

2016 年度社會責任報告

Corporate Social Responsibility Report 2016



濰柴動力股份有限公司

WEICHAI POWER CO., LTD.

Summary of the report

Subject of the report:

The subject of the report is “Weichai Power Co., Ltd. (000338.SZ, 02338.HK)”. Unless otherwise specified in the main text, “we”, “the Company”, “Weichai Power” and “Weichai” shall be taken as its short names.

Time frame of the report:

1 January to 31 December 2016, with some contents exceeding the aforementioned time frame.

Scope of the report:

The report primarily covers the performance and practice of social responsibility of Weichai Power for the year 2016. It concerns the disclosures of performance in key responsibilities and focuses on sustainability and continuous improvement of corporate social responsibilities. The report also covers the major controlling subsidiaries of the Company, including KION Group AG (“KION”), Shaanxi Heavy-duty Motor Company Limited (“Shaanxi Heavy-duty Motor”) and Shaanxi Fast Gear Company Limited (“Fast Gear”). We plan to enlarge the scope of disclosure gradually in the future in order to cover more subsidiaries.

Publication cycle of the report:

The corporate social responsibility report is published along with the annual report.

Past reports:

As of now, the Company has already issued its corporate social responsibility report for 9 consecutive years.

References used in the preparation of the report:

“The Environmental, Social and Governance Reporting Guide” of The Stock Exchange of Hong Kong Limited (“HKEx”)

“The Guidelines for the Standardised Operation of Companies Listed on the Main Board” of Shenzhen Stock Exchange (“SZSE”)

“G4 Sustainability Reporting Guidelines” of Global Reporting Initiative (GRI)

“ISO 26000: Guidance on Social Responsibility” of International Organisation for Standardization

“Guidelines on Preparation of Corporate Social Responsibility Report for Corporations in China” of CSR Centre of the Department of Economics of the Chinese Academy of Social Sciences

“Guideline on Social Responsibilities of Industries” of the China Federation of Industrial Economics

“Guidelines on Fulfilling Social Responsibility by Central Enterprises” of the State-owned Assets Supervision and Administration Commission of the State Council

Internal review of the report:

The report complies with the relevant guidelines of HKEx and SZSE and was considered and approved at the fifth meeting of the fourth session of the board of directors of Weichai Power Co., Ltd.

Access of the report:

The report is issued in printed and electronic versions. You may visit the “Investor Relations” section in the Company’s website www.weichaipower.com for accessing the electronic version of the report. Please call 86-0536-2297072 if you need a printed version.

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Chairman's Statement

The year of 2016 was the first year of Weichai's thirteenth Five-year Strategic Planning, and also a year with both opportunities and challenges. In this year, the global economy recovered slowly, and the Chinese economy was about to revive. As competition within the industry intensified, the Company's operating pressure also further increased. Facing the sophisticated and severe macro-economic situation and arduous duties of reformation and development, the Company was committed to the main working themes of the three major campaigns of "Cost reduction, loss elimination and fostering innovation", "3+1" formula and the thirteen battles, insisting to drive the operations of both products and capital, strictly adhering to the notion of reforms and innovations, fostering structural adjustments and comprehensively utilizing the full potential of internal growth. All cadres and staff are concerted and work with passion to achieve stable and healthy development. In 2016, there was massive improvement in both the overall quality of operation and profitability of the Company and the overseas business development has generally shown a positive sign, particularly for KION which has maintained stable development and become one of the important sources of profit of the Company. The Company further increased its shareholding in KION and maintained its position as the largest shareholder. Over the past year, the Company commenced work in all aspects and achieved improvement and breakthrough in corporate governance, management of market value, product research and development, and operation of production; hence showcasing a satisfactory result to the society, government, shareholders and staff.

Be grateful for sources of benefit and give back to the society. The achievements of the Company over the past year benefited from the direction of the national policies, relied on the dedication and efforts of all staff members, and were made possible with the trust and support from our customers and business partners. Care and support from the public are vital elements for the development of the Company as it comes from the society. Hence the Company should give back to the society, shareholders, staff, customers and business partners. These are our responsibilities and obligations, as well as our consistent philosophy and pursuit.

In 2016, the Company upheld the mission of development of "Green Power, International Weichai", and adhered to the strategic target of "becoming a sustainably developing world-leading international industrial equipment manufacturing group with core technologies". We took a market-oriented approach and focused on producing competitive products in terms of 3 key aspects: cost-effectiveness, technology and quality. We further drove the innovation of control mechanism, comprehensively implemented the target cost management, created the advantages from differentiation of costs, and actively addressed the trend of vertical integration of the industry. We insisted on moving steadfastly towards high-end development and actively implemented innovation. New products represented by WP9H/WP10H, M26.3 and all-series off-road stage III products emerged in large numbers, while the high-end engine projects of WP13, WP17 and D Series were comprehensively launched which would meet the upgraded requirements of emission regulations, continue to lead the trend of industrial development and strive to become the

best in the world. The industrialization of new-energy power system of passenger vehicle was still progressing, while the industrial pattern was further optimized. To respond to the supply-side structural reform policies by the government, the Company actively eliminated the old production capacity, and contributed to establishing an “Energy-saving” and “Environmental-friendly” enterprise and a beautiful China. The professionalized creativity space of power assembly for truck of the Company was selected in the first round of the demonstration list of national professionalized creativity space and developed an open and shared “innovative and entrepreneurial” platform. We built our smart manufacturing base infrastructure at a steady pace, and further fostered the integration of informatization and industrialization. The intelligent manufacturing project, “the Construction of high-end diesel engine intelligent factory with smart equipment and industrial big data” was subsidized by the special funds of the state at a total capped amount of RMB90.00 million. The demonstrative construction of the Sino-German cooperation in high-end hydraulic parts smart factory was selected as a pilot demonstration project and became a pioneer in smart-manufacturing industry that injected new vibrant forces to the transformation and upgrade of the machinery manufacturing industry. Linde Hydraulics completed the factory planning in China and Germany, which highlighted the advantages of “European quality + Made in China” crossover. We carried forward “One Belt and One Road” and actively developed the international cooperation in production capacity. Localized manufacturing in India, Myanmar, Ethiopia and Belarus were steadily developed and have raised the global reputation and influence of China’s manufacturing brands. On our people-oriented notion, we continually optimized our staff services support system so that the staff could enjoy more benefits. The chairman of the Company insisted on visiting the front-line with the management team and address the concerns of our staff. We continually optimized the appraisal and incentive mechanisms, broadened the career path of staff, and established a platform for staff members to learn, improve and realize their value, so that they could fully share our corporate achievements. We actively engaged in charitable activities and business, and dedicated to voluntary services, targeted poverty alleviation, education donations and subsidies, as well as promoted positive atmosphere to the community. We sought a win-win situation of cooperation with both the upstream and downstream enterprises of the industrial chain, to maintain good relationship with the community and actively create a harmonious and healthy business environment.

The publication of this corporate social responsibility report has summarized the efforts of the Company made in performing its social responsibilities in 2016. We wish to further reinforce our social responsibility, promote the sharing of benefits among the Company and the community especially the stakeholders, in order to improve mutual understanding and recognition. By performing the corporate social responsibilities in a better way, we could contribute more to the development of economy and society.

Chairman and Chief Executive Officer: Tan Xuguang
Weichai Power Co., Ltd.

Company Overview

Weichai Power Co., Ltd. (HK2338,SZ000338) was established in 2002 by Weichai Group Holdings Limited (as the lead promoter) together with both the onshore and offshore investors. We are the first company in Chinese internal combustion engine industry to be listed in the H shares market of Hong Kong, and also the first Chinese company to return to mainland from overseas for the re-listing in A share market. The Company has total assets of RMB164.0 billion, and the total number of staff in the world is 69,800. In 2016, the Company recorded revenue totaling RMB93.18 billion, and total profit amounted to RMB4.64 billion.

The Company is dedicated to the operational strategy of driving the operations of both products and capital, developing products with our three core competencies—cost-effectiveness, advanced technologies and superior quality, developing a new pattern of synergetic development among four major business segments including powertrains (including engines, gear boxes and axles), complete vehicles, hydraulic control and automobile components and forming the most comprehensive and competitive industrial chain across China's automobile industry. With the core technologies and products in the construction machinery industry, the Company has become one of the vehicles and equipment manufacturing conglomerates in China with the best general strengths.

Currently, the Company has established a production base of all power series in Weifang, a production base of heavy-duty vehicle and transmission system in Xi'an, a production base of high-power engines and light-duty vehicles in Chongqing, a production base of automotive electronics parts and components in Zhuzhou, a production base of power of light-duty and super light-duty vehicles in Yangzhou. In particular, brands like "Weichai Power Motor", "Fast Gear Transmissions", "Hande Axle", "SHAC" are in the leading and dominant position in China and hence giving rise to a brand-based conglomeration effect. On 3 September 2012, the Company entered into a strategic cooperation agreement with the Germany-based KION Group, the leading manufacturer of industrial forklift trucks and hydraulic technology in the world, symbolizing that our core technology has reached the world-class level, and thoroughly remedying the long-term reliance on imported high-end hydraulic products in China.

The Company has a modern national corporate technological centre, the key laboratory for testing the reliability of internal combustion engines, and top-class product testing centre in China. The Company has established a "post-doctoral program" and set up research and development centre in the US, Europe, and Weifang, Shanghai, Chongqing, Yangzhou and Xi'an in China, to ensure the corporate technological level always maintain at level close to the forefront in the world. Relying on the world-leading research and development platform, the Company has undertaken and participated in 22 national "Projects 863", the technology support program, the international co-operation program, scientific experimental projects and 7 major projects at provincial level, awarded 1,437 licences and patents of products and technologies, held and participated in the formulation of 45 national and

industrial standards. Meanwhile, the vehicle-type diesel engines with China IV and China V standards have completed certification of emission. Our self-developed ECU electrical control system was successfully supplied for the natural gas engines. WP13 high-powered heavy-duty engines for commercial vehicles were launched, indicating a massive boost in enterprises' ability in self-developed innovation.

The Company received numerous state class major awards. In 2007, the Company was awarded the National Quality Award (全國質量獎). Our "WP10/WP12 series heavy-duty high speed engines and key technologies" was awarded the grand prize of scientific and technological progress of China Machinery Industry (中國機械工業科技進步特等獎), which has changed the history that no Chinese internal combustion machine enterprises has ever won such award before. In 2013, our "Key technology of heavy-haul high-speed diesel engine and industrialization" project was awarded the Second Class Award of National Science and Technology Progress Award (國家科技進步二等獎), breaking the technology monopolies of heavy-duty high-speed diesel engines from overseas.

Weichai Power is the first company to qualify the GJB9001B and ISO/TS16949 Quality Management System among the domestic companies in the same industry. It has established a service network consisting of over 5,000 special repair service centres and has set up 243 overseas repair stations. Products were sold to more than 110 countries and regions, including Russia, Iran, Saudi Arabia, Vietnam, Indonesia and Brazil.

Tan Xuguang, the Chairman of the Company, was consecutively appointed as a Representative of the Tenth, Eleventh and Twelfth National People's Congress of the PRC and was honored the "National 1st May Labor Medal (全國五一勞動獎章)", "National Labor Model (全國勞動模範)", "National Outstanding Entrepreneur in Innovation (全國優秀創業企業家)", "Top 10 Financial Leaders (十大財富領袖)", "the Gold Award of the 4th Yuan Baohua Enterprise Management (第四屆袁寶華企業管理金獎)", the "Meritorious Entrepreneurs of Equipment China (裝備中國功勳企業家)" and "2011 Top Ten Innovative People in China (2011年中國十大創新人物)". He currently serves as President of Chairmen Board of the China Federation of Industrial Economics (中國工業經濟聯合會), the vice chairman of the China Enterprise Confederation/China Enterprise Directors Association (中國企業聯合會/中國企業家協會), the vice chairman of China Machinery Industry Federation (中國機械工業聯合會) and the chairman of China Internal Combustion Engine Industry Association (中國內燃機工業協會).

Weichai Power takes "Green Power, International Weichai" as mission, "Customers' Satisfaction" as principle to form corporate culture of "responsibilities, communication and inclusive". By virtue of our complete vehicles, machineries and power system, the Company has a corporate vision of becoming a leading international industrial equipment enterprise group with core technologies and sustainable development.

