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**2023**  
Shang Gong Group  
Corporate Social Responsibility (ESG) Report

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# Introductory Part

## Chairman's Statement

In 2023, facing multiple risks and challenges in the world, Shang Gong Group ("SGG") adhered to the belief in sustainable development. Following the concept of "global market orientation, innovative green development", based on its leading technological advantages, SGG deeply cultivated material joining techniques tapped into the potential market demand, and continuously innovated to "connect" with global customers.

**Broadening horizons globally.** We proactively respond to geopolitical risks, adhering to the strategy of "walking the path of globalization". With the merger and acquisition (M&A) concept of "horizontal expansion and vertical extension", we promote the optimal allocation and complementarity of industrial chain resources, and achieve industrial integration and diversified development.

**Prioritizing market orientation.** We are committed to customer centricity, continuously delving into the forefront of sewing technology, intelligent manufacturing, and service-oriented manufacturing. We constantly integrate industry 4.0 technology into product performance, explore segmented markets with specialized applications and products, and build the brand IP of "Smart Sewing".

**Focusing on innovation and improvement.** We anchor our transformational development goals around "service-oriented manufacturing", strengthening technological breakthroughs and flexibly adapting to market changes. We aim to establish a leading advantage in automation, digitization, and low-carbon product technology innovation. To achieve this, we set up the SGG Innovation Center in Germany, and focus on exploring technologies such as materials joining technology, hydrogen energy related materials processing technology, and artificial intelligence to enlarge our strong product portfolio.

**Building green and sustainable development.** We actively support the national goals of "carbon peak and carbon neutrality" by integrating low-carbon, environmental protection, and energy-saving measures throughout the entire process of product design and intelligent manufacturing. With the 'e-con Sustainable Sewing Solution' as an ESG innovation case, we have repeatedly won awards for our achievements.

**Joining technology, creating the future.** We will actively embrace the "Year of Total Quality Management" with the entire group focusing on consolidating product quality and improving service quality as the main theme of all business operations. We will unswervingly advance our cross-border merger and acquisition strategy, give full play to the synergistic advantages of German technology and Chinese manufacturing, accelerate the application and promotion of material joining technology to achieve a powerful breakthrough of the brand dominance, lead "SGG Intelligent Manufacturing" to new heights, and march into a broader global market with full force.



Min Zhang  
Chairman

## The ESG Strategy: Global Market Orientation, Innovative Green Development

### ESG Concept

As a global leading manufacturer of material joining processing equipment, SGG works alongside stakeholders in the pursuit of innovation and technological advancement, accelerating the conversion to green and low-carbon technologies, continuously enhancing employees' sustainability capabilities, actively investing in community development, strengthening compliance management and corporate governance, and aiming to create its own sustainable competitiveness. We strive for the coordinated advancement and mutual progress of corporate development, economic and social development, and environmental protection.

### ESG Strategic Initiatives:

#### 01

Driven by innovation, we implement the "full digitalization" strategy, promoting green and intelligent manufacturing, leading the industry's transformation and upgrade. We strengthen environmental management, adopt energy-saving and emission reduction measures to minimize the impact on the environment and achieve green development. We focus on the trend of low-carbon development, plan green investments, and foster new drivers for business growth.

#### 02

Committed to market-orientation, we focus on customer needs, continually enhancing our application technology service level. We continuously strengthen product and service innovation and supply, accelerate the transformation towards "service-oriented manufacturing", creating the second profit curve for further development.

#### 03

Holding on to a people-oriented approach, we respect diverse cultures, implement localized management for employees, providing a fair, safe, and healthy working environment. We carry out professional skill training, promote the improvement of employees' professional abilities, achieving joint growth for both employees and the company.

#### 04

We engage in community development and promote Butterfly Fabric Art culture. We organize volunteer services, participate in public welfare and charity, contributing to society through concrete actions.

#### 05

Adhering to prudent operation, we continuously improve corporate governance, optimize the internal control system, strengthen risk management, and reinforce the foundation for high-quality development.

# Environmental Responsibility

## 1.1 Green Development

We firmly believe that green development is the inevitable path for high-quality development. Seizing opportunities and acting in accordance with the trend, SGG persistently promotes green transformation in a proactive, steady, and enduring manner, to achieve the simultaneous advancement of corporate sustainability and social sustainability.

### Case e-con Sustainable Sewing Solution

The e-con Sustainable Sewing Solution introduced by Dürkopp Adler GmbH ( "DA" ), combines sophisticated sewing kinematics with programmable setting elements for perfect and reproducible sewing results even in particularly demanding materials. It links each design of the electrical equipment to energy saving, allowing the final energy consumption of the product to be reduced to the target value, so as to make the production processes much better, faster and more effective and sustainable, and set the new benchmark for the product segment with the fully digitalized DELTA platform. In 2023, the "e-con Sustainable Sewing Solution" was selected for the "China's Top 100 ESG Leading Cases of Listed Companies" at the Sustainable Investment and Financing (ESG) and Free Trade Port Construction Forum, as well as included in the Report on the Green, Low-Carbon and Innovative Development of Enterprises by the China International Fair for Trade in Services (CIFTIS).

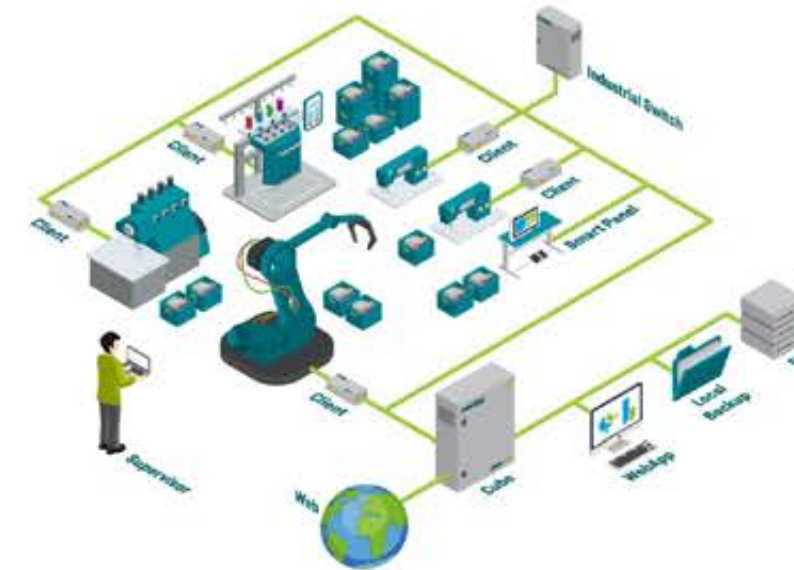
With beautiful appearance of the new plastic cover leading the latest trend, digitally controlled parameters (such as needle bar stroke, sewing speed, presser foot pressure, thread tension or thread trimming height), and the automatic energy saving mode to intelligently control the energy consumption of the entire sewing system, DELTA e-con Flatbed Heavy Duty Sewing Machine is possible to save 25% of power consumption compared to similar digital competitor machines, while the sewing results were raised to an even higher level, delivering the concept of green, low carbon sewing. At Texprocess Americas 2023, the leading trade show on the American continent for the sewing industry, the Texprocess Americas Innovation Award was presented for the first time at the start of the show. Outstanding achievements in research, new materials, products and technologies, applications and new developments in sustainability were recognized in several categories. In the category "New Technologies on Sustainability & Recycling" DA was honored with the award for the new DELTA e-con machine.



· DELTA e-con machine won the Innovation Award for Sustainability and Recycling at Texprocess Americas 2023.

### Case QONDAC Green Intelligent Workshop Solution

SGG not only introduces refined mechanical structural design and precise CNC technology to continuously improve product performance, but also the more digitized QONDAC Green Intelligent Workshop Solution, minimizing waste in sewing production. QONDAC detects and responds to production bottlenecks timely through real-time monitoring, and enables more sustainable corporate development with optimal energy allocation, realizing green development as well as helping downstream companies meet diverse consumer demands.



### Case Support the New Energy Automobile Industry Development

To achieve optimal allocation and complementarity of industrial chain resources while seizing new opportunities in green and low-carbon development, through careful planning and collaboration, SGG decided to enter the automotive interior parts market. Building on the rapid development of global new energy vehicles, we have opened up new pathways and cultivated new advantages.

