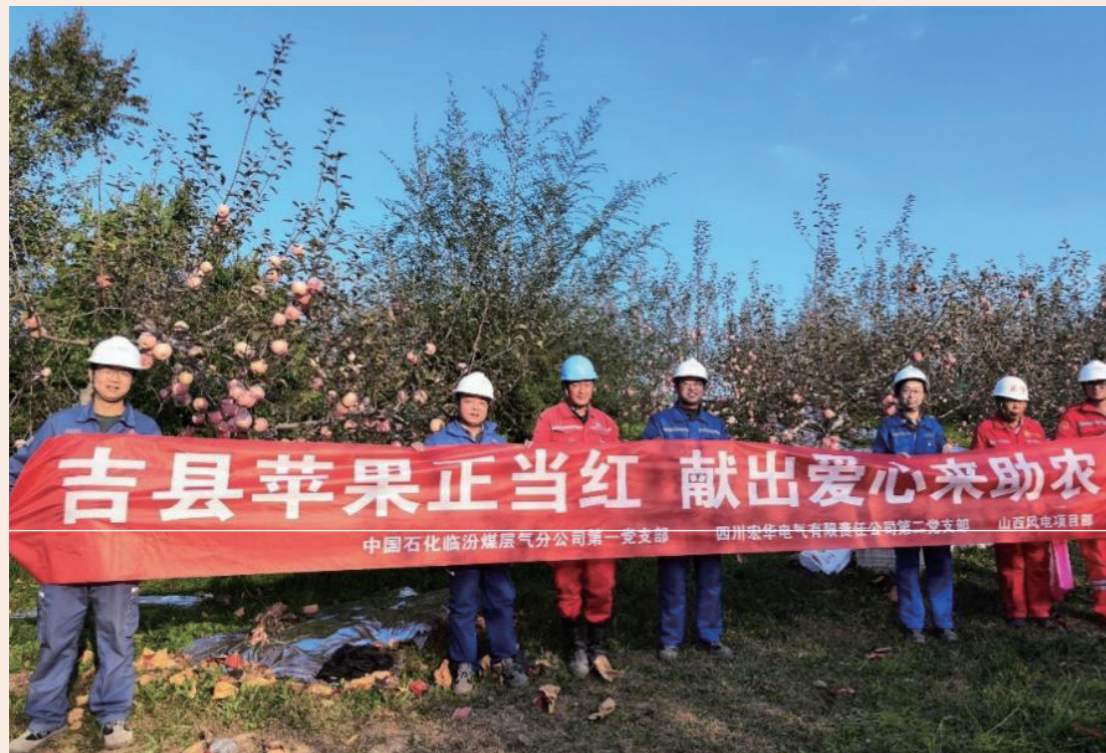
ENHANCE SOCIAL WELFARE

RURAL REVITALIZATION

On the way to rural revitalization, Honghua Group has always driven local economic revitalization with its own development, and organically combined its economic benefits with social responsibilities. In 2023, Honghua Group provided consumption assistance (in an amount up to 505,266 Yuan) in Zhaojue, Jixian, Jiangxi, Shaanxi, Hubei and other regions to help local people increasing income and getting rich with practical actions.

Honghua Electrical helps fruit farmers to increase income with SINOPEC customers

This activity helped to pick more than 500kg of apples and sell more than 300 kg on site, increasing the income of fruit farmers in the form of consumption assistance, enabling that young employees of Honghua Group can truly feel the joy of harvest on the fields, and making volunteer service more practical and heart-warming. and they experienced real rural life through this activity.



Honghua Electric helps fruit farmers to increase income with SINOPEC customers

PUBLIC WELFARE AND CHARITY

Honghua Group has kept in mind to contribute to the society, regularly carried out volunteer services to help the people and regions in need, extensively participated in public welfare activities such as picking up litter and visit and comfort the elderly in nursing homes, and conveyed love and strength to the society.