◎ Social organizations joined by the Company

This includes the status of chairman of China Internal Combustion Engine Industry Association, status of deputy chairman of China Enterprise Confederation, status of deputy chairman of China Association of Automobile Manufactures, status of deputy chairman of China Machinery Industry Federation and the status of vice chairman of the China Machinery Enterprise Management Association.

◎ Honours received in 2016

In 2016, by virtue of excellence management and outstanding results, the Company has won numerous awards. The major awards are as follows:

8 January

The Ceremony of the State Science and Technology Awards (國家科學技術獎勵大會) was held in the Great Hall of the General Assembly in Beijing. Our “Key Technologies and Application in Low-noise Design of Diesel Engines (柴油機低噪聲設計關鍵技術及應用)” was awarded the Second Class Award of National Science and Technology Progress Award (國家科技進步獎二等獎). The project was jointly completed by three organizations including Tianjin University and Weichai

18 January

“Discovery Trust – Truck owners Survey and Appraisal (發現信賴—中國卡車用戶調查暨評選活動)” organized by chinatruck.org (中國卡車網) was successfully completed and an award ceremony was also held. Weichai’s WP3 and WP12 engines were selected as “2016 China-truck Users’ Most Reliable and Efficient Light-duty Engines (2016 年度中國卡車用戶最信賴的高效輕型發動機)” and “2016 China-truck Users’ Most Reliable Powerful Heavy-duty Engines (2016年度中國卡車用戶最信賴的強勁重型發動機)”, respectively. Shaanqi Delong New M3000 and Delong X3000 assisted by Weichai Golden Industrial Chain (濰柴黃金產業鏈) received two major awards of “2016 China-truck Users’ Most Reliable Towing Vehicles (2016 年度中國卡車用戶最信賴牽引車)” and “2016 China-truck Users’ Most Reliable Trucks (2016年度中國卡車用戶最信賴載貨車)”. Weichai’s subsidiary Fast Gear was awarded “2016 China-truck Users’ Most Reliable Transmissions (2016 年度中國卡車用戶最信賴變速器)”

21 January

“Best Innovator China 2015 Award Ceremony (2015 年中國「最佳創新企業」評選頒獎典禮)” co-organized by A.T. Kearney, an internationally renowned management consulting firm, and Bloomberg Businessweek, Chinese Edition was held in Shanghai. By virtue of excellent results in innovation and its implementation, Weichai Power was awarded “Most Innovative Industrial State Owned Enterprise (最具創新的國有工業企業)”

- 29 March** The 2nd China Quality Award Ceremony (第二屆中國質量獎頒獎大會), representing the Chinese government's most prestigious award in quality section, was held in the Great Hall of the General Assembly in Beijing. The organization and individual lists of the 2nd China Quality Award and the nomination award of China Quality Award were announced in the ceremony, of which Weichai's "Full-chain Operation System (全鏈條運營系統)", a quality control method, was recognized by the evaluation committee and awarded the nomination award in the Chinese government's presentation of award to enterprises with outstanding quality
- 15 April** "2016 Conference on Scientific Development of Chinese Enterprises and Advocating Honesty in Business Operation (2016中國企業科學發展大會暨誠信盛典)" co-organized by several organizations including China Cooperative Trade Enterprises Association (中國合作貿易企業協會) and China Enterprise Reform and Development Society (中國企業改革與發展研究會) was successfully held in Beijing. By virtue of perfect credit environment, excellent credit ability and good credit performance, Weichai Power was honored the "Top 500 trustworthy enterprises in China (中國企業誠信500強)", "Top 100 trustworthy manufacturing industry in China (中國製造業信用100強)" and "Top 100 trustworthy listed companies in China (中國上市公司信用100強)"
- 12 May** The list of the tenth session of the Top 500 Chinese Brand 2016 (2016年第十屆中國品牌價值500強) was announced, of which Weichai Power with the brand value of RMB43.336 billion was in the Top 100 List and ranked 64th
- 27 May** The fifth session of Trustworthiness Summit Forum of Listed Companies in China (第五屆中國上市公司誠信高峰論壇) convened in Beijing. By virtue of stable operational results, excellent corporate governance as well as good value management, Weichai Power was honored 3 major awards, namely "2016 Top 20 Listed Companies in equipment manufacturing industry (2016裝備製造業上市公司20強)", "2016 Top 100 Trustworthy Enterprises of Chinese Listed Companies (2016中國上市公司誠信企業百佳)" and "Best Investment Value Award for Listed Companies (最具投資價值上市公司)"
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22 June	World Brand Summit (世界品牌大會) organized by World Brand Laboratory (世界品牌實驗室) was held in Beijing, during which the ranking of 2016 (the 13th) China's 500 Most Valuable Brands (2016年(第十三屆)「中國500最具價值品牌」排行榜) was released. Weichai Power with the brand value of RMB23.386 billion was in the list
10 July	The 2016 Chinese A-Share Listed Companies Innovation Index Conference and the first session of Chinese Listed Companies Innovative Leadership Forum (2016中國A股上市公司創新指數發佈會暨首屆中國上市公司創新領袖論壇) co-organized by Zijin Media Think Tank (紫金傳媒智庫) and Chinese Securities Journal (大眾證券報) was held in Nanjing, during which the list of Top 500 Innovation Capability of Chinese A-Share Listed Companies (中國A股上市公司創新能力500強榜單) was released, which was the first innovation capability report of listed companies in China with the adoption of the Big Data research. By virtue of excellent innovation ability, Weichai Power was awarded "2016 Zijin Innovation Award for the Chinese A-share Listed Companies (2016中國A股上市公司紫金創新獎)"
13 July	The Fortune from the US announced the "Top 500 Companies in China 2016 (2016年中國500強排行榜)" list. By virtue of excellent operational results, Weichai Power was selected in the list and ranked 79th
19 July	Standardization Administration of China (國家標準委辦公室) announced the evaluation result of "2016 China Standards Innovation and Contribution Award (2016年中國標準創新貢獻獎)", of which the state standard of "GB28239-2012 the limit of fuel-consumption rate and oil – consumption rate of non-road diesel engine and testing procedures (GB28239-2012非道路用柴油機燃料消耗率和機油消耗率限值及試驗方法)" formulated by Weichai Power was awarded the third class award of "2016 China Standards Innovation and Contribution Award (2016年中國標準創新貢獻獎)"
20 September	"2016 International Forum on Internet Combustion Engine Advanced Manufacturing and 2016 Dynamic Pioneer (2016內燃機先進製造國際論壇暨2016動力先鋒榜)" co-organized by China Automotive News (中國汽車報社) and China Internal Combustion Engine Industry Association (中國內燃機工業協會) was held in Beijing. Weichai's WP13 diesel engines were selected in the 2016 Dynamic Pioneer (2016動力先鋒榜)

September	The Office of the first “Governor Cup” Industrial Design Contest of Shandong Province Organizing Committee (山東省首屆「省長杯」工業設計大賽組委會辦公室) announced the list of winners of the first “Governor Cup” Industrial Design Contest, of which Weichai Power’s WP13 and WP9 diesel engines was awarded the golden prize of the contest
6 December	2016 China Automotive Parts and Components Development Forum and the 13th China Auto Parts Suppliers 100 Best Award Ceremony (2016中國汽車零部件發展論壇暨第十三屆全國百家優秀汽車零部件供應商頒獎典禮) organized by China Automotive News was held in Beijing Auto Museum, during which the evaluation result of the 13th China Auto Parts Suppliers 100 Best was announced. Weichai Power and its subsidiary Fast Gear were both selected to the list, among which Weichai Power was honored the Excellent Engine Supplier (優秀發動機供應商), while Fast Gear was honored the Excellent Transmission System Supplier (優秀傳動系統供應商)
8 December	“The First Intelligent Finance International Forum and the fifth annual ceremony of Lead the Chinese Advance for the financial field (首屆智能金融國際論壇暨第五屆金融界領航中國年度盛典)” organized by JRJ.com was held in Beijing. During the ceremony, the list of “the Annual Review of Lead the Chinese Advance for the financial field 2016 (2016金融界•領航中國年度評選)” was released, at which Weichai Power was honoured the “‘Outstanding brand award’ of Lead the Chinese Advance 2016 (2016年領航中國「傑出品牌獎」)”
8 December	The First China Military and Civil Technology Innovation & Application Contest co-organized by the Ministry of Industry and Information Technology, the State Administration for Science, Technology and Industry for National Defence, and All-China Federation of Industry and Commerce came to an end. After fierce competition, all three projects of Weichai entered the finals, among which “the innovation of self-developed ECU products of Weichai high pressure common rail diesel engine (濰柴高壓共軌柴油機自主ECU產品開發)” received the bronze prize, while “the development of oil-hydraulic hybrid retarder (油液混合動力液壓緩速器開發)” and “the development of hybrid system of commercial vehicle (商用車用並聯式混合動力系統開發)” received outstanding awards

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- 15 December** Shandong Provincial Development and Reform Commission, the Organization Department and Department of Science and Technology jointly released the first round of 15 Top 100 Innovative Pilot Enterprises (創新百強試點企業) and Weichai Power was in the list
- 17 December** The twelfth “Gold Round Table Forum” and “Gold Prize of Round Table” Award Ceremony of Chinese Boards of Listed Company (第十二屆中國上市公司董事會「金圓桌論壇」暨「金圓桌獎」頒獎盛典) organized by Directors & Boards Magazine (《董事會》雜誌) was held in Beijing. Weichai Power was awarded “Directors & Boards Governance Special Contribution Award (董事會治理特別貢獻獎)”. The Company was selected in “Gold Prize of Round Table” for 6 consecutive years
- 27 December** “2016 Summary Work Meeting for Intensified Integration of Informatization and Industrialization (2016年度兩化融合深度行總結大會) hosted by Shandong Province Integration of Informatization and Industrialization Promotional Centre (山東省兩化融合促進中心) and co-organized by the Shandong Branch of China Construction Bank was held in Jinan City, during which Weichai Power was awarded the “2016 Shandong Province’s Outstanding Enterprise in Integration of Informatization and Industrialization (2016年度山東省兩化融合優秀企業)”
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Overview of Corporate Social Responsibility

In 2016, the Company steadfastly upheld a “duty-based” notion and adhered to its corporate mission of “Green Power, International Weichai”, shouldering the responsibilities of revitalizing the equipment manufacture industry in China, providing green power and fabricating high-quality products. It moved towards high-end development steadfastly, striving to become the best in the world, integrating social responsibilities into the operations development of the Company, actively creating an enterprise characterized as “minimizing the use of resources” and “being environmentally friendly”, and seeking growth and development of the enterprise in harmony with its staff members, society and the environment.

I. Objectives and advanced philosophy of fulfilling social responsibility

Corporate Culture	Responsibilities, Communication and Acceptance
Corporate Core Value	Duty-based
Corporate Mission	Green Power, International Weichai
Objectives	We aim at customers’ satisfaction
Visions	By virtue of our complete vehicles and machineries, and power system, the Company has a corporate vision of becoming a leading international industrial equipment enterprise group with core technologies and sustainable development
Philosophy of Quality	Quality is in our hands
Quality Policy	Aim at customer’s satisfaction, full team participation for continuous improvement, building the famous “Weichai” brand
Philosophy of Safety/ Environmental Protection	Comply with the law, continue to develop in a harmonious way, prevention-oriented, adhering to the notion of “People-oriented”, use less energy and cut pollution, implement clean production, building Weichai as an international green brand

II. System construction

1. Stringent quality control for better product quality

Products are the foundation of an enterprise and quality is the critical element in an enterprise's life. The Company genuinely stressed quality management and strictly implemented the quality requirements under ISO/TS16949 and GJB9001B, continued to improve its quality management system and processes, formulated a quality duty tracking system for the entire lifecycle of products and all-process quality and safety and risk control system based on advanced methods including APQP, FMEA and SPC, thereby gradually formed a unique WQS quality management system, continually uplifting the level of quality management. In 2016, the Company attained 100% passing rate in all provincial sample inspections and commissioned inspections, and had no material incidents on quality or safety. The Company's quality control was fully endorsed by the community and had won a number of accolades including China Quality Award-Nomination Award (中國質量獎提名獎), China Outstanding Quality People (中國杰出質量人), Quality Benchmarking Enterprises in China (中國質量標杆企業), China Export Quality & Safety Demonstration Enterprises (中國出口質量安全示範企業) and Benchmarking Enterprise with Outstanding Quality and Integrity in China (全國質量誠信標杆典型企業).