On December 29, 2023, the Shareholders' Meeting of SGG approved to amend the use of the raised funds to acquire 80% equity of Shanghai Feier Auto Parts Co., LTD., which was then officially renamed as Shanghai Shanggong Feier Automotive Components Co., Ltd. ( "Feier" ) in January 2024. Founded in 2003, Feier focuses on the R&D, production and sales of automotive interior parts. Through continuous development and innovation, relying on advanced product and mold R&D technology as well as stable production quality, Feier has established long-term strategic cooperation with globally renowned automotive parts and components assembly enterprises, serving numerous new e-vehicle brands. Highly committed to technological innovation, Feier owns 70 core patents and recognized titles such as High-tech Enterprise, Enterprise Technology Center and Engineering Technology Research Center issued by the government. It ranks top in the market share and industry ranking of automotive seating parts and interior parts related products.



· Feier is headquartered in Fengxian District, Shanghai Municipality, China

## 1.2 Green Production

Adhering to green development, SGG integrates low-carbon, environmental protection and energy-saving measures into the entire process of product design and intelligent manufacturing. In 2023, SGG and its subsidiaries made full and rational use of various resources and energy, controlled and eliminated pollution, tried to minimize the impact of business operations on the ecological environment. We continuously seek improvements in aspects such as raw material procurement, production process design, equipment transformation, and product design, so as to create green manufacturing and green products throughout the entire lifecycle. As of the end of the reporting period, SGG has obtained ISO 14001:2015 Environmental Management System Certification, covering all branches and subsidiaries with manufacturing capacity.

### Case Multiple Measures to Save Energy and Reduce Emissions

- **Production equipment upgrade:** PFAFF Industrial Sewing Machine (Zhangjiagang) Co., Ltd. ( "PIZ" ), a subsidiary of SGG, upgraded the vibratory grinding equipment to equipment combining magnetic separation line with vibratory finishing line, achieving fully automatic sorting and circulation of machines, reducing labor input. After the equipment was put in operation, the waste liquid could be recycled, press-filtered and reused, saving an estimated **65%** of water consumption, and significantly increasing the processing parts in a single run.
- **Improvement in production processes and raw material sourcing:** Feier introduced alum to treat hazardous wastewater, separating residual glue and water from the hazardous wastewater to reduce its discharge. Collaborating with customers, Feier promotes the reuse and recycling of bubble wrap from warehouse and flocking production line, bulkheads, cardboard turnover boxes. The recycled materials are sorted out and reused by the production line to reduce material waste.
- **Introduction of highly automated advanced technology:** Feier conducted automation transformations on existing equipment and processes, introducing fully automated robots into the sealed negative pressure space room of the flocking production line to complete processes such as glue spraying and flocking. Additionally, automated coating equipment was introduced to enhance process accuracy, improve product quality, and increase production efficiency. This approach avoids direct manual contact with glue spray mist and flocking debris, reducing the risk of occupational hazards and improving the working environment.



· Feier automated coating equipment

### Case Exchanges and Cooperation in the Low Carbon Sector

Shanghai Shensy Enterprise Development Co., Ltd. ( "SHENSY" ), a subsidiary of SGG, deepened its exploration in the low-carbon transportation sector and actively carried out external cooperation, working with Zhenshi Group, Jiatong, Midea, Changchun Zhiyuan and various enterprises to jointly promote the green development of the logistics industry through different forms. SHENSY attaches great importance to internal optimization. By establishing an innovative model of energy procurement and control platform, it centralizes the management of energy supply and consumption in different locations, breaking the self-management mode of each project team, integrating oil suppliers and fleet suppliers, creating an ecosystem within the supply chain for better energy control. Through centralized procurement, oil quality is improved and costs are lowered. By comparing energy efficiency and prices of new energy vehicles, SHENSY facilitates the use of energy-efficiency oil products and encourages procurement of natural gas vehicles among the suppliers and fleets, so as to reduce the waste of energy and carbon emission and promote green development while increasing economic benefits.

Case Green Product, Packaging Design and Transportation

- **Green products:** Since 2022, Shang Gong Sewing Machinery (Zhejiang) Co., Ltd. ( "SG Zhejiang" ) has gradually transitioned its new products from using the original open large oil pan to the closed oil pan. By sealing the lubricating oil inside the machine cavity, the volatilization and leakage of the lubricating oil have been reduced. As a result, the weight of the oil pan has decreased from 995 grams to 422 grams, and the refueling amount has decreased from 520ml to 300ml. This not only reduces the amount of aluminum used but also decreases the amount of lubricating oil used, achieving energy and resource conservation.
- **Green packaging:** Shang Gong Group Co., Ltd. Shanghai Butterfly Sewing Machine Branch ( "SG Butterfly" ), prefers recyclable, biodegradable, or reusable eco-friendly materials for product packaging, such as biodegradable plastics, paper products, etc.. By simplifying packaging structures and optimizing packaging designs, such as reducing the number of layers and thickness, unnecessary packaging materials are directly reduced, leading to a decrease in waste generation and packaging costs. At the same time, SG Butterfly introduces packaging designs that are easy to disassemble, to facilitate consumer recycling and reuse. Moreover, environmental symbols and slogans are used on product packaging to guide consumers to choose green products.
- **Eco-friendly ink:** SG Butterfly requires suppliers to use eco-friendly inks for printing packaging materials, avoiding harmful substances such as heavy metals and volatile organic compounds, thereby reducing environmental pollution.
- **Green transportation:** During the reporting period, SG Butterfly achieved a **10%** reduction in product transportation carbon emissions by optimizing transportation methods and improving transportation efficiency. Priority is given to selecting low-carbon and energy-efficient transportation methods, such as marine transportation and railroad transportation, effectively lowering carbon emissions compared with traditional road transportation. By optimizing transportation plans, centralizing shipment and receipt of cargoes, improving the loading rate, and reducing the idling rate, transportation efficiency is improved, thereby reducing energy consumption during transportation.

### 1.3 Green Operation

In 2023, SGG continued to advocate for green operation, implementing measures such as identification and management of high-power-consuming devices, adopting paperless office practices, and transforming facilities to be more energy efficient. These efforts aim to create a green low-carbon working environment, and to steer the transition of the operational models of the group and its subsidiaries towards more sustainable, environmentally friendly, and energy-saving directions.

Case Implementation of Green Office

SGG strives to reduce energy consumption during office operation by implementing automatic control programs for air conditioning units with scheduled shutdown of the office building's air conditioning system, and fixed temperature on the control panel to prevent excessive energy waste, thus achieving energy conservation and carbon reduction.

SGG promotes green and sustainable concept by paying attention to the finer points and details. Since June 2023, biodegradable lunch boxes have been used in the canteen at the group's headquarters, reducing the generation of plastic waste and mitigating the environmental impacts of business operations.

Since 2020, SGG has fully implemented the OA system domestically, deploying the approval process and a large number of office documents to the cloud platform, and promoting collaborative work among employees across different locations through a smart mobile office. Since 2021, SGG has established the ERP system covering the group and its domestic subsidiaries, and continued to extend the reach in the field of paperless office operations. During the reporting period, a total of **47,414** digital approvals were completed within the group, reducing carbon emissions by **94.9** kilograms.

Case Low Carbon Building Renovation

SG Zhejiang's photovoltaic project, which started in November 2023, laid out photovoltaic cells on the factory roof. The planned project area is 14,446 square meters, with a design capacity of 2,187 kilowatts, and estimated annual power generation of 2.17 million kilowatt-hours. Upon completion of the project, it's estimated to save RMB **362,900** in electricity bills annually. By the end of February 2024, this project was connected to the grid. In addition, PIZ is actively introducing renewable sources of energy such as solar and wind, and plans are underway to transform the rooftop photovoltaic system of the factory.



· SG Zhejiang's rooftop photovoltaic project

DA plans to install rooftop photovoltaics in new factory buildings in Czech Republic by mid-2024. Apart from that, the factory has conducted insulation renovation by replacing windows and roof insulation materials, utilized waste heat from the compressor room for water heating, and implemented an energy-saving lighting system that auto-adjusts according to sunlight intensity. All these measures aim to reduce energy consumption comprehensively.

Moreover, SGG also spreads the green concept to both internal and external stakeholders. Internally, we organize environmental knowledge training to raise employees' awareness. Externally, we establish cooperative relationships with environmental organizations, supply chain partners, customers, etc., communicating the concept of green development via after-sales promotional activities, resource and knowledge sharing, and joint promotion of green packaging. All these efforts inspire engagement in environmental action and contribute to building a green ecosystem collectively.



It is our responsibility to keep a clean environment!



• DARO (Dürkopp Adler Romania) encourages all employees to undertake sustainable actions such as waste sorting and tree planting

## 1.4 Green Supply Chain

SGG places great emphasis on optimizing supply chain management, conducting procurement activities based on the principles of "Fairness, Transparency, and Justice". By rigorously ensuring quality, service, and technology standards, the group collaborates closely with its supply chain partners to integrate ESG principles throughout the entire supply chain management process. Together with all stakeholders, we are committed to building a supply chain system characterized by a strong sense of responsibility.