Volunteer to respect and send support to the aged

In October 2023, Honghua Oil&Gas Engineering Services, Honghua International and Jinniu District Yingmenkou street-level government agencies jointly carried out a volunteer service activity with the theme of "volunteer to respect and send support to the aged". On the activity site, the volunteers kindly talked with the aged, understood their daily life and health conditions, encouraged them to make scientific exercise, keep optimistic and improve their quality of later life; these volunteers also sent milk, fruit and other condolence goods as well as care and warm to the aged to put the concept of public service into practice.

This volunteer activity not only promoted the traditional virtue of respecting and loving the aged but also made the aged feel the care and love from the society.



Volunteer service activity of "Volunteer to respect and send support to the aged"

Beach cleaning activity to promote civilization

On November 26, 2023, Honghua Offshore carried out a public welfare activity of "Beach cleaning activity to promote civilization". This activity aimed at strengthening volunteers' awareness of social responsibility and dedication and conscious service for others and society, and promoting the construction of spiritual civilization. All volunteers participating in the activity were divided into 5 groups, and each group picked up and collected garbage on beach in a designated area. After the activity, each group was ranked based on the amount of garbage collected by them.

Various garbage including water bottles, plastic bags and foam were slowly cleaned by "red vest". After 2 hours, more than 20 volunteers were sweating, but they cleaned up nearly 400m coastline and collected about 50 bags of garbage.



Volunteers go to Yuantuojiang to carry out public service activity

OUTLOOK

Forge ahead for future success. In 2024, Honghua Group will continue to adhere to scientific and technological innovation, devote itself to the automatic and intelligent exploration, development and drilling operations with intelligent drilling as a platform and by applying big data, artificial intelligence and other ways, actively implement the carbon peaking and carbon neutrality strategy, provide customers with green, safe and efficient energy equipment, become an important support for national energy security and green and low-carbon development, focus on the three major industrial fields of "high-end

petrochemical equipment and engineering technical services, well drilling and completion digital solutions, and new energy", constantly improve the multi-dimensional integrated business mode of "technology + equipment + service + engineering", and seek improvement in stability based on compliance and controllable risk, and strive for the world's leading high-end oil & gas equipment enterprise and the world-class enterprise.

APPENDIX

TABLE OF KEY PERFORMANCE

Environmental performance

Indicator	Unit	2021	2022	2023
Total energy consumption	kWh	36,781,030	25,728,538	65,576,000
Natural gas	m ³	110,223.00	1,098,201.85	1,453,900.00
LPG	Litre	1,228,783.60	0.00	0.00
Diesel	Litre	2,783.00	28,308.84	1,239,504.00
Gasoline	Litre	27,403.25	73,275.07	37,005.00
Electricity	kWh	18,293,322.36	13,945,385.00	47,669,600.00
Fresh water consumption	10,000 tons	/	36.50	38.95
Reuse water consumption	10,000 tons	/	143.80	157.67
Water consumption per 10,000 Yuan revenue	Ton	/	0.82	0.712
Wastewater discharge	10,000 tons	/	6.50	8.97
SO ₂ emission	Ton	/	2.30	0.62
Soot (dust) emission	Ton	/	3.20	3.12
Volatile organic compound	Ton	/	1.80	2.10
General solid waste output	Ton	/	7,300.00	23,500.00
General solid waste output per 10,000 Yuan revenue	Ton	/	0.016	0.043

Indicator	Unit	2021	2022	2023
Disposal of hazardous waste	Ton	/	8,900.00	9,500.00
Hazardous waste output	Ton	/	8,900.00	9,500.00
Hazardous waste output per 10,000 Yuan revenue/output value	Ton	/	0.02	0.017
Packing material	Ton	/	/	1077
Packing material strength	Ton/10,000 Yuan revenue	/	/	0.0020
Total greenhouse gas emission	Ton	15,921.96	10,852.00	34,582.00
Scope 1 emission	Ton	4,012.37	2,613.00	6,545.00
Scope 2 emission	Ton	11,212.82	7,953.00	27,186.00
Scope 3 emission	Ton	696.77	286.00	851.28