First, to enhance the system of quality management. We adopted a down to earth approach in optimizing and enhancing the internal indicators system and systematical processes continuously, and established an all-process quality control system covering the entire lifecycle of a product including procurement, research and development, manufacturing and sales. We worked on forming quality foundation through monitoring and reviewing our management system and reviewing certificate renewal, thereby ensuring the effective operation of system. **Second, to strengthen the quality of management.** We conducted quality control at the supplier level, realizing the uplift of quality control with suppliers synergistically; further enhance the implementation of error-proofing technology, realizing the optimization of quality and cost; commenced quality big data collection and analysis making use of IT means, thereby providing valid input for quality prevention. **Third, to implement quality enhancement project.** We started to, from the perspective of the whole value chain, formulate and implement quality enhancement project according to market feedbacks and customers' demands, and implemented closed-loop management completely, thereby significantly enhanced the quality of products. **Fourth, to strengthen the construction capability of quality teams.** Taking into account our business demands, quality training programmes have been initiated continuously in order to uplift the overall quality of all the Company's quality staffs through a combination of theory learning, academic exchange and hands-on training etc. **Fifth, full-team participation in quality enhancement activities.** We strengthened the instillation of philosophy of quality and implemented incentive policies, introduced mechanisms such as wages for innovations and special bonuses for lean improvement, thereby encouraged and guided its staff members to engage in all-rounded enhancements by working around the enhancement of management processes, uplifting of working efficiency, uplifting of craftsmanship level and reduction of costs of design.

2. Energy-saving and emission reduction, in advocacy of green operations

Upholding the notion of “energy saving, emission reduction and green production”, the Company, guided by the philosophy of lean management, continued to uplift the level of energy usage and management of the enterprise by leveraging upon means such as technological innovations and energy-saving on technical front, and thus gained sound economic and social benefits. **First, we enhanced energy management system.** Energy management system that is in compliance with the national standards is gradually completed and is in full operation, thereby formed a long term energy saving mechanism which integrates the energy saving, law compliance and standard implementation mechanism, all-process energy management mechanism, energy saving technology improvement mechanism and energy saving culture construction mechanism. **Second, we continuously deepened energy-saving innovations.** We insisted on promoting energy saving through technology innovations, commenced energy saving technological transformation projects such as sewage plant expansion project, car-testing circulating water system renovation, energy consumption equipment census and elimination, thereby reducing the energy consumption for gas, electricity and heat and uplifted the environmental protection level. **Third, we created our sample base for demonstrating circular economy.** We concluded and refined the Company’s circular economy standard development model according to the construction requirements of national and provincial circular economy demonstration enterprises, actively constructed circular economy demonstration base, further demonstrated the demonstration and guidance effect of the Corporate’s circular economy development among the industry players in the PRC, thereby enhance the Corporate’s impact.

In 2016, we posted consolidated energy wastage of 0.032 tons standard coal per 10 thousand Renminbi of production value. Each energy wastage benchmark was at industry-leading position in the PRC market. We also obtained accolades in Weifang City over the years, including “Advanced Enterprise in Energy Saving” (節能先進企業), “Advanced Enterprise in Water Saving Promotion” (節水宣傳先進企業) and “Circular Economy Demonstration Education Base”(循環經濟示範教育基地) and so forth.

3. Regulated management to secure safe production

It is of paramount importance to ensure safety. Adhering to the safety notion of “Caring for people”, the Company solidified the development concept of safety development and earnestly deployed various provisions of the Law of the People's Republic of China on Work Safety, firmly executed the responsibility system for safety in production and various regulations of safe production and actively constructed a long-term safe production system, thereby securing safe production throughout the year.

First, we strengthened the red-line awareness and solidified safety foundation. Documents specifying safe production responsibilities are signed at each hierarchical level to delegate safety responsibility to staff of different hierarchy and department. Indicators for safe production were included within the scope of appraisals, and the mechanism enabling veto by one management vote was firmly implemented, further strengthened the red-line awareness and solidified the management foundation of base level staff. **Second, we stepped up our supervision and inspection to eliminate hidden threats to safety.** We established a long-lasting screening, identifying and controlling of work safety accident hazards system, and organized safety inspection such as seasonal safety inspection, project safety inspection, pre-holiday safety inspection, inspection of implementation of safety accountability. We identified and inspected at least 260 items of hidden threats to safety and immediately carried out remedial measures to a satisfactory level, thereby securing stable safe production throughout the year. **Third, we commenced the identification and evaluation of environment factors and dangerous sources.** We commenced the identification and evaluation according to the system requirement, established a list of the Company's significant environmental factors and significant dangerous sources, and formulated reasonable management measures to ensure effective control. **Fourth, we commenced themed education to raise safety awareness.** Centered on the theme of “Safe Production Month”, we organized and commenced various activities such as education training, competition and exchange, and emergency drills, thereby raising our staffs' awareness of safe production and skills.

4. Giving back to society and enforcing social responsibilities

Adhering to the notion of “Developing the economy and service the community”, the Company goes beyond its own growth to actively perform its social responsibilities to give back to the society, spread its positive energy as a corporation and strives to achieve win-win development vis-à-vis the society, gaining recognition from different sectors of the society. **First, we cared about the development of people and fostered employment in society.** The Company insists on employing various outstanding graduates from secondary schools, colleges and technical schools, thus greatly alleviating the employment pressure of the society. At the same time, the cluster effect brought by the corporate’s development has driven the development in surrounding industry and service industry, created numerous employment opportunities. In addition, the Company actively cooperated with higher education institutes to set up education grants for helping outstanding students who live in poverty, thereby contributing to the incubation of talents from those institutes. **Second, we participated in the charity and spread positive energy.** In recent years, the aggregate amount of funds used on social welfare and targeted poverty relief projects reached RMB780 million. We care and support education. We built a number of hope primary schools, commenced the “Golden Autumn Grants” and made the college dreams of our staff’s children who are in difficulties come true; actively participated in disaster relief work and helped the poor and needy; provided free medical consultations for the elderly and health consulting throughout the year, organized employee blood donation and donated a total of 550,000ml blood; keep on innovating new voluntary services through youth volunteer association, building the “Weichai” volunteer service brand. **Third, we protected our staffs’ interests and built a harmonious enterprise.** We shared the fruit of corporates’ development with our staff by offering relatively competitive wage and benefits in local; insist on delivering warmth and health to its staff through visits; care about the development of our staff, organized activities such as cultural lecture for female staff in order to satisfy the individualized development needs of its staff; strengthened the cultural construction and participation, actively organized various interesting cultural activities, thereby greatly enriching the cultural life of our staff.

Corporate Governance

I. Structure of corporate governance

The Company established a sound corporate governance structure for legal persons, which includes General Meeting, the Board, Supervisory Committee and senior management pursuant to the requirements of Company Law, Securities Law, Standard Regulations on Corporate Internal Control and other relevant laws and regulations requirements.

General Meeting is the highest authority of the Company. It performs its duties in accordance with the provisions of regulations such as the Articles of Association and the Rules of Procedure for General Meetings. The convening, holding and proceedings of the general meeting comply with the laws and regulations, thereby ensuring general meetings are conducted effectively and in a regulated manner, and that rational decisions are made and all shareholders, especially minority shareholders, are able to exercise their rights on an equal basis.

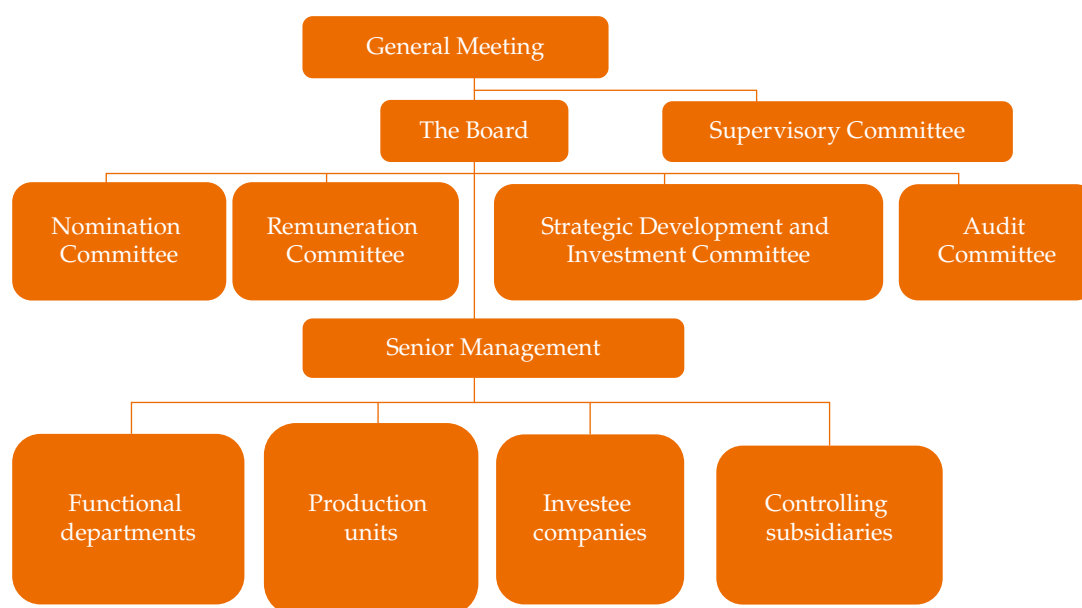
The Board, which is accountable to the General Meeting, comprises of thirteen directors, of which, no less than half of the members are external directors. External directors include the independent directors of not less than one-third of the total number of the Directors. The Directors are diligent and responsible, exercising decision-making powers within their scope of functions and duties in accordance with regulations such as the Articles of Association and Rules of Procedures for the Board of Directors, and are responsible for establishing and implementing an effective internal control system, as well as defending the overall interest of the Company.

The Supervisory Committee, comprising of three supervisors, is accountable to the General Meeting. The supervisors perform their duties diligently in accordance with the regulations of the Articles of Association and the Rules of Procedure for the Board of Supervisors in a stringent manner, check the financial position of the Company regularly, supervise the directors, managers and other senior management to see whether they performed their duties in a legitimate manner and in compliance with the relevant laws and regulations, and express independent opinion.

Senior management is appointed by the Board and is accountable to the Board of Directors. Senior management is responsible for the Company's daily operation and production management, as well as the organization of the implementation of the resolutions of the General Meeting and Board.

The Company has set up a relatively sound corporate management system centered on the Articles of Association, Rules of Procedures for General Meetings, Rules of Procedures for the Board of Directors, Terms of Reference of the Supervisory Committee, Terms of Reference of the Audit Committee, Terms of Reference of the Strategic Development and Investment Committee, Terms of Reference of the Nomination Committee, Terms of Reference of the Remuneration Committee and Terms of Reference of the General Manager in accordance to relevant laws and provisions such as “Company Law” and “Code of Corporate Governance for Listed Companies”, as well as relevant regulations of China Securities Regulatory Commission, Shenzhen Stock Exchange, The Stock Exchange of Hong Kong Ltd., specifies the duties and authorities, working procedures, and obligation ought to be performed by General Meeting, the Board, and each of its specialized committees, supervisory committee and senior management in respect of decision making, execution and supervision, thereby forming a rational and effective mechanism of responsibilities, checks and balances.

II. Organizational structure



For details of corporate governance, please refer to the 2016 annual report of the Company.

Customers

The development of the corporation depends, ultimately, on producing good products. Always adhering to the objective of “customer satisfaction” and the mission of “Green Power, International Weichai”, the Company strives to develop the products with the most competitive cost, core technology and quality.

I. Quality of products

As the leading enterprise of the internal combustion engines industry and the quality benchmark enterprise in the PRC, the Company always adheres to the notion of “customer satisfaction” and the quality policy of “full-team participation in quality enhancement activities and building Weichai as a recognizable brand”, aiming at developing products with the most compatible quality while strictly complying with laws and regulations of product quality and relevant laws and regulations of the country, and established the quality control system covering the entire lifecycle of a product. **No material incidents on quality or safety occurred in 2016.**

(I) Established all-Process quality responsibility trace system and ascertain quality responsibility

1. Established sound quality management and control mechanism. Specified the quality duties from CEO to the front-line production staff, established accountability system on person responsible for quality, entered into quality commitment and letters of responsibilities at each hierarchical level and implemented the quality safety mechanism enabling veto by one vote, thereby providing a strong system guarantee for product quality.