Regarding supplier admittance, the group and its subsidiaries follow a multi-party evaluation approach involving procurement, technology, and quality. New suppliers undergo a rigorous admission review, with environmental and social performances included in the assessment criteria, hence short-listing suppliers who perform well in these areas.

Regarding supplier evaluation, the group and its subsidiaries carry out regular reviews on collaborating suppliers, assessing their ESG performances to identify improvement opportunities. Together with suppliers, we establish improvement plans to continuously reduce environmental and social risks and enhance the sustainability capabilities of the supply chain.

Regarding material procurement and usage, aiming for pollution prevention and continuous improvement in environmental behavior, the subsidiaries emphasize guiding suppliers towards the sustainable development idea in lean production, environmental protection, and other aspects. The partners in the supply chain work together to minimize potential adverse impacts on the environment during product production, transportation, and selling processes. In the stages of material procurement and utilization, to achieve pollution prevention and continual improvement of environmental practices, SGG and its subsidiaries emphasize guiding suppliers to integrate the concept of sustainable development into their operations, particularly in lean production and green environmental practices. Together with supply chain partners, they work collaboratively to continuously reduce the potential adverse environmental impacts in product manufacturing, transportation, and sales processes.

### Case Building a Healthy Supply Chain Ecosystem

• **Environment-friendly supply chain:** SG Butterfly requires suppliers to provide relevant environmental certifications (such as ISO 14001 certification, RoHS product testing reports, etc.) during the procurement process. The authenticity of the provided documentation is verified, and the content is audited to assess the environmental management level of the suppliers. They also need to sign an environmental declaration, committing to comply with environmental regulations and minimize environmental impact during production. For chemical suppliers, supervision and management are extended over material composition, physical properties, storage, and emergency measures, ensuring product and process safety and environmental-friendliness from the source.

• **Transparent supply chain:** starting from August 2022, SG Zhejiang initiated the execution of the "Supplier Commitment" with long-term partners. The "Supplier Commitment" covers various aspects of corporate social responsibility, including transparency, compliance, fair employee treatment, and also clauses related to safe and healthy production environment, pollution prevention, energy conservation, and adherence to business integrity standards. Subsequently, all admitted suppliers are required to sign the "Supplier Commitment". As of December 2023, 228 out of the 431 long-term suppliers have completed the signing process.

# Social Responsibility

## 2.1 Enhance International Competitiveness

Throughout SGG's journey of "globalization", it has evolved from a traditional sewing machine production enterprise to a global leading manufacturer of material joining processing equipment. It has built a robust capability for global resource integration and accumulated extensive experience in international operations and management. Leveraging years of multinational management and mergers and acquisitions experience along with a global marketing network, SGG has accelerated its pace of "going global". In 2023, it further expanded investment and acquisitions, establishing a new pattern of development featuring four major business segments: sewing machines, intelligent equipment, automotive components, and trade & logistics.

### Case Expand Business Territory with New Member from Europe

In August 2023, SGG welcomed a new member from Europe, SONOTRONIC GmbH ("SNT"), a hidden champion enterprise in Germany specializing in customized automation equipment for ultrasonic welding. With nearly 50 years of experience in the field of plastic ultrasonic welding, SNT is a global leader in ultrasonic welding technology. Its products are widely used in the production of automotive plastic components and are also employed in the packaging, food, textile, medical, and environmental industries. By utilizing thermoplastic plastic joining processes and efficient and environmentally friendly ultrasonic technology, SNT creates value for its customers. It possesses rich industrial technology resources, extensive experience in system integration, and a reputable brand image.

Acquiring SNT marks a significant strategic development for SGG and is a pivotal step in continuously enhancing its global competitiveness in the field of material joining technology. This acquisition expands SGG's product portfolio in industrial sewing and welding technology, enhancing its global market position through automated plastic welding technology solutions.



· SONOTRONIC is headquartered in Karlsruhe, Germany

### Case Broaden Market Coverage with New Sales Company in Mexico

As an upstream supplier of sewing equipment for the automotive interior and textile apparel industries, SGG strategically focuses on exploring market potential and seizing market opportunities. By establishing new sales company DAP Mexico under its German subsidiary DA, SGG is advancing the extension and expansion of its superior products from various brands and categories within the group.

DAP Mexico focuses on target markets such as the United States, Mexico, Canada, and South America, serving manufacturing enterprises in automotive interiors, safety airbags, furniture, footwear, and apparel. Leveraging SGG's diversified brand strategy, DAP Mexico will promote the industrial application of welding machines, to capitalize on the growth of new energy vehicles and the automotive consumer market. By strengthening Sino-German collaboration, integration and empowerment, SGG aims to transform market resource into competitive advantages for further development, thereby expanding its business scale and profitability.

## 2.2 Empower Industrial Innovation

SGG has long adhered to the business strategy of "driving development through innovation and service." It consistently focuses on automation, intelligent production and digitalized management in the manufacturing process continuously striving for improvements. Through process optimization and management enhancement, it has achieved ongoing improvements in production efficiency. In 2023, the output of medium-and-heavy-duty sewing equipment exceeded 40,000 sets, and the lead time was shortened by 60%. Through promoting technological innovation, supporting the upgrading of traditional industries and empowering the development of emerging industries, SGG is steadily moving towards the goal of new service-oriented manufacturing with digitalization, intelligentization and informatization.

### >>> Product & Technology Innovation

SGG fully utilizes the advantages of Germany's technology and China's smart manufacturing, and develops series of products characterized by automation, digitization and low-carbon footprint. We continuously integrate Industry 4.0 technology into product performance, and introduce energy-saving and sustainable industrial sewing solutions, leading technological innovation in the manufacturing industry.



Case SGG Exhibited at CISMA 2023

In September 2023, SGG showcased the extended series of DA M-TYPE DELTA, the Green Intelligent Workshop, and leading domestic achievements such as models 1545 and 2645 of PFAFF Industrial/Mauser Spezial, as well as the new member SONOTRONIC GmbH at the China International Sewing Equipment Exhibition (CISMA 2023), providing better user experience for consumers and bringing new vitality into the transformation and development of the industry. This highlights SGG's determination to accelerate its green and low-carbon transformation and to continue building new strengths for high-quality and sustainable development.



· SGG exhibited at CISMA 2023



· Prototype demonstration conveys the sustainable concept



· Global launch of DA M-TYPE GAMMA

Case Enhance Smart Manufacturing with Full Digitalization

Tianjin Richpeace AI Co., Ltd. ( "Richpeace" ) adopted the information management system that integrates the company's import, export, inventory, production and financial processes, adapting to the whole process control and tracking of business operation, thereby reducing overall management and production costs.

SG Zhejiang progressed further in smart manufacturing through the integration of Manufacturing Execution System (MES). It utilized external sensors to collect real-time equipment conditions, production completion information and quality data, achieving process traceability through the barcode or Radio Frequency Identification (RFID). It accomplished smart manufacturing, shelving, and warehousing with automatic scheduling for production, and intelligent management of materials, equipment, and personnel. It realized intelligent material handling by introducing the Automatic Guided Vehicle (AGV), enabling multiple robots to collaborate, automatically recharge, and operate efficiently and swiftly.

Case Promote Technological Innovation with Precise R&D



· DA 581-121 Double-chainstitch Eyelet Buttonhole Sewing Machine, features optimal thread tension with automatic monitoring function, improves stitch quality, achieves maximum versatility with the supplementary kits.



· PFAFF 3834 Upper Sleeve Specialty Machine, delivers high sewing quality and accurate distribution, handles various materials from lining to heavy fabrics, features a new functionality to re-identify material thickness for controlling and adjusting thread tension.



· PFAFF 8303i Welding Machine, increases productivity by 20% and reduces tape consumption by 15% in comparison to its peer products.

Increases productivity by **20%** reduces tape consumption by **15%**

· KSL developed a fully automated line for a renowned Italian down jacket brand, redefining the concept of customized garment automation line.



· Richpeace Automatic Double-Headed Plate Punching Machine, boasts a productivity 1.7 times that of its peer products, positioning it to potentially become a leading product in the automotive manufacturing sector.

· The new Butterfly X60 Multifunctional Household Sewing Machine incorporates technologies such as the Internet of Things (IoT) and artificial intelligence (AI) to achieve functions like remote control and smart sewing. This enhances the precision and stability of the sewing machine and improves its usability and reliability, meeting the increasing demands of users for personalization and intelligentization.