Social performance

Indicator	Unit	2021	2022	2023
Total assets	0.1 billion Yuan	117.50	123.20	125.20
Total operating revenue	0.1 billion Yuan	29.40	44.80	54.73
Gross profit	0.1 billion Yuan	-7.50	-6.20	-4.11
Net profit	0.1 billion Yuan	-7.30	-6.30	-4.19
Total tax expense	ten thousand	-1,134.30	32.08	825.90
Growth rate of total assets	%	-2.20	4.90	1.61
Growth rate of total operating revenue/income	%	-25.30	52.40	22.28
Growth rate of gross profit	%	-965.80	16.18	34.22
Growth rate of net profit	%	-1,320.50	14.84	32.93
Asset-liability ratio	%	68.10	74.10	71.39
R&D investment	0.1 billion Yuan	1.46	1.24	1.12
New employee	Person	171	163	348

指標	單位	2021	2022	2023
Total employees	Person	2,838	2,410	2,808
Percentage of minority employees	%	1.70	1.60	1.60
Female	Person	531	492	573
Male	Person	2,307	1,918	2,235
Percentage of male employees	%	81.30	79.60	80.00
Percentage of female employees	%	18.70	20.40	20.00
Labor contract system	Person	2,834	2,405	2,599
Labor dispatch system	Person	0	0	200
Rehire after retirement	Person	4	5	9
>30 years old	Person	2,385	2,063	2,300
<30 years old (including 30)	Person	453	347	508
Mainland employee	Person	2,828	2,400	2,700
Overseas employee	Person	10	10	12
Production personnel	Person	38	32.3	36
Technical personnel	%	45.00	47.30	38.00
Managerial personnel	%	17.00	20.40	26.00
Postgraduate and above	%	6.90	6.90	7.10
Undergraduate	%	40.70	44.10	44.70
Junior college and below	%	52.40	49.00	48.20
Proportion of women in management	%	25.00	20.00	12.50
Proportion of men in management	%	75.00	80.00	87.50
Employee turnover rate	%	11.40	7.60	2.70
Employee turnover quantity	Person	324	183	70
Male percentage	%	/	/	77
Female percentage	%	/	/	23

指標	單位	2021	2022	2023
Percentage of 18-25 years old	%	/	/	1
Percentage of 26-35 years old	%	/	/	51
Percentage of 36-45 years old	%	/	/	41
Percentage of 46-55 years old	%	/	/	4
Percentage of 56 years old and above	%	/	/	1
Sichuan, Chongqing	%	/	/	84
Jiangsu	%	/	/	1
Overseas countries or regions	%	/	/	14
Employee health examination coverage	%	100	100	100
Number of deaths due to work	person	0	0	0
Number of work days lost due to work-related injury	Day	83	17	18
Proportion of Employee occupational disease	%	0.40	0.31	0.00
Work safety investment	10,000 Yuan	963.41	2,435.87	2,012.27
Frequency of work safety training	Times	371	792	1,134
Number of work safety trainees	Person-times	13,973	33,670	66,087
Percentage of work safety training	%	100	100	100
Percentage of safety training for new employees	%	100	100	100
Number of safety/emergency exercises	Times	764	2,095	1,776
Number of safety exercise participants	Person	9,106	10,633	18,247
Employee casualties	Person	0	0	0
Work-related serious injury rate	%	0	0	0
Work-related death rate	%	0	0	0
Work-related injury rate	%	0	0	0
Major and above fire accident	Number	0	0	0
Major and above work safety accident	Number	0	0	0

Indicator	Unit	2021	2022	2023
Potential risk rectification rate	%	100.00	99.77	100.00
Number of safety and fire exercises	Number	12	16	23
Number of safety and fire exercise participants	Person	307	379	1,108
R&D personnel	Person	502	429	534
Customer satisfaction	%	97.88	98.60	98.78
Product percent of pass	%	99.81	99.58	99.33
Major quality accident and major customer complaint	Times	0	0	0

Governance performance

Indicator	Unit	2021	2022	2023
Number of anti-corruption activity participants	Person	270	410	740
Number of anti-corruption activities	Times	4	5	9
Board of supervisors	Times	/	2	3
General meeting of stockholders	Times	1	2	2
Information disclosure in public channel	Item	55	57	54

ESG INDEX

Indicator	Performance indicator	Page/description
Mandatory disclosure provision		
Governance framework		
Report principle		
Report scope		
“Comply or Explain” clause		