2. Established sound quality defect recall system. Established “Handling and Management Procedures of Customer Complaint”, “Management Measures Related to the Three Guarantees”, “Management Measures Related to of Diesel Engines Returned to the Factory” and “Management Measures Related to Quality Compensation and Recourse”, and relied on the dense national repairing service network to track the products usage condition in time and recall the defective products at any time. **No recall on products in respect of its quality occurred in 2016.**

3. Strengthened the Company’s intellectual property protection. Established a sound intellectual property system with procedural documents such as “Control Procedures for Technical Know-How Development”, “Appraisal Procedures for Laws and Other Requirements”, “Control Procedures for Documents of Intellectual Property Management System” and management system, and established the Weichai intellectual property protection alliance and Weichai Central Repository Self-Governed Alliance. We sued some 240 entities for tort through property right protection alliance, involving an amount of some RMB80 million; Inspected 317 depots for various kinds of tort through Central Repository Self-Governed Alliance, involving an amount of RMB410 million. An all-rounded and three-dimensional protection mechanism specific to Weichai brand was thus formed.

(II) Solidify quality foundation and encourage quality development

1. Ensure effective operation of quality management system through monitoring and reviewing our management system and certificate renewal review. Ensure operation regularization through tests for the annual monitor and review of our management system such as ISO/TS16949 (quality management system – automobile parts and relevant services parts apply the specific requirement of ISO9001: 2008), GJB9001B (National Military Standard – quality management system requirement), ISO14001/OHSAS18001 (Environmental/occupational health and safety management system, GB/T19022 (requirements for measurement processes and measuring equipment of management system) and ISO/IEC17025 (general requirements for the competence of testing and calibration laboratories).

2. Quick response to IATF16949:2016. The Company responded to the IATF16949: 2016 announced in October 2016 in a timely manner. First, we invited experts from famous consultation companies to provide specific training to middle-top level management in respect of the changes in quality management environment and responding policies. Second, for the quality management staff in different units of the Company, we commenced certificate renewal training in respect of the new standard for inspectors. Sufficient preparation was done in respect of the complete change of standard in 2017.

(III) Strengthen quality control and uplift quality level

The Company established quality management and control system for the entire product lifecycle to ensure every process of product quality are under control and resources are allocated reasonably, thereby realizing risk prevention and control during the entire lifecycle.

1. Strengthen the control of supplier quality management. Using the quality incidents that occurred as breakthrough point, implementing all process quality inspection on supplier, in order to assist the supplier to enhance the level of quality management and ultimately, realizing parallel enhancement. Appraisal standards of supplier quality management system are amended timely and continuously improved according to the inspection findings. The inspection of Type-A and Type-B suppliers were conducted in 2016.

2. Promote the use of quality error prevention technology. Implementing error-prevention technology when we started to design in order to realize cost minimization. Implementing production line error prevention project on the production line to reduce human error and optimize quality.

3. Continue to carry out audit appraisal, enlarge the scope of appraisal and raise the appraisal standard. Mold comparison was carried out among production and manufacturing unit, raising self-requirement continuously. In general, each production and manufacturing unit met the requirement in 2016.

4. Launch the appraisal of production line management project. System appraisal on production line such as processing, installing and testing and set-forming from aspects including human, machine, raw materials, laws and environment was carried out in order to discover quality risks in the production process in time to avoid passing quality problems to customers.

(IV) Keep improving by making use of quality data

1. Launch of PHA. In order to enhance the auxiliary quality with the customer and enhance customer satisfaction level, the Company carried out PHA, established the PHA working process and inspection standards, collected quality data during the auxiliary process, conducted quality improvement and make breakthroughs. PHA inspection were carried out in Shaanxi Heavy-duty Motor, JAC, Lingong and SANY.

2. Make use of powerful IT means. Setting up data collection, analysis and appraisal and improvement WQM system; establishing relationship with the Company's existing service interfaces including the ERP system, PDM system, MES system and CRM system, collecting process data during the entire product lifecycle and conduct further analysis, including it into plan management system as quality enhancement scheme and conduct management.

(V) Customer information security and privacy policy

In order to protect the confidential information of our customers and ownership from being abused, the Company formulated the "Procedures of Protecting Customer Confidential Information and Ownership" to protect and monitor customers' information and ownership during the whole process. The Company carries out daily monitoring and inspection, where the monitoring and inspection result should be reported to the management review meeting as a topical report. The management review meeting should apply policy adjustments and effective corrective measures in respect of the confidential policy and implementation.

In 2016, the Company was awarded the "China Export Quality & Safety Demonstration Enterprises", allowing the Company to enjoy policies such as exemption from export inspection. The Company also received awards such as "China Quality Award – Nomination Award" and "Benchmarking Enterprise with Outstanding Quality and Integrity in China".



China Export Quality & Safety Demonstration Enterprises



China Quality Award – Nomination Award

II. Responsibility fulfilment of the major subsidiaries in product quality

(I) KION

All processes that affect the quality of products are documented, audited and certified in accordance with DIN ISO 9001.

1. Quality and service management

The top priority is always the safety of the trucks. The technical maintenance teams provide on-site servicing. KION offers customers and dealers professional advice and support on matters such as technical conversions and modifications. The service teams are quick to respond and flexible, and the services provided are designed with the customers' needs in mind. The aim of KION is providing satisfactory products to customers. At the same time KION is committed to doing everything it can to ensure that products are safe and reliable. KION complies with all legal and technical requirements and standards.

2. Anti-commercial bribery

KION formulated strict internal compliance standards and restrictions for commercial behavior, outlined detailed internal regulations for anti-corruption and excluded any possibility of corruption. Staff received clear guidance to ensure they will not make use of their power to obtain improper interest for other parties or themselves. In order to prevent fraud and money laundering, detailed regulations are listed out, such as payments should always be cashless, unless in exceptional cases like spare parts, smaller sums are involved, but would always require consent of local executive board to an upper limit amount, informing the local Compliance Representative and the Compliance Department immediately if notice any unusual payment pattern.

(II) Shaanxi Heavy-duty Motor

1. Quality control

Shaanxi Heavy-duty Motor introduced and compiled with diversified international quality management standards. In 1996, it introduced the ISO 9001 standard, which was officially executed on 1 July 2007. Subsequent upgrade was made according to ISO9001:2008, GJB9001B-2009, ISO/TS16949:2009, etc. In 2011, revision was conducted and was announced on 1 July.

Product components were procured according to the List of Qualified Suppliers and List of Military Vehicle Qualified Suppliers. Outsourced parts and accessories were subject to acceptance check and testing according to Management regulations on incoming goods' inspection and testing. The whole production process is subject to comprehensive standards covering design and drawing, production process, separate assembly processes and overall assembly processes. Control pints are created in production and assembly process of key and important parts so as to control products' critical properties. Before departure from factories, all cars have to undergo road test and wear test as well as overall vehicle technical performance test.

In 2016, customer-centered market awareness was successfully injected into the company's quality system and quality control of product development process and production process management was strengthened. Through comprehensive testing standard, we spotted core areas deserving attention and, by means of internal parties' coordination, we undertook closed-loop modification of problems and effectively improved assembly quality. Per-unit service fee decreased 8.2% compared to the corresponding period last year. Initial failure rate recorded a year-on-year decrease of 1.36%. Under the prerequisite of ensuring sales volume, product quality steadily rose.

2. Intellectual property management

Shaanxi Heavy-duty Motor formulated a series of regulations including "product naming and trademark registration control procedures V1", "special purpose motor vehicle trademark management procedures V8", "trademark management regulation V2", "Trademark rights protection (anti-counterfeit goods) work management regulation V2", "Copyright management regulation V2" and "Measures for intellectual property rights (transference) management V2".

(III) Fast Gear

1. Quality management

Fast Gear has always emphasized "quality orientation, continual improvement, independent innovation, customer satisfaction" as its underlying quality principle. It seeks to uphold national laws and regulations and internal rules to ensure the quality of its products throughout product life cycle. In 2016, no significant product quality incidents arose.

(1) Established comprehensive whole process quality management system

Firmly abide by Product Quality Law and Product Quality and Safety Law and put into practice management systems such as Administrative Measures for Incoming Quality Control, Administrative Measures for Process Quality Responsibility System and Product Sales Contract Management Regulations, Service Control Procedure and Quality Information Management Procedures. Covering whole production process, these regulations fully ensured whole monitoring process of product quality.

(2) Strengthened quality management system construction and implemented effective back-up measures

Continually strengthened quality system construction and upgrade in 2016. Xi'an Co. passed the annual assessment of ISO/TS16949 and ISO10012. Baoji Co. maintained quality management system certification qualification of ISO/TS16949. Fast Gear Eaton and Thailand Co. passed certification of ISO/TS16949 quality management system.

Different units according to Quality System Assessment Policy executed quality system internal inspection and passed more than 20 second-party assessments of clients and military departments, military equipment manufacture qualification assessment and Daimler OSA. Both clients and certification organizations highly recognized Fast Gear's quality system.

(3) Advanced quality prevention work and enhanced quality control capacity

We undertook Measures for production process accountability system and, through policies such as inter-inspection system, quality exposure, quality warning and specialized training, regulated on-site management and solved quality problems. Product quality drastically rose.

In 2016, Caterpillar Inc awarded the company "Silver Supplier" title and many clients recognized the Company as an "Outstanding Supplier". We won market recognition with our strong comprehensive power, extensive brand influence and quality and highly-efficient service system.

(4) Execute various quality improvement projects and control quality cost

We actively executed Quality Control Circle activities and completed 5,950 KTJ improvement projects, 128 process improvement projects and 71 departmental improvement projects and saved more than RMB32 million in total. 5 quality improvement projects were presented at Shaanxi and Xi'an QC result release conference and achieved outstanding results. 3 projects won Shaanxi Province Quality Control Circle results second prize and 2 projects won Xi'an Quality Control Circle results first prize and second prize.

2. Intellectual property rights management

Fast Gear continued to explore in the field of intellectual property rights management. It provided institutional guarantee for intellectual property rights work through construction of Intellectual Property Rights System and continue to standardize intellectual property rights work, achieving a rise in management standard. We implemented Code for enterprise intellectual property rights management GB/T29490-2013 and strengthened the system of intellectual property rights management of our company. Intellectual Property Management Manual was formulated together with 16 intellectual property rights management systems and 46 relevant documents and we improved and strengthened existing IP management and work processes.

By virtue of its patented patent retrieval system and information release platform, Fast Gear developed a patented database. Stored data was updated on a monthly basis and was released for internal use. As at today it has collected the patents of 14 domestic and overseas enterprises in the field of automotive transmission. The establishment of this platform brought convenience to our work in information retrieval, statistics and analysis in respect of patents in the industry. By using this system, our R&D personnel can assess relevant information in a timely manner and avoidance of research risks in advance is made possible. Our patent database has become an important channel through which the Company grasps technical dynamics of the industry at home and overseas.

3. Anti-commercial bribery

The policies of preventing bribery, blackmail, fraud and money laundering included Fast Gear Code Against Staff Corruption, Fast Gear's Measures for Executing Eight Requirements of the Central Committee (中央“八項規定”) by the State Government, and Measures for Establishing for Honest and Clean Administration Construction Conversation System. In 2016, no litigation of corruption cases was recorded.

Shareholders

Major financial indicators	2016	2015	Variation
Operating revenue (in ten thousand RMB)	9,318,352.14	7,416,774.06	25.64%
Net profits attributable to the shareholders of listed Company (in ten thousand RMB)	244,118.86	141,227.33	72.86%
Net cash flow from operating activities (in ten thousand RMB)	825,043.35	683,851.41	20.65%
Basic earnings per share (RMB/share)	0.61	0.35	74.29%
Diluted earnings per share (RMB/share)	0.61	0.35	74.29%
Weighted average return on net assets	7.65%	4.38%	3.27%
	End of 2016	End of 2015	Variation
Total assets (in ten thousand RMB)	16,399,068.05	11,584,044.42	41.57%
Net assets attributable to the shareholders of listed Company (in ten thousand RMB)	3,173,826.96	3,193,995.80	-0.63%

I. Corporate governance and information disclosure

(I) Operation of General Meetings, Board of Directors and Supervisory Committee

In 2016, based on the Company's strategic deployment and regulatory requirements, General Meetings, Board of Directors meetings and Supervisory Committee meetings were held 25 times. We continually standardized the listed Company's corporate governance and enhanced its corporate governance level, safeguarding completion of its strategic targets.