### >>> Market Structure Upgrading

SGG continues to expand the application scope of its various material joining equipment products, breaking through traditional downstream markets such as footwear, household, home furnishings, and textiles, further extending to the emerging industries such as automobile, aerospace, environmental protection and new energy, promoting the development of emerging industries with its global leading material joining technology and R&D capability.

### Case Delve Deeper into New Energy Vehicles and Aerospace Sectors

SGG developed KSL S-110 Automatic Rotary-headed Airbag Sewing Equipment, by integrating and innovating cutting-edge robotics and sewing technology. This equipment gives full play of KLS' "unique skill" in three-dimensional automated material processing. By replacing manual operations with automatic equipment, the production process becomes streamlined and controllable, with minimal human intervention, ensuring the stability and consistency of sewing quality.



· KSL S-110 Automatic Rotary-headed Airbag Sewing Equipment

SGG developed KL110 Automatic Sewing Equipment (sewing range: 2500mm 800mm) for the production base of a well-known Chinese e-vehicle manufacturer, to facilitate manufacturing the door panels of its new car models. Equipped with vertical hook and 360° rotating head, and along with a dual alternating material feeding system, it delivers high-quality sewing lines in multiple directions, enhancing product quality and grade. Automatic template alternation significantly improves production efficiency.



·KL110 Automatic Sewing Equipment

SGG developed carbon fiber edge sewing heads for carbon fiber composite structural parts processing, of which applications are used in industries such as aerospace. In 2023, SGG supplied three-dimensional sewing equipment tailored for curved and irregular surfaces to Shanghai Aircraft Manufacturing Co., Ltd., leveraging our globally leading intelligent manufacturing technology to facilitate the rapid development of China's aviation industry. Furthermore, SGG will continuously harness its technological innovation capabilities, and develop intelligent industrial sewing equipment customized for various new materials, to enhance the utilization and effectiveness in material joining processes, supporting the emerging industries such as new energy, aerospace, and environmental protection.



·SGG's technician team executed equipment installation at Shanghai Aircraft Manufacturing Co., Ltd.

Case Drive Sustainable Development with Customer Engagement

In November 2023, SGG held the German Automotive Day customer activity at BYD's headquarters. The event featured demonstrations by the group's brands including Dürkopp Adler, PFAFF Industrial, KSL, and Sonotronic, showcasing products for four application scenarios, namely, seat covers, airbags, automotive interior parts, and the GONDAC Digital Sewing Solutions.

SGG possesses abundant technology, knowledge, experience and products for manufacturing units of automotive components, especially in application areas of sewing and welding for seating, safety and interior systems, providing the global leading component manufacturing technology and product support for the electrification and intellectualization transformation and upgrading of automobile industry.



·SGG held German Automotive Day at BYD's headquarters

>>> Industry Standards Formulation

SGG actively participates in the industrial science and technology research, and cooperates with universities and colleges to carry out project research. By pooling resources and fostering innovation, we play a leading role in the technical standardization of the industry, promoting the interactive development of standardization and scientific and technological innovation.

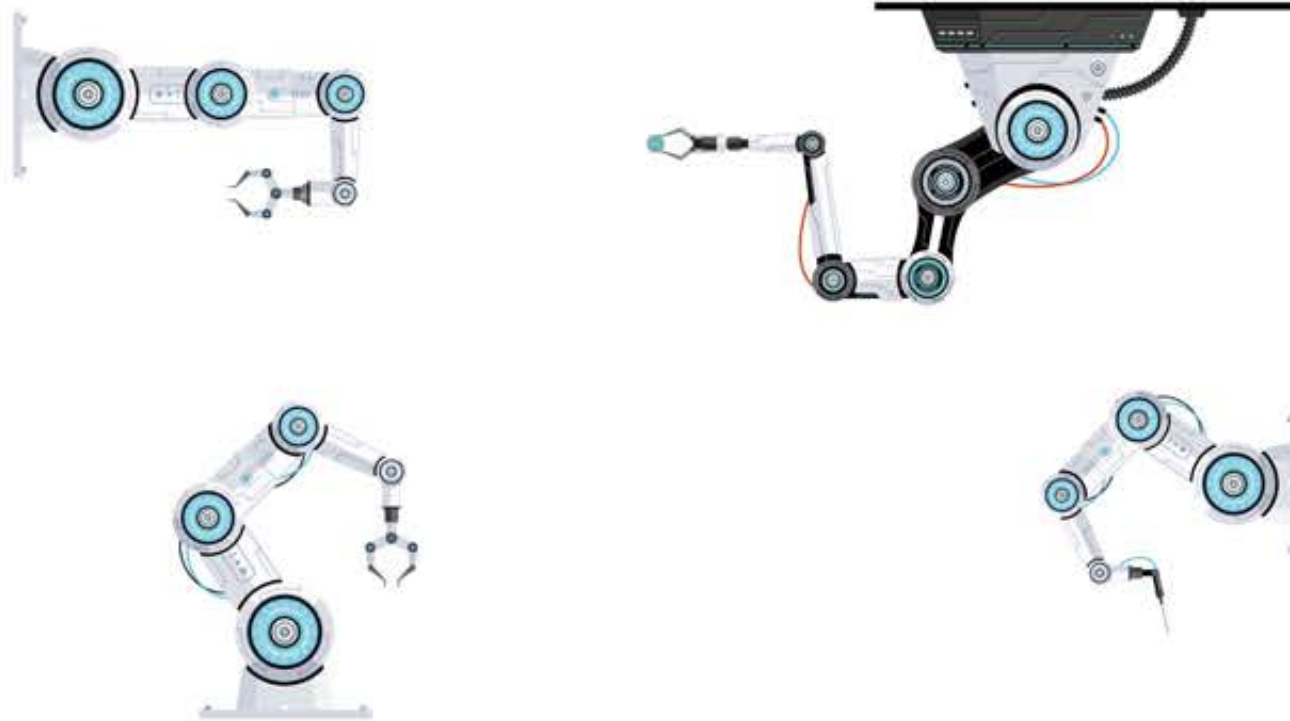
**Case** Participation in Multiple Industry Standards Formulation

Leveraging its accumulated expertise in hot air and ultrasonic sealing, SGG took the lead in drafting the light industry standard "Industrial Sewing Machine – Automatic Hot Air Sealing Machine" (G-B/T5897-2023), released in July 2023.

In 2023, SG Zhejiang involved in the development of four standards, including "Test Method for Seam Tightness of Single-Needle Straight-Stitch Flat Sewing Machines for Industrial Use", "Computer-controlled Cylinder Bed Overlock Sewing Machines for Industrial Use", "Computer-controlled Medium Speed Zigzag Stitch Sewing Machines for Industrial Use", and "Test Method for Energy Consumption of Sewing Machines Part 2: Roller Press".

SG Butterfly participated in the formulation of the Group Standard, "Computer-controlled Household Sewing and Embroidery Integrated Sewing Machine", with approval and publication completed.

Shanghai Butterfly Digital Technology Co., Ltd. in collaboration with Donghua University, drafted and formulated the industry group standard "General Guidelines for Technical Requirements and Evaluation of Apparel Digital Factory". The publication of this standard fills a gap in the industry's specification and certification for smart factories, playing a crucial role in promoting the intelligentization of apparel production.



## 2.3 Improve Customer Experience

### >>> Comprehensive Marketing Network

SGG has established a worldwide sales and service network, with two major marketing centers in China and Germany, radiating to Europe, America and the Asia-Pacific region, achieving efficient market responsiveness. It adopts a multi-brand marketing strategy, utilizing internal synergies to enhance sales network building and create a structured and specialized product system. In 2023, SGG introduced a direct sales strategy for major customers and carried out service-oriented marketing by means of new product trials and targeted promotions, bridging the gap with customers and increasing customer engagement.



Global sales and service network



>>> Product Quality Enhancement

SGG has attached great importance to quality management enhancement, established a sound product quality control system. It continuously standardizes and improves the quality control over raw materials, production processes and finished products, and conducts full-process closed-loop management of product compliance and quality. As of the end of the reporting period, SGG has obtained the ISO 9001:2015 Quality Management System Certification, covering all branches and subsidiaries with manufacturing capacity.

Case Total Quality Management (TQM)

With quality as the core and full participation as the basis, SGG maintained the whole-piece machine qualification rate above 98% through comprehensive quality improvement efforts. It set up a TQM task force consisting of senior executives to strengthen supervision over the quality system, process quality and key product quality of the manufacturing entities. Inspection rounds and spot checks are conducted to assess compliance, and performance evaluations are carried out accordingly.