Indicator	Performance indicator	Page/description
Major category A--Environment		
A1 Emission	General disclosure	
	A1.1 Type of emission and relevant emission data	
	A1.2 Direct and energy indirect greenhouse gas emission	
	A1.3 Total quantity and density of hazardous wastes	
	A1.4 Total quantity and density of non-hazardous wastes	
	A1.5 Emission target and steps taken	
	A1.6 Management, target and measure of hazardous and non-hazardous wastes	
A2 Resource utilization	General disclosure	
	A2.1 Total consumption and density of direct and/or indirect energy	
	A2.2 Total consumption and density of water	
	A2.3 Benefit goal and measure of energy usage	
	A2.4 Benefit goal and step taken of applicable water source and water utilization	
A3 Environment and natural resource	General disclosure	
	A3.1 Describe the significant impact of business activity on environment and natural resource and the actions taken for managing the impact	
A4 Climate change	General disclosure	
	Significant climate event affecting issuer and relevant response	

Major category B--Society

Employment and labor rule		
B1 Employment	General disclosure	
	B1.1 Total employees by sex, employment type, age group and region	
	B1.2 Employee turnover ratio by sex, age group and region	

Indicator	Performance indicator	Page/description
B2 Health and safety	General disclosure	
	B2.1 Number and ratio of deaths due to work over the past three years	
	B2.2 Number of work days lost due to work-related injury	
	B2.3 Occupational health and safety measure and relevant implementation and inspection method	
B3 Development and training	General disclosure	
	B3.1 Percentage of trained employees by sex and employee type	
	B3.2 Average training hours of each employee by sex and employee type	
B4 Labor codes	General disclosure	
	B4.1 Describe the measure to review recruitment practice so as to avoid the occurrence of child labor and forced labor	
	B4.2 Describe the steps to be taken in case of violation	
Operation practice		
B5 Supply chain management	General disclosure	
	B5.1 Number of suppliers by region	
	B5.2 Employment practice of supplier, number of suppliers implementing the practice, and implementation and inspection method of the practice	
	B5.3 Describe the practice to identify the environmental and social risk of supply chain in each link and relevant implementation and inspection method	
	B5.4 Describe the practice to use environment-friendly product and service when selecting supplier and relevant implementation and inspection method	

Indicator	Performance indicator	Page/description
B6 Product responsibility	General disclosure	
	B6.1 Percentage of the products which must be recovered due to safety and health reason in those products which have been sold or transported	Not applicable
	B6.2 Number of complaints received and relevant response	
	B6.3 Describe the practice to maintain and safeguard intellectual property	
	B6.4 Describe quality arbitration procedure and product recovery procedure	
B7 Anti-corruption	B6.5 Describe consumer data monitor, control and privacy policy and relevant implementation and inspection method	Not applicable
	General disclosure	
	B7.1 Number and result of corruption lawsuits which are filed against issuer or its employees and have been concluded within report period	
	B7.2 Describe preventive measure and reporting procedure and relevant implementation and inspection method	
Community	B7.3 Describe the anti-corruption training for directors and employees	
	Community	
	B8 Community investment	General disclosure
B8.1 Dedicated contribution scope		
B8.2 Resource employed within dedicated scope		

FEEDBACK FORM

Thank you for reading the 2023 *Environmental, Social and Governance Report of Honghua Group*. We value and look forward your feedback on the Environmental, Social and Governance (ESG) Report of Honghua Group. Your opinions and suggestions will be our important basis for improving ESG management and practice. You can copy and complete the following table and send us by email or fax. Your comments are welcome and appreciated!

Choice question (please check applicable item)

1. Do you think whether the report can reflect the significant economic, social and environmental impact of Honghua Group?

Yes General No

2. Do you think whether the interested party identified in the report and its relationship with Honghua Group are analyzed correctly and completely?

Yes General No

3. Do you think whether the information disclosed in the report is complete?

Yes General No

4. Do you think whether the information disclosed in the report is readable?

Yes General No

Open question

1. What information does need to be disclosed in the report on your opinion?

2. What improvement can the report do on your opinion?

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