(II) Corporate governance

During the reporting period, the Company undertook the following measures as required by China Securities Regulatory Commission, Shenzhen Stock Exchange and Shandong Securities Regulatory Bureau with the aim of enhancing corporate governance level:

- In accordance with relevant revisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Corporate Governance Report and in consideration of Company's operation and development needs, the Company revised Terms of Reference of the Audit Committee of the board of Weichai Power Co., Ltd. so as to further enhance the Company's risk management.

- The Company regulated the operation of General Meetings, Board of Directors and Supervisory Committee and actively harnessed the function of independent directors and different professional board committees. Concurrently, in accordance with the arrangements of China Securities Regulatory Commission, Shenzhen Stock Exchange and Shandong Securities Regulatory Bureau, we organized different training activities for directors, supervisors and senior management so as to enhance their ability to perform their duties in accordance with the law.
- The Company strictly followed Rules Governing the Listing of Securities on Shenzhen Stock Exchange and Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the “Articles of Association of Weichai Power Co., Ltd.” and Administrative Measures on Information Disclosure and strengthened information disclosure management. We disclose information in an authentic, accurate, complete, timely and fair manner and ensure that all investors acquire information on the Company under a fair environment.
- The Company continually improved investor relation management. Insisting on an active, elaborate, highly effective and interactive communication strategy, we expanded our investor service modes. Through multi-faceted, multi-level communication methods such as investor hotline, investor research reception, results announcement press conference, analyst exchange conference, reverse roadshow, we strengthened regular and irregular communication with investors so that they could have a more comprehensive understanding of the Company’s conditions.

(III) Information disclosure

In 2016, the Company disclosed 195 announcements of A and H shares and the count of omitted disclosures was zero. We successfully completed disclosure on periodic reports, connected transactions, equity acquisitions, derivative investments, financing guarantees, acquisition of Dematic Group S.à.r.l by KION and purchase of additional shares from KION.

(IV) Awards

In 2016, as a result of our regulated corporate governance, outstanding business performance and smooth investor communication channel, we further enhanced the reputation of the Company in capital markets and was awarded Phoenix Media's Board of Directors magazine Golden Round-table Award, Board of Directors Governance Special Contribution Award, 2016 Top 100 Trustworthy Listed Companies in China, China's equipment manufacturing industry listed companies Top 20, Best Investment Value Listed Companies, Bauhinia innovation award and 2016 China Outstanding Brand Award.



**Golden Round-table
Award**



**Outstanding Brand
Award**



**Bauhinia Innovation
Award**

II. Investor relations management

In 2016, under the background of supply side reform and ‘emergence and integration’ capital market, we continued to uphold the IRM model of “One main line, all-rounded advance”. Through multi-faceted, multi-level communication channels such as investor hotline, investor research reception, results announcement, analyst exchange session, reverse roadshow, we strengthened our communication with investors as well as market value management.

(I) Daily communication and exchange

In 2016, the Company provided reception for 36 investor visits, conducted telephone conferences above 1 hours more than 100 times and answered more than 300 questions from investors on the Shenzhen Stock Exchange interaction platform. Our work in investor relations was highly recognized by organizations and individual investors.

(II) Results announcement

In 2016, we organized telephone conferences on the 2015 annual results, 2016 first quarterly results and 2016 interim results. More than 150 domestic and foreign organizations joined the conference and the total number of people exceeded 320. We produced and published Chinese and English PPT and press releases on the 2015 annual results and 2016 interim results so that investors were informed of the Company's operation condition in a timely and objective manner. In 2016, we joined 12 strategy conferences held by securities firms such as China International Capital Corporation Limited. Through face to face interaction with investors, we attained satisfactory results.

(III) Profit distribution

In 2016, the Company continued to pay attention to the needs of secondary markets. Through questionnaire investigation and reverse research we explored market requests. We insisted on yearly execution of profit distribution proposal to safeguard investors' interest with determination.

In 2016, the Company implemented the 2015 annual profit distribution scheme as follows: Based on the 3,998,619,278 shares as of 31 December 2015, representing the total share capital of the Company, all shareholders were entitled to cash dividend of RMB1.00 (including tax) for every 10 shares held. Implementation of the scheme was completed on 23 July 2016. The Company also implemented the 2016 interim profit distribution scheme as follows: Based on the 3,998,619,278 shares, representing the total share capital of the Company, all shareholders were entitled to cash dividend of RMB1.00 (including tax) for every 10 shares held. Implementation of the scheme was completed on 14 October 2016.

Employees

In 2016, human resource management of the Company in accordance with the Company's strategic planning focused on personnel structure optimization and upgrade, information and industrialization integration in HR business, diversified talent cultivation, multi-level talent recruitment channel construction, etc.

I. Overview of work in 2016

(I) Continual optimization of personnel structure

Based on "transformation of manufacturing business into service-oriented manufacturing and advance from low-end to high-end" strategic demands, we strengthened core competence upgrade and boost emerging business development, building talent pool system covering oversea and domestic talents, for-level cultivation system, internal staff mobility system, cross-boundary configuration mechanism etc. We adjusted and optimized personnel structure and realized considerable fall of production staff number. R&D and sales staff's ratio rose and staff with tertiary education or above rose considerably.

To support continual optimization of personnel structure and enhancement of organization efficiency, in 2016, we strengthened post basic management construction. Through production procedure and post optimization and post qualification construction, we perfected career development channel and established open recruitment and staff allocation mechanism of internal positions. By doing so, we activated our human resource vitality and realized continual optimization of matching between staff and positions, facility enhancement for working efficiency.

(II) Talent introduction and service

In 2016, with the goal of marching towards the best, we implemented a talent introduction system based on actual needs, recruiting 142 talents in different fields in total. We built up our high-end talent structure through introducing R&D internship programs. We scientifically evaluated results of school-enterprise cooperation and strategically strengthened partnership between schools and enterprises, enhancing employer brand image of enterprise. By virtue of the above measures, we realized simultaneous advance in talent attraction and company promotion.

(III) Training management and development

In 2016, we executed about 1,200 training programs in different fields and at different levels. Average training hours per person reached 98.9.

Based on the guiding principle of “origin from strategy and business and serve the needs of business and achieve integration”, we executed newly promoted managers leadership training program, managerial staff competence enhancement program. Through different training models such as mobile learning, project execution, on-site tutorial, etc, we simultaneously improved training and actual operation results. Concurrently, we strengthened cultivation basic management and resource construction. We independently developed our own enterprise training management system and realized informative transformation of the different stages of corporate training such as proposal drafting, execution, budget verification and effect evaluation. We also independently developed 108 E-courses for internal training, covering functional management, information technology, effective production, R&D, customer service, quality, equipment and production support.

II. Staff statistics

At the end of 2016, the total staff number of the Company reached 39,219 (excluding Kion). The total staff number of Kion reached 30,544.

(I) Staff number by function (excluding KION)

Function	Production worker	Sales	Technical staff	Financial officer	Administration staff	Others	Total
Number	22,506	2,061	5,911	443	3,961	4,337	39,219
Percentage	57.39%	5.26%	15.07%	1.13%	10.10%	11.06%	100%

(II) Staff number by age group (excluding KION)

Age Group	Below 35	35-55	56 or above	Total
Number	25,893	12,836	490	39,219
Percentage	66.02%	32.73%	1.25%	100%

(III) Staff number by region (excluding KION)

Region	Weifang	Shaanxi	Others	Total
Number	10,296	20,485	8,438	39,219
Percentage	26.25%	52.23%	21.52%	100%

III. Employees' rights protection

(I) Enforcement standard and execution condition for employment system

In 2016, as Weifang city's major enterprise, we strictly enforced national laws and regulations such as Labour Law and Labour Contract Law and seriously executed national labour protection policy. We formulated human resource management system and executed it through staff representative meetings. We continually strengthened the Company's management system construction and continually regulated staff recruitment management, realizing 100% of labour contract signing. We sought to establish harmonious labour relations and create favourable human environment.

(II) Anti-child-labour system and its implementation

In 2016, the Company strictly enforced national laws and regulations such as Labour Law and Labour Contract Law and regulated hiring system. For all managerial and technical positions, we only admit candidates from key state institutions and for production position we admit staff from relevant technical schools in Weifang. No child labour was employed in the Company.

(III) Forced labour risk

In 2016, no forced labour risks were found in the Company. We continued to regulate our hiring system and was awarded Shandong Province Labour Contract System Demonstration Enterprise, Shandong Province labor relations harmonious enterprise, Weifang labour protection integrity Demonstration Enterprise and Weifang human resource social protection integrity unit.

(IV) Staff interest protection training

In 2016, we further enlarged promotion of regulations such as Labour Law and Labour Contract Law and promotion work was done in various aspects such as remuneration, insurance, labour relations, labour protection and laws and regulations. Training was provided from 4 levels including the Company, factory, workshop and teams. Through internal newspaper of company, radio and TV station, promotion board and Internet learning platform, we encouraged online and offline learning and self-learning and on-site training so that our employees are familiar with relevant legal knowledge and continually strengthen their awareness of right protection.

IV. Staff training

In 2016, training work was done in different aspects such as perfecting training management system innovating training management model, cultivating diversified talent pool and enriching training resources, etc.

(I) Refined training management system and provided guarantee for staff training

In 2016, the Company formulated Management procedures governing recruitment of external training organizations. As of December 2016 we had established a comprehensive training management system incorporating internal training management procedure, internal trainers management procedure, training fees management methods, external training management procedure and provided guidance for staff training from institutional level.

(II) Innovate training management model and guide training strategic direction

We established a training system with 4 levels, including the Company, unit, workshop and teams and groups and reformed the management modes of training programs and fees. We executed stratified management of this four-level training system through project management. We reformed the management mode of training fees through measures such as general ledger and virtual account, realizing the goal of guiding training strategic direction and ensuring foundational investment by fully utilizing the effect of training fees.

(III) Cultivate diversified talent reserves by close integration with actual business

1. Newly promoted leading cadres training

In 2016, we provided training for 76 newly promoted leaders. Through online learning and centralized training, efforts were made to enhance the capacities of newly promoted staff in such areas as leadership procedure management, analysis and planning. By doing so we promoted the unity of corporate culture and values and helped our staff transform themselves from independent contributors to managers.



Newly promoted leading cadre training



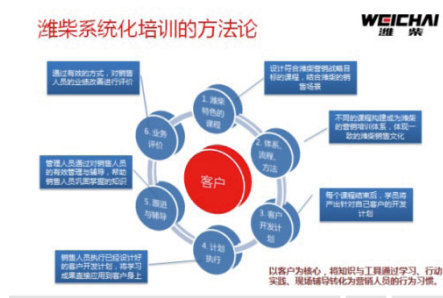
Engineer and technician training

2. Engineer and technician training

Engineer and technician cultivation project included quality management tool general training, mobile learning, extended knowledge training by subject head. In 2016, project's phase 2 training was completed and managed through project management. By means of on-site tutorial, Wechat tutorial and telephone tutorial, we helped our staff to apply such tools as PFMEA, SPC and 8D in real projects.

3. Sales personnel training

To support our “strategy of sales services integration”, we activated a 3-year training program designed for sales persons. In 2016, 2 centralized trainings were held and more than 700 participants were trained in total. Through such training we helped sale persons complete the transformation from fervour marketing to knowledge marketing and facilitated the realization of the strategy of sales service integration of the Company. This training program played a role in creating an excellent sales team.



Marketing Training Methodology



Golden blue collar training

4. Golden blue collar training

In 2016, under the support of provincial specific fund, we executed our “Golden blue collar” training program, fully utilizing manpower from relevant technical schools in Weifang. Technician and senior technician theoretical knowledge training was provided to uplift the theoretical attainment of the participants, and more than 400 people took part in such training, covering 7 functions in 11 classes. 128 senior technicians and chief technicians were invited to provide corporate tutorials so as to enhance staff technical level with 12 practical topics for 7 functions. An average of 56 learning hours per participant were achieved. Through this kind of training we established a new model of talent cultivation based on “theoretical training by external teachers and corporate tutors” guidance.