Quality Management System Enhancement

Strict compliance with ISO 9001 and quality management is required in all manufacturing entities and departments. By sorting out the quality system documents, technical standards, process workflows, process control documents, measures are taken to optimize the whole-process quality management including procurement, production, inspection, sales and service.

Solid 6S Implementation

Taking the 6S on-site environment as the focal point, all manufacturing entities should continuously improve the production environment, enhance production efficiency, to ensure the product quality, and foster a positive management atmosphere and cultivate a healthy corporate culture. By insisting on the work method of "repeatedly addressing and addressing recurrence", the code of conduct is developed within the whole workforce.

Quality Monitoring Mechanisms in Production Processes

Regular inspections and spot checks are conducted on the quality control and prevention measures during the production processes of manufacturing entities and departments. Any issues identified during the inspections are followed up with relevant entities and departments to ensure rectification. Each inspection generates a report, and scores are assigned according to inspection and assessment standards. The scores obtained are included in the annual quality management evaluation of the entity or department. Inspection results are regularly reported to the executives in the TQM task force.

Key Product Quality Improvement

SGG Technology Quality Department takes the leading role in formulating the Annual Plan for Key Product Quality Improvement, continuously improving the reputation of the key products through technological innovation and process improvement, thus expanding the market share.

Quality Improvement Proposal Program

Leveraging the quality improvement capabilities of the employees, each entity and department should encourage all staff to propose suggestions, and continuously promote the PDCA cycle of quality management. Reasonable suggestions proposed by employees are initially evaluated by the entity or department, and outstanding proposals are recommended to the SGG headquarters for annual selection. Proposals with particularly outstanding benefits are rewarded, to eventually form a favorable atmosphere of full participation in quality management.

Case Expand Market Share with Diversified Marketing Methods

To enhance product market expansion and brand image promotion, SG Butterfly innovated its marketing methods and adopted "online + offline" parallel publicity measures. Besides making full use of the offline trade fairs such as Chinese Time-honored Brand Exhibition and China International Import Expo (CIIE), SG Butterfly utilized online social media and network platforms such as TikTok, Little Red Book, Taobao with popular communication methods of live streaming and short video sharing, to engage with its customers, deliver timely updated product information and offer customer services, continuously broadening the coverage of its target audience.



Butterfly household sewing machines were showcased at CIIE

In terms of sales team building, SG Butterfly continued to expand its dealer network, adding 2 new domestic dealers and 14 overseas agencies in 2023, increasing the share of Butterfly multifunctional household machines in the global market.

Case SG Zhejiang 6S Management

In August 2023, SG Zhejiang officially launched the 6S Promotion and On-site Management Enhancement Project. Various forms of vigorous promotion are deployed, such as distributing 6S implementation manuals, on-site TV video broadcasting, hanging banners, posting promotional wall paintings, and attaching slogans on staircases, as well as holding daily pre-shift meetings, to stimulate the enthusiasm of employees and raise their motivation, laying a solid foundation for the effective promotion and implementation of 6S management.

**SEIRI:** All departments and workshops were mobilized to thoroughly clear the unwanted items, re-plan and rationalize the layout of space, and implement the "three fixed" (fixed products, fixed location, fixed quantity) management for the goods and materials, to ensure items in their designated places with clear labels and easily visible information.

**SEITON:** In addition to the "three fixed" management, SG Zhejiang implemented comprehensive visual management, to achieve the "three easy" goals of easy retrieval, easy placement, easy management of goods, materials, equipment and facilities. Through the use of "floor plan + area marking + location board + bin label + material card", the parts warehouse achieved rapid positioning of items, significantly improving the efficiency of storage.

**SEISO:** SG Zhejiang carried out thorough cleaning of equipment and the environment, identified and eliminated the hazards, restored the appearance and performance, established equipment ledgers, set up equipment inspection standards and conducted regular spot checks accordingly, so as to prolong the service life and improve the use efficiency of the equipment.

Building on the achievements of the first 3S, SG Zhejiang established series of standards and systems to maintain the site management in a clean (SEIKETSU) condition. Meanwhile, regular hazard identification and safety (SECURITY) management are implemented to form good working habits, resulting in a significant improvement in employee discipline (SHITSUKE).



•SG Zhejiang 6S kick-off meeting and 6S Implementation Manual Distribution ceremony

>>> Customer Service Optimization

SGG has built up a whole-process management system for customer services, with diversified customer feedback channels, refined after-sales service process, thereby enhancing after-sales service, improving customer satisfaction and reducing customer complaint rates, providing customers with quality service assurance.

Case Improve Products and Services Centering around Customer Demands

**Emergency Stop Switch for Sewing Machine:** Following the increase of safety requirements in production and manufacturing industries, safety control of sewing equipment has been included in the function list. Faced with customer demands and industry standards, SGG has developed safety control components for sewing equipment, successfully realized the emergency stop function without breaking the power supply or interrupting the program, earning high praise from customers, and enhancing its market competitiveness.



•Product design of emergency stop switch for sewing machine

**Optimized maintenance process for electronic control:** To address the issues of long maintenance cycles and frequent subsequent complaints in electrical control maintenance, SGG has refined the workflows and process control, requiring expedited handling for in-warranty cases to accelerate response times, with all information records fully traceable on the cloud. In 2023, by streamlining service processes and improving service efficiency, it was achieved that a maintenance request can be closed within 2 working days (including 1 day of on-board testing), resulting in a total reduction of over 100 working days of maintenance waiting time.

**Noise Reduction of Sewing Machine:** Through technological innovation, SG Zhejiang launched the ShangGong S3 product, reducing noise sources and mitigating noise hazards of sewing machine. In the era of quality consumption, this product meets customers' expectation for a healthier and more comfortable user environment. ShangGong S3 took the lead among its peers in reducing sewing noise, with noise level as low as 76 dB at a speed of 4,000 rpm/min. Its vibration peak decreased from 480 μm to 185 μm, and default peak from 150 μm to less than 50 μm, leading the industry in performance.



•Global launch of ShangGong S3

## 2.4 Cultivate Joint Growth

SGG adheres to a people-oriented approach, emphasizing the protection of employees' legitimate rights and interests. It improves employee training system and career development mechanism, organizes a variety of cultural and sports activities, strives to create a diverse and inclusive corporate atmosphere and a positive work environment, enhancing employees' sense of involvement, achievement, and happiness.

### >>> Protect Employees' Rights and Interests

SGG and its subsidiaries strictly adhere to the principles of fairness, justice, transparency, and non-discrimination in employment. Based on equality, voluntariness, and mutual agreement, labor contracts are signed with employees in accordance with the law. Employees are ensured with the right to take leave, and their rights and interests are protected through democratic management forms such as employee representative assemblies, fostering a harmonious and cordial employment relationship.

By the end of 2023, the total number of employees in SGG headquarters and its domestic subsidiaries inside China amounted to 1,717, and the total number of employees in its overseas subsidiaries outside China amounted to 1,851, totaling 3,568 employees globally.

### Case Dürkopp Adler Conducted an Employee Satisfaction Survey

In 2023, Dürkopp Adler conducted an internal survey focusing on employee satisfaction and continuous optimization, listening to employee feedback. The analysis covered engagement, leadership, team efficiency, organizational and social work environments, diagnosing shortcomings in management. This helps to understand employees' needs regarding work environment, conditions, training, and development, leading to systematic improvements in corporate management to enhance production efficiency and employee satisfaction.



·Dürkopp Adler Employee Satisfaction Survey Report

### >>> Empower Career Development

SGG and its subsidiaries have established a diversified and multi-level training system. Through online & on-site trainings and external lectures, we fully utilize internal and external resources to enhance employees' skills and professional qualities, to provide them with a broad path for career development, unleash their potential, promote personal growth, facilitating the efficient development of the company.

In 2023, SGG and its subsidiaries organized a total of 258 training programs, with 2,061 participants in attendance globally.

### Case ESG Trainings for Management Teams

In 2023, SGG and its subsidiaries organized a total of 5 ESG trainings for staff of management level, with a cumulative total of 54 participants. The training sessions covered the group's executives, department directors, and managerial staff across various divisions and subsidiaries. These ESG trainings further enhanced the understanding of ESG concepts among the management teams, facilitating the continuous improvement of the ESG implementation, establishing a sustainable mechanism integrating ESG principles into daily business operations.



·Kick-off meeting of 2023 CSR Report compilation and ESG training

Case Lean Management Project of Workshop in Romania

DARO (Dürkopp Adler Romania) conducted a Lean Management training program in its workshop to guide employees on overcoming obstacles and enabling them to continuously explore, reshape, and establish better work methods, thus achieving continuous innovation and improvement in production processes, products, and services. The Lean Management project focused on the following key areas of work:

- Increasing the involvement of all levels of management in achieving company goals;
- Understanding the roles of departments and mid-level management in the organization;
- Optimizing resource allocation such as personnel, materials, and equipment, with a sound understanding of external customer demands and internal quality standards, to facilitate scientific production planning;
- Focusing on improvement metrics, reducing losses and enhancing performance through continuous efforts.

The Lean Management Project aims to establish a corporate culture of mutual respect, understanding and trust, encouraging employees to take responsibility, pursue personal growth and career development, thus transforming the company into a lean organization.



·DARO' s Lean Management Project in the workshop

SGG conducts regular internal professional technical title evaluations to encourage employees to continuously improve their professional skills. In 2023, SGG headquarters selected 35 engineers for engineering professional technical titles, 12 accountants and 14 economists for management professional technical titles, and 6 technicians for technician professional technical titles.

Case Cultivation for Specialized Talents

In 2023, SG Zhejiang obtained the qualification for autonomous recognition of vocational skill levels. In October 2023, the first training session of autonomous recognition for Level 5 sewing machine assembly and maintenance technician began, with a 2-day training period covering fundamental knowledge and technical practices for flat sewing machine and its assembly processes. After the professional training, 36 trainees took theoretical and practical exams, with 31 of them passing and receiving vocational skill certificates. This training provided a platform for employees to enhance their vocational skills, creating a learning atmosphere.



·Vocational training and recognition at SG Zhejiang

Case Recognition for Excellent Employees

SGG selected and commended excellent employees and teams, innovative employees and teams for the year 2023. The Excellence Award was given to 12 domestic employees and 5 teams, 6 overseas employees and 1 team, and the Innovation Award was given to 5 domestic employees and 2 teams, 3 overseas employees and 1 team, boosting the momentum for further advancement.



·SGG headquarters presented the Innovation Award to domestic and overseas teams.

·SG Butterfly conducted a quality improvement training.





**DÜRKOPP ADLER**  
România S.r.l.

Universitatea de Medicină, Farmacie, Științe și Tehnologie „George Emil Palade” Târgu Mureș



10/05/2023 11:11



**DÜRKOPP ADLER**  
România S.r.l.



2023

Stagiu de practică

At DAPIO's internal training center, senior trainers gave theoretical and practical trainings to new employees on topics such as company overview, health and safety, machine components, quality issues, and machine maintenance.

>>> Enhance Welfare and Employee Care

SGG has established a comprehensive assistance mechanism to support employees and their families in difficulty, helping them overcome challenges in work and life and easing their concerns. In 2023, the group's labor union disbursed a total of 45,200 RMB in assistance to those in need. Additionally, it conducted cooling activities to comfort workers during high temperatures, benefiting 288 individuals from 11 units, with a total expenditure of 24,480 RMB. Furthermore, a contribution of 7,560 RMB was made to provide supplementary medical insurance for laid-off workers, building a "second line of defense" against medical risks for those in need. Throughout the year, a total of 9 claims were settled, amounting to 24,860 RMB.

SGG places great importance on the physical and mental health of its employees and organizes a wide range of cultural and sports activities, such as movie screenings, enamel craftsmanship, glass painting, coffee art, and mobile photography classes. Birthday wishes and holiday greetings are sent to employees on time, enriching their spiritual and cultural life. These efforts enhance the company's cohesion, adding new impetus to its sustainable development.

Case Annual Healthy Run: Towards a Bright Future at SGG

In October 2023, SGG organized the annual healthy run event at Shanghai Bay National Forest Park, attracting nearly a hundred employees to participate. This event showcased the individual and team spirit, demonstrating the solidarity and uplifting spirit of SGG employees, enhancing cooperation awareness and teamwork among the employees, and strengthening the company's cohesion.





•SGG Annual Healthy Run event

17.06.2023  
Concurs de pescuit

**DÜRKOPP ADLER**  
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30.09.2023  
Campionat de fotbal

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#BeActive!

*Christmas handmade workshop 2023*



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•DA organized a diverse range of employee activities, including fishing trips, soccer matches, and craft workshops, to provide a fun and engaging experience for its staff

Susținem ÎNVĂȚĂMÂNTUL DUAL!



Susținem ÎNVĂȚĂMÂNTUL DUAL!



Clasa a IX-a 2023 - 2024

•In 2023, DARO participated in the dual-track education system project in Romania for the first year, and recruited four students serving as apprentices.

## 2.5 Promote Social Contribution

While focusing on its own healthy development, SGG insists on fulfilling its social responsibility by actively participating in public welfare and charity activities. Leveraging its corporate strengths, it contributes to helping the less fortunate and supporting community development, encouraging employees to engage in community building. Through practical actions, it spreads love and works together with stakeholders to build a better life.

**Transmission of care:** SGG donates 200,000 RMB to the Pudong Charity Foundation annually to support poverty alleviation efforts. This fund provides free health check-ups for 40 migrant workers, offers emergency assistance to workers facing financial difficulties, and delivers care and warmth to those in need.

**Inheritance of skills:** SGG provides career opportunities for college students through campus recruitment, promoting employment in society. DA collaborates with vocational schools to offer equipment operation skill training for students, expanding their paths for growth and success. DARO sponsors social activities at schools, universities, and institutions in Târgu Mureș, Romania, establishing partnership and actively participating in seminars held at universities and high schools.

**Spread of love:** for 8 consecutive years, SG Butterfly has organized the "Butterfly Creative Sewing Competition" and held the "Butterfly Fabric Art Charity Training" for 10 years, promoting the culture of Butterfly Fabric Art and spreading the century-old history of the Butterfly brand. In 2023, "Butterfly" continued to fly into communities, neighborhoods, enterprises, schools, hosting 21 fabric art training sessions, reaching around 700 participants including residents and employees from various sectors.

# Corporate Governance

## 3.1 Improve Governance Capacity

### Governance System Development

SGG insists on standardized operation. In accordance with relevant laws and regulations, regulatory documents such as the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Guidelines on Governance of Listed Companies and the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, and the requirements of the Articles of Association, SGG established the governance structure consisting of the Shareholders' Meeting, the Board of Directors, the Board of Supervisors and the Management, which is clear in authority and responsibility, balanced, coordinated, and mutually complementary. To strengthen the responsibility management and achieve efficient operation, SGG formulated Rules of Procedure to clarify the responsibilities, authorities and working procedures of the Shareholders' Meeting, the Board of Directors, the Board of Supervisors and the Management, ensuring the separation of decision-making, execution and supervision. The Board of Directors established specialized committees such as the Audit Committee, the Strategy Committee, the Nomination Committee, and the Remuneration and Appraisal Committee, each with rules of procedure to clarify the responsibilities, authorities and working procedures, so as to support the Board of Directors' scientific decision-making. During the reporting period, SGG held 2 Shareholders' Meetings, 11 Board of Directors' Meetings and 6 Board of Supervisors' Meetings in total.

In addition, as a group enterprise with more than 40 branches and subsidiaries at home and abroad, SGG attaches great importance to promote the continuous improvement of the governance structure of its subsidiaries, ensuring clear boundaries of authority and responsibilities in the governance system of each entity, so as to enhance the governance effectiveness of the group.

Shareholders' Meetings

2

Board of Directors' Meetings

11

Board of Supervisors' Meetings

6



### Investor Relations Management

Regarding investor interaction, SGG maintained smooth and efficient communication with investors through diversified interactive channels such as company website, e-mail, phone calls and the "Shanghai Stock Exchange (SSE) Interactive" platform. It also organized on-site visits for investors and various researchers, continuously deepening investors' understanding of the company and enhancing investor relations management, to promote the company's high-quality development through positive interactions. During the reporting period, SGG held 3 performance exchange meetings, and responded to the concerns of investors in a timely manner through the "SSE Interactive" platform, hotline and e-mail.

In terms of information disclosure, SGG insists on the principles of "truthfulness, accuracy, completeness, timeliness, and fairness", and strictly complies with relevant disclosure regulations. During the reporting period, SGG disclosed a total of 56 interim announcements and 4 periodic reports on the website of the Shanghai Stock Exchange, as well as designated newspapers and magazines.

### Case Butterfly Brings Craftsmanship and Beauty to Village

In December 2023, two volunteers from SG Butterfly Fabric Art Studio visited the Guangming Village, Xuanqiao Town, Shanghai Municipality. They led over 30 villagers in on-site fabric art production, conducting a lively DIY handcraft activity filled with joy and creativity.