5. *Other types of training*

- ③ Organize the Gold Lecturer competition and enhance corporate tutors' initiatives and sense of honor

Through the Gold Lecturer competition, we selected 11 excellent internal lecturers and achieved the purpose of replacing cultivation by competition, facilitating exchange by competition and promoting growth by competition. Teaching standards of internal lectures were enhanced together with their initiatives. This encouraged our internal lecturers to better serve the Company's development and promote growth of employees' knowledge and skills.

- ③ Develop courses and promote corporate endogenous knowledge transformation

We completed developing 61 network courses, covering corporate culture, production knowledge, quality knowledge, equipment maintenance knowledge, product development, product applications. Developed courses will be uploaded to online learning platform and available for all employees. The development of network courses will drastically enlarge knowledge transmission scope. Concurrently, we completed the construction of inspection classes and maintenance classes system and 81 courses would be developed. 6 courses' syllabus and part of its course materials have been drafted.

6. *Result of Training*

The training programs have been classified into the four types of management, technological research & development, production, marketing and procurement based on the differences in the nature of work. All kinds of staff members have been offered position-based skill enhancement training sessions based on their career aspirations and the requirements of their position. The structure and format of the training varied and could take the form of online and offline sessions, individual self-learning and on-site training, internal lectures delivered by instructors, external training sessions and engaging external training organizations. The training programs covered over 97% of the employees, with the staff members of each type receiving 98.9 study hours of training. In particular, male and female staff members received an equal amount of training opportunities and an equal duration of training.

V. Remuneration and benefits

To further encourage initiative on the part of the staff and enhance cohesion, the Company has put in place a competitive remuneration and benefits system. A range of remuneration management systems, including a performance-based salary system, an annual remuneration system, wage systems on a piece rate and on an hourly rate have been implemented for various types of staff members. The Company has laid down and refined its wage increment mechanism in accordance with the relevant national regulations and adjusted staff remuneration based on the assessment of work performance. The Company has been in strict compliance with the national laws and regulations in enrolling all of its staff members in the five major Social Insurance Plans covering pension, health care, work injury, maternity and unemployment, and the Housing Provident Fund, with a coverage rate of 100%. The Company has duly paid all the contributions to the Social Insurance Plans and Housing Provident Fund in a timely manner.

The Company has been persistently enhancing its benefits system for its staff members. On the basis of implementing the national “Five Insurances and One Fund” (五險一金), the Company demonstrated and implemented a corporate pension fund and a supplementary medical insurance system. The Company set up a personal account and made monthly contributions for each employee based on the importance of the employee’s position and the employee’s seniority in the Company. The Company is committed to continuously raising the quality and standard of service of the pension and health care insurance plans available to its staff members. While the corporate pension fund further enhanced the level of retirement protection for the staff members, the supplementary medical insurance effectively improved the quality of medical insurance available to the staff members. The Company has rigorously complied with the Regulations of Insurance for Employment Injury, the Protection on Women’s Rights and Interests Law and the Regulations on Safe Production of Shandong Province and the policies promulgated by the upper-level human resources and social security authorities, actively assisted government agencies in completing the relevant investigations and did its best to safeguard the legal rights of its staff members. The Company has been rated as the “Role Model of Labour Protection and Integrity” of Weifang City multiple times in a row.

VI. Staff career development

The Company resolutely implemented the strategy of “Talents First”, adhered to the principle of “Development through Staff, Development for Staff” and held on to the vision of “Let Those Who Create Wealth Have the Wealth, Let Those Who Create Value Deliver the Value” by endeavouring to build a team of outstanding talents who are cosmopolitan, innovative, persistent in learning and capable of adapting to the developments of the Company.

As such, the Company continued to emphasize on the standardization of the qualification requirements for positions by laying down the standardized qualification requirements for the technological research & development staff and for the technical support staff respectively. Based on internationally prevailing standards, the classification of the positions in the Company has been rationalized and reorganized, while the work manuals for all sorts of staff have been compiled and distributed. Courses have been developed on the basis of the standardized qualification requirements for each position to lead the staff to take part in learning sessions on their own initiative. The Company has created a win-win situation with its staff by offering them a wide range of development paths based on the needs of the Company and the capabilities of its staff.

VII.Strategic planning of human resources for the future

On the basis of the Company's development strategy of "Strengthening Core Businesses, Striving for Efficiency, Internal Consolidation and Outward Expansion", the human resources business will pursue the objective of managing human capital as a business and carry out its work in accordance with the four principles of "Business Structure Adjustment-Oriented, Organic Growth-Oriented, Group Control-Oriented, Global Benchmarking-Oriented" during the period of the Thirteenth Five-Year Plan.

Firstly, the Company will focus on business structure adjustments by optimizing and adjusting the size and data of each type of staff. The Company will adjust and optimize the quality and capability structure of its operational staff based on the needs of the Company's development, thereby providing personnel support for the transformation of the Company.

Secondly, the Company will focus on organic growth and shift the emphasis on the size of the staff to the quality of the staff by concentrating on the training and development of human resources, boosting the value added by human resources and fostering a team of diversified talents.

Thirdly, the Company will focus on Group control by raising the fundamental management quality of positions, training and hiring in human resources management, building a human resources management system and management culture with Weichai's characteristics, satisfying the needs for the conglomeration and internationalization of corporate control and attaining the shift from the export of personnel to the export of management.

Fourthly, the Company will focus on global benchmarking by improving the management capability of internationalized human resources and working on management systems, staff management, staff training and staff efficiency management, hence supporting the strategy of the Company with its human resources.

VIII. Performance of human resources duties by major subsidiaries

(I) KION

KION ensures that employment standards are upheld in accordance with the ILO (International Labour Organization) fundamental labor conventions. KION also follows the requirements in Compliance Code and HSE policy regarding employment practices.

1. *Anti-discrimination*

KION is committed to applying the principles of conventions in how to treat its employees without discrimination. No distinction, exclusion, or preference made on the basis of race, color, gender, religion, political opinion, national extraction, or social origin affecting access to vocational training, employment, and particular occupations or to terms and conditions of employment is accepted.

2. *Labour Standards*

KION complies with the requirements in ILO, Compliance Code and HSE policy regarding labor standards. KION respects the personal dignity of every individual and we uphold human rights. KION does not tolerate child labour, any harmful employment of young people or any form of forced labour. Persons below the minimum age defined in the ILO Convention Article 138 must not be employed. Persons under 18 years of age must not undertake any type of employment or work of any nature, or under any circumstances. No forced or compulsory labor under the menace of any penalty for which the said person has not offered himself or herself voluntarily.

3. *Promotion, equal opportunities and diversity*

As an international company, KION welcomes the contributions of all employees, regardless of their gender, nationality, skin color, culture and religion. KION promotes its international collaboration between employees through expat programmes, which give employees the opportunity to transfer to different countries where KION is represented. KION also tackles the challenges of demographic change by providing working conditions that are suited to employees' age-related requirements and organising healthy-living programmes so that it can continue to benefit from older employees' experience. Compared to the previous year, the proportion of the Company's total workforce made up of women almost remained unchanged in 2016 at 16.4 per cent (2015: 16.1 per cent).

4. Training and development

In 2016, the longer-term HR strategy was revised in order to ensure even better and more targeted development for employees with high potential.

In addition to the development activities geared specifically to high-potential employees, greater priority will be given to succession planning for key positions in KION in the future and a robust process will be implemented for this purpose. One of the focuses of HR work across the Group in 2016 was, as in the previous years, the recruitment and development of suitable young talent. KION endeavors to offer its employees interesting career opportunities and flexible, family-friendly working hour models. The Group companies also collaborate closely on areas such as talent management and training & development programmes. This helps to systematically identify and support staff with potential, high performers and experts in key functions.

The companies in the Group currently offer training for 22 professions in Germany. They employed a total of 561 trainees and apprentices as at 31 December 2016 (31 December 2015: 571). The ratio of trainees and apprentices to other employees has therefore remained steady at a high level. Besides providing dual vocational training schemes, Group companies offer work placements for students combining vocational training with a degree course in cooperation with various universities.

5. Remuneration and benefits

KION is committed to a remuneration which is appropriate to national industry sector standards and by all means securing a subsistence level of income. Minimum wage limits that are set by national legislation or applicable collective agreements are not undercut. Where rates of remuneration are not determined by law or collective agreements, the value of the work performed must, as far as possible, be determined by objective appraisal of that work.

6. Work and rest cycle

KION offers flexible working hour models that promote a good work-life balance. In addition, an agreement has been implemented on 'teleworking/home office', which stipulates the terms on which employees can work at home on a mutually agreed and voluntary basis.

(II) Shaanxi Heavy-duty Motor

1. Anti-discrimination

In full compliance with the Labour Contract Law and the Labour Law, and conscientiously implementing the Collective Contract, the Special Collective Contract on Wages and the Regulations for the Protection of Female Employees' Rights entered into by Shaanxi Heavy-duty Motor and its staff, the company ensures that it treats its staff fairly and justly, without discrimination on the basis of gender, race, religion, age or disability.

2. Labour standards

Shaanxi Heavy-duty Motor has been in full compliance with the relevant laws and regulations, such as the Labour Law and the Labour Contract Law of China. The company has made it a policy to enter into an employment contract with each and every member of its staff by establishing an employment relationship with its staff on a voluntary basis, on an equal footing and upon agreement after negotiation. The company has entered into an employment contract with each and every one of its staff. No irregularity has arisen where the company has failed to enter into an employment contract with anyone of its staff. In strict compliance with the national laws and regulations such as the "Provisions on Prohibition of Child Labour", the company has never hired any child labour or underaged persons.

3. Recruitment management

Shaanxi Heavy-duty Motor rationalized its recruitment requirements based on the development needs of its strategic businesses. Implementing the recruitment principles of "Openness, Equality, Competition and Meritocracy", Shaanxi Heavy-duty Motor made public its recruitment requirements, standardized the recruitment procedure, welcomed on board a huge number of mature and high-end talents, as well as graduates of universities, high schools and vocational training institutions, creating job opportunities for the society.

4. Training and development

Shaanxi Heavy-duty Motor established a three-tier training system. In strict compliance with the systems of the state, the company made it mandatory to obtain a training certificate for positions that require a certificate. Those in key positions and senior talents have been sent to external training and sharing sessions on an irregular basis. Capability Training Camps for Squad Leaders and Team Leaders were organized and launched. Emphasizing skill enhancement of the first-rate staff and starting with skill appraisals, the company focused on organizing training programs for the highly skilled staff. Through the daily counselling of squad and team leaders, skill enhancement training programs have been established as the norm. Throughout the year, training programs covered 95.2% of the staff, with an average of 31 study hours per person.

5. Remuneration and benefits

Shaanxi Heavy-duty Motor Company Limited adhered to the principles of distribution according to work and equal pay for equal work. Numerous wage systems have been in place depending on the nature of the position, such as structured wage systems and wage systems on a piece rate. A generous remuneration system has been established, while the company persistently refined its remuneration and benefits system and optimized its distribution policies, continuously driving up the income of its staff.

The company duly paid its contribution into the various insurance plans and the Housing Provident Fund for its staff in a timely manner, established a corporate pension fund, a supplementary medical insurance plan and a mechanism facilitating health care mutual assistance during major diseases, along with relief and aid for staff members fallen on hard times. Every year, the company handed a pay rise to 65% of its staff, thereby stabilizing the teams and strengthening corporate cohesion.

6. Work and rest cycle

In strict compliance with the work hours and rest days set out in the Labour Law of China, Shaanxi Heavy-duty Motor implemented a standardized work hour system of 40-hour work weeks. However, with regard to the special characteristics of production and operation, a comprehensive system of calculating work hours on a yearly basis have been in place for skilled positions in specialized production factories. Holidays are granted in accordance with the statutory number of holidays during statutory national holidays. Alternative holidays or overtime allowances in accordance with regulations have been granted where work has to be done on statutory holidays. The company rigorously implemented the Calculation Method of Paid Annual Leave for Staff and adequately protected the legal rights of the staff to paid annual leave.