During the activity, volunteers shared the brand story of "Butterfly" and the cultural significance of fabric art, helping villagers to appreciate the unique charm of contemporary fabric art that combines traditional sewing, artistic creation, and leisure experience. They carefully explained the step-by-step process of making backpacks and taught the villagers the methods hands-on, guiding them to discover the beauty in fabric art and experience the joy of craftsmanship.



The Butterfly volunteers visited the Guangming Village



The Butterfly Fabric Art Charity Training

## ESG Governance

SGG incorporated ESG management into its business philosophy and development strategy, forming a top-down global ESG governance system with the Board of Directors as the highest authority and ultimately responsible for ESG matters. Fulfilling its ESG leadership, the Board of Directors is responsible for formulating and approving ESG strategies and plans, regularly reviewing ESG matters, guiding the implementation of ESG initiatives, as well as reviewing the annual Corporate Social Responsibility (ESG) Report, which enhances the information disclosure transparency and facilitates effective communication with stakeholders.

For the effective implementation of ESG initiatives, SGG developed the Rules for Social Responsibility Management, incorporating the CSR requirements throughout the entire business management process, delineating specific responsibilities and obligations covering aspects such as work safety, product quality control, environmental protection, resource conservation, employment promotion, and protection of employee rights and interests, to promote the coordinated advancement and mutual progress of corporate development, economic and social development, and environmental protection.

SGG releases the Corporate Social Responsibility (ESG) Report annually together with the annual report to demonstrate its performance in environmental, social and corporate governance, fully responding to the expectations of stakeholders such as the government, shareholders, customers, employees, and the public, and shaping a positive corporate citizenship image, as well as forming a virtuous cycle by obtaining feedbacks from stakeholders, building differentiated value advantages and raising the upper limit of the company's future development.

## 3.2 Strengthen Compliance and Internal Controls

## Effective Compliance Management

SGG has accelerated the deepening and solidifying of compliance management. During the reporting period, a comprehensive review of the management systems was carried out, actively tracking updates and issuance of external laws and regulations to ensure timely incorporation of regulatory requirements into internal corporate regulations. Following the issuance of the Management Measures for Independent Directors of Listed Companies by the China Securities Regulatory Commission in August 2023, the company revised the Rules of Procedure for the Audit Committee of the Board of Directors, to ensure better fulfillment of the Audit Committee's effective supervision over the management, continuously improve the financial reporting quality of the listed company, and to strengthen internal control and risk management. Furthermore, the company revised the Rules for Travel Expense Management, strengthening the management of travel expenses, guiding the employees in the rational arrangement and control of travel costs, promoting cost reduction and efficiency enhancement initiatives to ensure the company's economic benefits.

SGG attached importance to the challenges posed by globalized operations to internal control system construction, assigned executive directors (senior management) to perform supervisory and inspection roles for overseas invested companies, in strict accordance with the Management Measures for Overseas Invested Companies to ensure the effective management of major matters such as the business operation, finance, funding and foreign investment of overseas invested companies. In addition, internal control reviews were regularly conducted to ensure the compliance of corporate operations and management regulations with the requirements of listed company, as well as the effective implementation of regulations for each business unit in the cross-border operations, in compliance with international regulations and legal requirements of the host country.

SGG emphasizes the in-depth integration and synergy of internal control and internal audit work, to strengthen supervision over the internal control system, identify risks, and control deficiencies, and promote continuous optimization of the internal control system. In 2023, the company's Audit Office implemented a total of 11 internal special audits, and carried out annual internal control assessment and financial audits. Among these, the circular audit on the auxiliary material consumption of PIZ, further strengthened supervision and guidance on internal control risk prevention in high-risk areas such as procurement, production, and sales of the subsidiaries within the group. SGG prepared the Internal Control Evaluation Report for 2023, which was comprehensively reviewed by the Board of Supervisors on the effectiveness of the internal control design and operation throughout the year. It was concluded that SGG maintained effective internal control over financial reporting in all significant aspects, in accordance with the requirements of the Enterprise Internal Control Standards and relevant regulations, with no significant deficiencies identified.

In addition to routine internal control supervision, SGG established a comprehensive internal control training system for employees at all levels. In 2023, SGG carried out a total of 4 trainings to strengthen employees' awareness of internal control, enhancing the ability of risk identification, assessment and prevention, improving the quality and efficiency of internal management, and effectively guaranteeing the company's compliance operation.

## Proactive Risk Prevention and Control

During the reporting period, SGG adopted a variety of risk control measures such as adopting diversification strategies, conducting forward-looking investigations, emphasis on localized operation and risk prevention, participation in overseas investment insurance. With a calm and composed attitude and strong adaptability, the company transformed challenges into opportunities by effectively responding to them.

· **Diversification strategies:** SGG took four major diversification strategies in financing, investment, production and marketing, and adopted multiple measures to maximize the market expansion, gaining advantages for the company, and mitigating risks associated with singular business operations.

· **Forward-looking investigations:** SGG actively researched and collected cutting-edge industrial knowledge and technology in its operating locations, focused on understanding the political environments of the main business operating markets, countries and regions, and paid great attention to the upgrading of ESG regulations in the European market, to ensure early identification and prediction of risks, and to firmly grasp the initiative in risk prevention and control.

· **Localized operations:** SGG paid close attention to the impact of its production and business activities on the local community. The company tried its best to utilize local resources such as raw materials, parts and labor, to better adapt to the localization challenges while promoting the local economy development and addressing the employment issues.

· **Climate change crisis and energy risks prevention:** SGG focused on managing the risks of rising energy prices and energy supply continuity in its overseas business operations, and prepared in advance to deal with the risks by adopting energy-saving measures at workplaces, identifying priority energy-using units, and considering alternative energy sources.

· **Overseas investment insurance:** SGG participated in overseas investment insurance, transferring and minimizing possible political risks and possible economic losses in the process of entering the "deep-water zone" of globalization, to provide protection for its overseas operations.

Information Security Safeguard

In 2023, SGG further improved the ERP system modules for sales, procurement, warehousing, production and finance, and achieved the overall implementation of OA system enabling the business operations to be controlled and carried forward by digital systems, enhancing efficiency across all internal management processes.

In response to the data security challenges in digital transformation, SGG committed to strictly regulating data security measures across all operational aspects. For instance, SGG established a complete redundancy strategy and backup mechanism for data security on hardware platform. In the second half of 2023, the IT Department set up an off-site backup data center at SGG Headquarters office building with professional storage equipment, and implemented backup strategy to synchronize critical data regularly, to ensure safety for the entire ERP system and secure industrial drawings for the R&D Center.

### 3.3 Enhance Safety Management

Building Defenses for Safe Production

By taking "safety-first, prevention-oriented, comprehensive management" as the guideline, through responsibility management, system regulation, hazard identification and safety education, SGG and its subsidiaries implemented safety management covering all aspects of production practice, and achieved normalization and full risk prevention and control across all personnel, firmly building up safety defenses and upholding the safety bottom line.

SGG has established the Work Safety Management Team led by the Administration Department of the headquarters, with the corresponding leaders of its branches and subsidiaries as members, taking unified responsibility for safety management matters including work safety, occupational health and safety, and public security across the group. Regular inspections on subsidiaries and factories are conducted annually, led by the Administration Department of the headquarters, to ensure constant attention to work safety and to keep the alarm ringing. In 2023, no major work safety accidents occurred in SGG and its subsidiaries.

In 2023, SGG and its subsidiaries further established and improved the work safety rules and regulations, and implemented various measures such as visualizing safe operating procedures on the wall, conducting regular safety inspections and daily safety promotion, incorporating the safety concept into the whole process of corporate development, to prevent and resolve major safety risks, and build up safety defenses.



•Work Safety Management Team conducted safety inspections at SG Zhejiang

CASE

Standardization of Systems

As of December 2023, PIZ issued a total of 41 standardized documents in 13 aspects of work safety management, including safety investment, laws and regulations, safety management system, education and training, production equipment and facilities, operation safety, hidden hazard identification and management, major hazard source monitoring, emergency rescue, accident reporting, performance evaluation and continuous improvement, etc.. Building on these standardized documents, PIZ adopted forms such as induction trainings, weekly/quarterly meetings, electrocution drills, fire drills to promote knowledge and emergency plans to employees, in order to enhance employees' awareness of work safety and improve their emergency handling capabilities.

Minimizing Occupational Health Risks

SGG and its subsidiaries focus on occupational health issues during operations, actively establishing a complete occupational health management mechanism. By implementing a variety of measures such as regular testing of occupational disease hazards, current evaluation of occupational health risks, sufficient distribution of labor protection supplies, occupational health checkups, notification of occupational disease risks at workstations, occupational health trainings, specialized inspections, and automation upgrading, we effectively safeguard the safety and health rights of employees, to create a healthy, safe and comfortable working environment.