In strict compliance with the national paid annual leave system, the company formulated the Regulation of Paid Annual Leave Administration for Staff, where annual leave is granted based on production arrangements and applications from the staff. The company provided compensation for those unable to take their annual leave on account of work. Under the Regulation of Leave Administration for Staff implemented by the company, the staff are entitled to various kinds of leave, such as maternity leave and marriage leave.

(III) Fast Gear

1. Recruitment management

In 2016, Fast Gear stepped up the building of corporate talent teams on a comprehensive scale, improved and refined the conventional model of campus recruitment, pragmatically built up a pool of personnel. The company refined staff onboarding management, customized training according to the strengths and weaknesses of each employee, offered systematic and categorized training programs, and implemented comprehensive tracking and monitoring throughout the process of internship. Forums and assessments for practice have been organized regularly for new staff members to facilitate the prompt integration of talents into the company. In terms of the reform and innovation of the talent development system and mechanism, a talent work layout has emerged with “clear strategic thinking, flexible and highly efficient mechanisms, the concentration of various kinds of talents, rational cadres and echelons, significant advantages in creativity and remarkable results in innovation”.

2. Training and development

In 2016, Fast Gear organized a total of more than 600 training sessions of various kinds for nearly 23,000 employees. The training covered management expertise for mid to high-level management staff, business knowledge for general management staff, technical knowledge for research & development technicians and practical skills for operational staff. Combining the main points in its strategic thinking, the company carried on with the position-based skill enhancement training tailored to different kinds of staff. The training and learning programs took the form of individual self-learning sessions, collective training sessions, internal lectures delivered by instructors and training sessions delivered by external training organizations. The training programs covered 90% of employees at all levels.

3. Remuneration and benefits

In strict compliance with the policies promulgated by different levels of government and various human resources and social security authorities, Fast Gear actively and consistently implemented the relevant measures and did its best to safeguard all kinds of legal rights of its staff. The company has enrolled its staff in the five major Social Insurance Plans covering basic pension, basic health care, work injury, unemployment and maternity insurance, along with the Housing Provident Fund, with coverage at 100%. The company duly paid all of its contributions into the social insurance plans and the Housing Provident Fund on a timely manner.

The company refined the benefits and social security system for its staff through setting up a system of supplementary insurance plans. A corporate pension fund has been put in place where a legal person manages the pension fund as a trust, thus offering better retirement protection for the company's staff. The company established a supplementary medical insurance system for its staff to file claims for expenses falling outside the scope of their basic health care insurance and obtain reimbursements upon going through a second review, effectively raising the standards of the health care available to the staff.

4. Labour standards

In 2016, Fast Gear strictly complied with national laws and regulations such as the Labour Law and the Labour Contract Law of China and rigorously implemented the company's systems, such as the Human Resources Administration System and the Administrative Measures on Labour Contracts. The company strove to regulate the management of labour and employment. No child labour has been used. 100% of the staff entered into a labour contract with the company. The company has maintained good order in labour and employment. No risks been identified in regards of serious forced labour or compulsive labour. With its exemplary employment and management practices, Fast Gear has been awarded honours such as "Advanced Unit of Shaanxi Province in terms of the Openness of Plant Business and Democratic Management" and "Enterprise of Harmonious Labour Relations".

Suppliers

In 2016, aiming to form the most competitive supply-side conglomerate and manufacturing conglomerate and to sharpen the competitive edge of its full-range logistics processes, the Company formulated a mechanism for managing the classification of suppliers. Deployment of supply chain businesses had been optimized. The Company looked to creating products featuring “The Three Competitiveness” as the guiding principle in forming the strongest competitive edge in terms of supply chain.

I. Supply chain management

(I) Policies and measures

- Through formulating and implementing the mechanism for managing the classification of suppliers, the Company optimized the structure of the supply chain and constructed a supply chain system consistent with the positioning of its products in the market;
- Completing and refining the competitor information database, the Company benchmarked its products against those of its competitors in terms of technology, quality and cost, and provided data to support Weichai’s initiative to create products featuring the Three Competitiveness, setting higher aims in a clear manner;
- Through reforming the management style, the Company persistently enhanced the cost competitiveness of its products. Regarding the procurement of external parts and components, the Company sourced general Type B parts and components by open bidding, and sourced Type A/key Type B parts and components by price comparison. Where quality and delivery are guaranteed, preference is given to parts and components that come at a lower cost;
- Through entering into “Strategic Cooperation Agreements” with strategic suppliers, the Company secured for itself premium resources in the industry.

(II) Criteria for engaging suppliers, and the management, control and monitoring of suppliers

The Company engaged all of its suppliers in accordance with the “QG/WDG. B704 Standardized Selection, Assessment and Management Procedure”.

The Company managed, controlled and monitored its suppliers by adopting a range of measures, including supplier inspection, on-site review of suppliers, review from customers, third-party review, PPAP review and annual appraisal of supplier performance.

(III) Anti-commercial bribery

In 2016, the Company and its suppliers entered into the “Supplier Integrity and Honesty Agreement”.

II. Summary of the work done in 2016

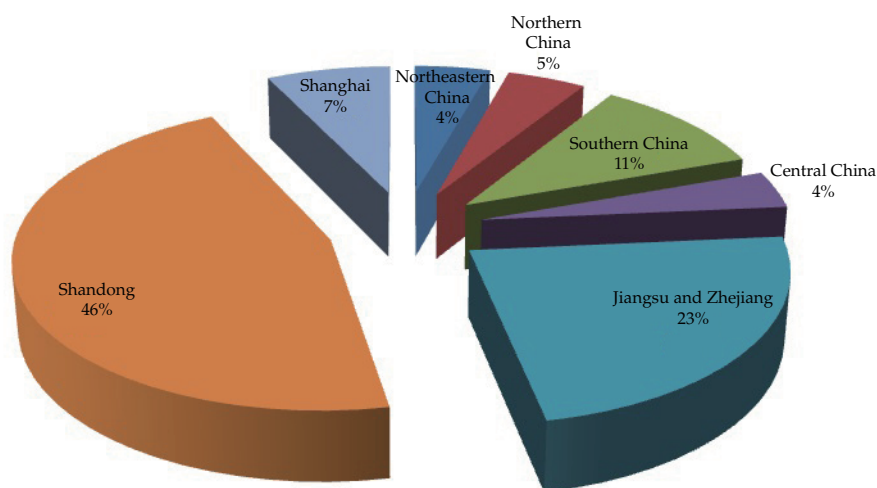
(I) Major work achievements

In 2016, the Company successfully developed an online bidding management platform to provide a system in support of the initiative to source Type B parts and components by open bidding within China. The initiation of the platform offered a place for open competition between qualified suppliers and non-qualified suppliers of Weichai, allowing the market to determine procurement prices.

In 2016, the Company organized multiple levels of technological exchange activities between 12 suppliers of Weichai and Weichai’s own technological department, including “Technology Days” and “Exchange Forums”.

In 2016, a total of 152 suppliers participated in Weichai’s new product development projects and 147 technological innovation projects. 3,837 types of new products and 5,381 types of special supplemental products were developed.

(II) Geographical breakdown of suppliers



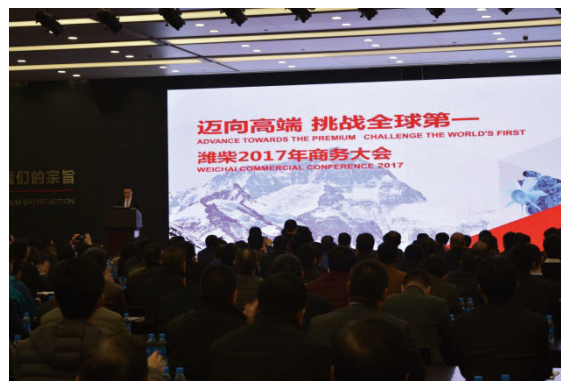
Geographical Breakdown of Suppliers

(III) Share of local suppliers in Weifang

In 2016, local suppliers in Weifang accounted for 16% of all the suppliers engaged by Weichai Power, the parent company.

III. Annual supplier conference

618 representatives from 475 suppliers attended the Weichai Commercial (Supplier) Conference 2017, held on 20 December 2016 at the Company. 28 outstanding suppliers were praised and commended at the conference.



Venue of the Weichai Commercial Conference 2017

IV. Planning and initiatives for the future

(I) Supply chain strategic planning

Building on its professional procurement management team and outstanding suppliers, the Company worked tirelessly towards enhancing the competitiveness of its procurement in the three areas of quality, cost and delivery to support the procurement strategy of the Group. The Group will focus on strengthening its core competitiveness by making it the Group's guiding principle to create products featuring the Three Competitiveness and constructing the best-in-class, high-quality supply chain in the world.

(II) Assurance measures

1. Quality

While fostering the management of the classification of suppliers and deployment adjustments, the Company will push ahead with the in-depth development of the quality management of suppliers.

Firstly, leveraging on the opportunity offered by the upgrade of IATF16949, a mechanism for continuous improvements of the system based on risks will be established. Secondly, the Company will focus on managing changes to reduce deterioration and waste in the supply chain. Thirdly, the Company will emphasize the uniformity of its products by preventing defects and ceaselessly improving the quality of products. Fourthly, the Company will step up the management of sub-suppliers by tightening control of the source.

2. Cost

The Company will change its pricing model for procurement costs and extend cost management forward. Through the implementation of cost planning, the Company will encourage its suppliers to adopt new techniques and new equipment to cut costs, thereby allowing the Company and its suppliers to develop together. The Company's procurement management department will have to set up a cost control body for procured items to perform systematic analysis and to monitor the cost of the procured items according to their type.

The work on cost planning has to be carried out in two ways. Firstly, prior planning of the target procurement cost for new products. The procurement management department has to work with the product development department in planning the target cost for new products, and formulate strategies for the target cost and price of procuring items accordingly. Secondly, a database containing the pricing information of comparable products in the industry has to be created. After conducting data analysis and comparison, the Company could direct the efforts of its suppliers towards cost control.

3. Capacity

Suppliers plan their capacity based on their engines working at 120% capacity (including general accessory requirements). The timetable has to be consistent with the running of the engines.

IV. Performance of supply chain duties by major subsidiaries

(I) KION

Compliance code is the basis for KION's corporate and social activities. All purchasing decisions are made in the interests of KION. Decisions are based exclusively on objective criteria such as quality, technology, price, production requirements and logistics.

All potential suppliers are treated equally, and all suppliers receive the same documentation and no supplier receives information about another competitor. When awarding contracts, decisions must be made objectively. Employees must not use business contacts to supply goods or services for their own private use, and are not allowed to be involved in a decision to award a contract to a company in which themselves have an interest.

(II) Shaanxi Heavy-duty Motor

Shaanxi Heavy-duty Motor formulated and implemented its procurement control management and supplier management on the basis of the TS16949 standards. Every year, the supply chain system is subject to no less than 4 times of external review by third parties, 2 times of internal control review by Weichai and no less than 5 times of internal review by Shaanxi Heavy-duty Motor Company Limited. The scope of review includes “CCC Review”, “ISO9000 Review”, “TS16949 Review” and “China Military Standard Review”. The company laid down its criteria for engaging suppliers based on the SQ/SI14.2.1 Supply Entry Permit Procedure V2. The monitoring, inspection and measures for managing and controlling suppliers include supplier inspection, on-site review, review from customers, third-party review, PPAP Review and supplier performance appraisal, along with an “Entry Permit Threshold” in place.

In 2016, Shaanxi Heavy-duty Motor engaged a total of 351 suppliers. The geographical breakdown of the suppliers is as follows: 35 in Northern China, 6 in Northeastern China, 140 in Eastern China, 106 in Northwestern China, 23 in Southwestern China and 41 in South Central China.

(III) Fast Gear

Shaanxi Fast Gear Co., Ltd. has formulated rigorous criteria for selecting suppliers and meticulous measures for monitoring, inspecting, managing and controlling suppliers.

In 2016, Shaanxi Fast Gear Co., Ltd. engaged a total of 233 suppliers. Among them, 99 were in Shaanxi Province (accounting for 43% of all suppliers), 74 in Eastern China (32%), 17 in Northern China (7%), 5 in Southern China (2%), 14 in Central China (6%), 7 in Northeastern China (3%) and 17 in Western China (7%).