As of the end of the reporting period, SGG has obtained the ISO 45001:2018 Occupational Health and Safety Management System Certification, covering all branches and subsidiaries with manufacturing capacity.

CASE

Optimization of Production Environment

• SG Zhejiang carried out a project for the construction and installation of dust removal equipment and pipelines, and adopted dust collectors in its workshops. The project was completed and put into operation in October 2023. It passed the third-party environmental testing, with operation results in line with the design requirements, significantly improving the working environment of workshops.



•SG Zhejiang dust removal equipment installation project

· PIZ continues to monitor the results of dust and noise testing, two major occupational hazards during production processes, constantly increasing detection spots and adopting improvement measures in accordance with production adjustments. In 2023, the Monitoring Report of Sanitary Environmental Hazardous Factors in Workplaces indicated that the dust and noise testing data, while meeting the relevant national requirements, had decreased to varying degrees compared to the previous year.



SG Zhejiang conducted monthly specialized inspections and regular trainings on occupational health issues, guiding employees to improve their awareness of occupational health and safety, and to strengthen the prevention and control of occupational diseases.

Enhancing Emergency Management

To ensure rapid response, effective disposal, prevention of accidental injuries and reduction of accidental costs in case of emergencies, SGG and its subsidiaries formulated emergency plans and the Emergency Management System, comprehensively enhanced emergency handling capabilities, by deploying emergency materials reserve, conducting safety drills for electrocution accidents, fires and other emergency scenarios, setting up emergency rescue teams, and carrying out first aid trainings.

CASE

Establishment of the Emergency Plan Management System

PIZ utilized the three tools of "emergency plan, rescue teams and material reserve" to strengthen emergency management.

· **Emergency plan:** PIZ established the Emergency Plan Management System for possible hazards arising from extreme weather, geological disasters and production, and carried out emergency drills for scenarios like electrocution accidents and fires, to improve employees' safety awareness and their emergency handling capabilities.

· **Rescue teams:** PIZ assigned functions and allocated personnel for its rescue teams, ensuring sufficient manpower for emergency rescue operations, enabling orderly evacuation, rescue and emergency control. The rescue teams took trainings focusing on the hazards and characteristics of major accidents, and emergency rescue knowledge, to be equipped with solid basic skills for handling various types of emergencies.

· **Material reserve:** in accordance with the Emergency Plan Management System, PIZ prepared emergency supplies, kept inventory ledgers and conducted regular inspections to ensure sufficient supplies in reserve for use in accident investigation, personal safety and emergency medical care in case of emergencies.

CASE

Enhancement of Emergency Response Capability

To promote awareness of heat stroke prevention and equip employees with basic first aid knowledge and skills, SG Zhejiang invited experts from the Emergency Center of the First People's Hospital of Taizhou City on July 14, 2023, to carry out the Safety Training on Heatstroke Prevention and First Aid for the whole workforce. By popularizing knowledge on heatstroke prevention and first aid methods of cardiopulmonary resuscitation (including cardiac compression, opening airway, artificial respiration, and the use of AED), this training greatly improved employees' ability of self-rescue and mutual assistance in case of emergencies.



·SG Zhejiang conducted the safety training on Heatstroke Prevention and First Aid

3.4 Protect Intellectual Property Rights

Enhancing Emergency Management

As an innovative enterprise, SGG strived for intellectual property protection and clarified the management process. During the reporting period, SGG intensified the publicity and education of intellectual property rights, and invited experts to carry out training for the employees, so as to deepen their awareness of intellectual property protection.

By the end of the reporting period, SGG and its subsidiaries have obtained a total of 389 valid patents, including 27 invention patents, 277 utility model patents, 82 design patents, and 3 software copyrights. In 2023, 27 new patent applications were filed, including 13 invention patents, 5 utility model patents, 5 design patents, and 4 software copyrights. SGG actively pursued actions to defend its rights against patent infringement, and conducted multiple evidence collection and filed lawsuits against the counterfeit products in the market. In 2023, a total of 9 cases of patent infringement related to household machine products and 1 case related to industrial machine products were successfully resolved through anti-counterfeiting and rights protection actions.

SGG attaches great importance to trademark protection and brand building, and assures that each brand and its corresponding trademark have completed the registration process worldwide, to obtain legal ownership and protection of exclusive brand names and trademarks in compliance with laws. As of the end of the reporting period, SGG and its subsidiaries owned a total of 14 registered trademarks.

# Appendix

## Key Performance

Table 1 Social and Economic Contribution Value

Total assets	RMB million	5,895.64
Total loans	RMB million	1,141.77
Operating income	RMB million	3,790.08
Staff cost	RMB million	885.35
Interest expense	RMB million	51.39
Taxes	RMB million	195.95
Total external donations	RMB million	0.21
Social value contributed per share (by weighted average number of shares)	RMB	1.72

Table 2 Compliance Governance

Number of executive directors on the board	person	3
Number of non-executive directors on the board	person	6
Number of male directors, supervisors and senior managers	person	12
Number of female directors, supervisors and senior managers	person	3
Number of employee representatives among directors, supervisors and senior managers	person	1

Table 3-1 Resource and Energy Consumption (Domestic)

Total water consumption	Ton	67,675.00
Total electricity consumption	kWh	7,588,308.00
Total gasoline consumption	Liter	91,693.98
Total print paper consumption	kg	5,196.00
Coverage of video conference equipment	%	>80

\* Note: The statistics cover the headquarters of SGG, SG Zhejiang, PZ, and Richpeace.

Table 3-2 Resource and Energy Consumption (Overseas)

Total water consumption	Ton	22,726.00
Total electricity consumption	kWh	9,765,008.00
Total gasoline consumption	Liter	62,045.00
Total print paper consumption	kg	9,009.00
Coverage of video conference equipment	%	≥75

\* Note: The statistics cover the headquarters of Dürkopp Adler, DARO (DA Romania), and MBO (MINERVA BOSKOVICE, Czech Republic).

Table 4-1 Waste Management (Domestic)

Total amount of non-hazardous waste produced	Ton	898.93
Total amount of hazardous waste produced	Ton	105.54
Kitchen waste	Liter	73,001.00
Harmless disposal processing rate	%	100

\* Note: The statistics cover the headquarters of SGG, SG Zhejiang, PZ, and Richpeace.

Table 4-2 Waste Management (Overseas)

Total amount of non-hazardous waste produced	Ton	1,204.91
Total amount of hazardous waste produced	Ton	141.28
Kitchen waste	Liter	161,740.00
Harmless disposal processing rate	%	≥95

\* Note: The statistics cover the headquarters of Dürkopp Adler, DARO (DA Romania), and MBO (MINERVA BOSKOVICE, Czech Republic).



Table 5-1 Domestic Employees

Total number of employees	person	1,717
Employment contract signing rate	%	100
Number of contracted employees	person	1,607
Number of dispatched employees	person	110
Number of male employees	person	1,210
Number of female employees	person	507
Number of employees under 30 (excluding 30)	person	306
Number of employees aged 30-50	person	1,120
Number of employees over 50 (excluding 50)	person	291
Number of employees with bachelor's degree or above	person	390
Number of employees with college degree	person	541
Number of ethnic-minority employees	person	28
Number of foreign employees	person	19
Number of disabled employees	person	15
Number of new employees	person	280
Total number of employee turnover	person	374
Employee turnover rate	%	21.78
Number of paid vacation days per employee	day	6.87

Table 5-1 Domestic Employees

Total number of employees	person	1,851
Employment contract signing rate	%	100
Number of male employees	person	1,518
Number of female employees	person	333
Number of employees under 30 (excluding 30)	person	228
Number of employees aged 30-50	person	826
Number of employees over 50 (excluding 50)	person	797

Number of new employees	person	227
Total number of employee turnover	person	261
Employee turnover rate	%	14.10
Number of paid vacation days per employee	day	26.91

Table 6-1 Domestic Employee Training

Number of training sessions	session	85
Number of employees trained	person	817
Training expenditure	RMB	149,323
Per capita expenditure	RMB	180.1
Percentage of employees receiving regular performance and career appraisals (male)	%	100
Percentage of employees receiving regular performance and career appraisals (female)	%	100

Table 6-2 Overseas Employee Training

Number of training sessions	session	173
Number of employees trained	person	1,244
Training expenditure	EUR	182,028
Per capita expenditure	EUR	146.3
Percentage of employees receiving regular performance and career appraisals (male)	%	85.1
Percentage of employees receiving regular performance and career appraisals (female)	%	85.6