Environmental Protection and Safety

I. Environmental protection

(I) Policies

The Company strictly followed regulations and sustainable and harmonious development strategy and fulfilled environmental protection obligations. We reduced pollution and enhanced efficiency, realizing clean production. We also established a mechanism of self-discovery, self-improvement and self-management so as to realize continual improvement of environmental management system.

(II) Laws and regulations on environmental protection followed by the Company

Environmental Protection Law of the People 's Republic of China, Law of the People 's Republic of China on Water Pollution Prevention and Control, Law of the People 's Republic of China on Prevention and Control of Atmospheric Pollution, Law of the People 's Republic of China on Prevention and Control of Solid Waste and Law of the People 's Republic of China on Pollution Prevention and Control of Environmental Noise.

(III) Internal regulations formulated by the Company about environmental protection

Measures for the Administration of Environmental Pollution Prevention and Control, Measures for Environmental Pollution Prevention and Control and Occupational Disease Protection Facilities, Measures for Construction Project environmental and occupational health and safety, Management, Water body pollution prevention and control management procedures, Air pollution control management procedures, Hazardous waste management procedures, Management procedures for Noise pollution prevention, etc.

(IV) Major work in 2016

In 2016, the Company ensured standardized emission of such pollutants as waste water, exhaust gas and solid wastes by means of environmental management system and environmental friendly facilities' effective operation.

1. Environmental system management

On 24 January 2006, the Company passed ISO14001 environmental management system certification. On 25 September 2008, 23 September 2011 and 21 September 2014, the Company passed certificate renewal assessment. In July 2016, the Company passed environmental management system assessment by Tianjin Huacheng Certification Inc. Our environmental management system worked effectively.

2. *Standardization of pollution sources management*

We undertook monitoring of operation of waste water treatment facilities, waste gas treatment facilities, hazardous waste storage sites. We executed extension project of our sewage treatment station in high-tech zone and enhanced sewage treatment ability. We organized testing of exhaust emissions channel, waste water discharge channel, plant boundary noise by qualified service organizations. Testing results met national and local pollutant emission standards. We engaged qualified hazardous emission treatment organization to conduct treatment of hazardous wastes such as oily cotton yarn, oily sludge, lacquer residue. We executed amendments of environmental emergencies proposal and organized drills so as to ensure effective control of emergencies and minimize environmental hazard.

(V) 2016 major indicators

1. *Major emission indicators*

Substance emitted	2016 Emissions
Sulfur Dioxide	1.03 tons
Chemical Oxygen Demand(COD)	5.64 tons
Ammonia Nitrogen	0.53 tons
Hazardous Wastes	Produced in total 602 tons of hazardous wastes such as oily sludge, cotton yarn, waste oil and slag
Harmless Wastes	Produced 45,340 tons of harmless wastes such as scrap iron, waste iron, waste paper shell, chop wood, iron from lime, dust

2. *Laws and regulations governing emissions*

Laws and regulations: Law of the People 's Republic of China on Prevention and Control of Atmospheric Pollution, Law of the People 's Republic of China on Water Pollution Prevention and Control and Law of the People 's Republic of China on Prevention and Control of Solid Waste, etc.

Regulatory framework: air pollution control management procedures, water pollution prevention and control management procedures, solid waste pollution prevention and management procedures, etc.

3. *Results of measures for reducing emissions*

The Company regularly invited qualified service providers to conduct environmental monitoring. Based on monitoring data, we strengthened environmental protection facilities operation and reduced use of raw materials. Pollutants produced by the Company all met the emission standards.

4. Results of measures for processing harmful and harmless wastes and reducing emissions

We conducted classification and storage of harmful wastes and invited qualified harmful wastes treatment service providers to process those wastes.

Harmless wastes produced were collected and stored by category. Harmless and non-recyclable wastes such as domestic refuse were reclaimed in municipal daily rubbish collection site. Harmless and recyclable wastes such as iron scrap, paper shell were sold to relevant units for integrated utilization.

Both harmful and harmless wastes produced by the Company were processed in a safe and effective manner and caused no environmental pollution.

5. Company pollutant discharge met national or local standard:

Site	Exhaust gas emissions	Waste water discharge	Noise emissions
Gaoxing	Paint exhaust gas emissions met Integrated Emission Standard for Air Pollutants (GB16297-1996) Comprehensive Emission Standard for Regional Air Pollutants in Shandong Province (DB37/2376-2013); Car testing exhaust gas emissions met Integrated Emission Standard for Air Pollutants (GB 16297-1996)	Production waste water and domestic sewage was partly reused after treatment. Some was discharged into municipal sewage pipe network and met Wastewater Quality Standards For Discharge To Municipal Sewers (CJ343-2010)	Factory noise met Emission Standard For Industrial Enterprises Noise at Boundary (GB12348-2008)
Hanting	Cannon stove exhaust gas and dust emission met Comprehensive Emission Standard for Regional Air Pollutants in Shandong Province (DB37/2376-2013); Paint exhaust gas emissions met Integrated Emission Standard for Air Pollutants (GB 16297-1996) and Comprehensive Emission Standard for Regional Air Pollutants in Shandong Province (DB37/2376-2013)	Production waste water and domestic sewage was partly reused after treatment. Some was discharged into municipal sewage pipe network and met Wastewater Quality Standards For Discharge To Municipal Sewers (CJ343-2010)	Factory noise met Emission Standard For Industrial Enterprises Noise at Boundary (GB12348-2008)

II. Energy saving

(I) Policy

The Company insisted on the energy principle of energy conservation and emission reduction, obligation fulfillment and “Green Power, International Weichai”. Energy management is continually improved and we focus on the development of circular economy featuring green utilization of energy and resources. Energy efficiency is enhanced and cost is lowered, co-creating a low carbon green enterprise. We consciously fulfilled corporate social responsibility and abided by laws and standards about energy saving. Through executing energy management system internally and abiding by requirements of energy management system documents, we undertook energy saving work in a scientific manner.

(II) Laws and regulations followed by the Company in energy conservation

Energy Conservation Law of the People’s Republic of China, Renewable Energy law of the People’s Republic of China, Clean Production Promotion Law of the People’s Republic of China, Water Law of the People’s Republic of China, Measurement Law of the People’s Republic of China, Measures for the Administration of Industrial Energy Conservation, Circular Economy Regulations of Shandong Province, Measures for the Administration of Energy Audit in Shandong Province, Measures for Energy Conservation Supervision in Shandong Province, etc.

(III) Internal rules formulated and followed by the Company in environmental protection

Energy Management Procedures, Energy Management Standards, Utilities Management Procedures, Utilities Dispatching Economic Operation and Management Standards, Energy Quality Management Measures, Energy Consumption Quota Management Standards, Energy Inspection Management System, Energy Statistics Management Standards, Natural Gas Management Standards, etc.

(IV) Major work in 2016

In 2016, the Company upheld the concept of sustainable development of energy conservation and emission reduction, obligation fulfillment and “Green Power, International Weichai”. We enhanced our energy use ability proactively and continually boosted energy efficiency.

1. Circular economy education demonstration

According to the national, provincial and municipal recycling economy demonstration enterprise construction requirements, we developed Weichai Power circular economy education demonstration base and summarized Weichai Power's typical development model. We produced enterprise circular economy videos and displayed the leading role of enterprise in circular economy development and continual enhanced our operation principle of circular economy.

2. Weichai Power industrial park sewage station expansion project

We completed industrial park sewage station expansion project and both discharged and recycled water met quality standards. We also completed water reuse for toilet flushing and greening. We reused 26,363 tons of discharged water during June and December and saved approximately RMB135,000 and reduced the use of clean water.



3. Organize energy-using equipment census and conduct energy efficiency test of major energy-consuming equipment and formulate backward equipment elimination policy

Based on the demands of Ministry of Industry and Information Technology on executing major specific monitoring work of the nation in 2016, the Company conducted census of backward mechanical & electrical equipment. 39 motors were eliminated and aggregate capacity reached 435.2 kilowatt-hour. The Company planned to eliminate the above motors in batches before 2020. We conducted energy efficiency test of major energy consuming equipment and developed energy-saving test program. Using government energy policy funds, we invited energy consultation companies to conduct motor equipment and natural gas stove energy efficiency test. Based on test results, we implemented corresponding control program of major energy consuming equipment and enhanced energy use efficiency.

4. *Completed reformation of direct hot water supply for Intensive logistics park heating*

We completed reformation of both heating and direct hot water supply to ensure intensive logistics park heating. Cooling water from power plant is adopted as heat source for end user heating. With the execution of this project, on the one hand we can increase utilization efficiency of cooling water from power plant. On other hand, under the premise of ensuring normal heating temperature, we can reduce energy consumption at night and save 12% of energy. It is expected that more than RMB200,000 can be saved during the whole heating season.

(V) Major indicators in 2016

In 2016, the Company took full advantage of industry and national policies and executed utilities system optimization and upgrading and enhanced energy supply reliability. Concurrently, we fully served the function of energy management direction and executed energy management systems, enhancing energy management level and maintaining continual stability of energy consumption indicators.

1. *Comparison of energy consumption reduction indicators in past 3 years*

Indicators		Measurement unit	2014	2015	2016	Comparison between 2016 & 2014
Total energy consumption	Water	Ton	982,974	567,145	600,811	-39%
	Electricity	kW·h	26,046	16,129	21,619	-17%
	Natural gas	Thousand cubic meter	11,697	7,291	11,104	-5%
	Steam	steam ton	108,273	81,699	71,712	-34%
Integrated energy consumption per RMB10,000 output value		Standard coal (ton) per ten thousand RMB	0.036	0.036	0.032	-11%
New energy (photovoltaic power generation)		in ten thousand kW·h	210	522	552	163%
		Standard coal (ton)	258	641	678	163%
Financial input for technological improvement of energy saving		in ten thousand RMB	707	712	278	-60%

2. *Acquisition of sources of usable water and measures for enhancement of water usage effectiveness and results achieved*

The Company's water supply mainly comes from municipal pipe network's supply of tap water, 'no-river' water and underground water. Water quality standards and water supply amount both met enterprise production and daily needs. To implement water-saving policies and enhance the efficiency of water resource utilization, in 2016, the Company undertook water-saving special inspection actions, investigating and modifying water pipe network, water facilities one by one. Focus was laid on implementing No.2 factory seat stand clean water use improvement, modification of car testing recycling water system of No.1 factory. Recycling water use volume was enhanced and clean water use volume was reduced. Compared with 2014, water consumption fell by 39% per 1% increase in output value.

(VI) Awards in the aspect of energy conservation

In 2016, 12m bus hybrid system of the Company was awarded Energy-saving outstanding results in Shandong Province.

III. Health and safety

(I) Policies

In 2016, the Company insisted on the principle of compliance with laws and regulations, sustained harmonious development, focus on prevention, adherence to people orientation. Efforts were made to reduce pollution and enhance efficiency so as to realize clean production, creating an international green brand of Weichai. We provided a safe working environment for staff and protect them from occupational hazards.

(II) Laws and regulations followed by the Company in health and safety

Laws and regulations such as "Safe Production Law", "Occupational Disease Prevention Law", "Special Equipment Safety Law", "Regulation on Work Safety Responsibility of Production and Operation Entities of Shandong Province".

(III) Internal regulatory framework followed by the Company in health and safety

Systems such as "Administration Measures for Safe Production Responsibility System", "Administration Measures for the Screening, Identification and Control of Work Safety Accident" and "Administration Measures for Hidden Hazards, Management Measures for Occupational Health"

(IV) Major work in 2016

We achieved satisfactory safe production and operation in 2016. No serious injury or production safety accidents occurred throughout the year. One minor injury case occurred. Major measures are as follows:

1. Convene safe production work conference 2016 and implement safety management responsibilities

Safe production theme of 2016 was set as “Safe production is greater than everything”. Work requirements of “implementation through system, rectification and conference” was put forward. Work focus was clarified and Annual Safe Production Commitment was signed.

2. Publicity and education work about safe production was organized and conducted

“Safe production month” activity was held. Activities for controlling problems of negligence and insufficiency in understanding, management and rectification were organized. Training was provided for new employees and workers switching positions. Training on judicial interpretation of Supreme People’s Court and Supreme People’s Procuratorate and Shandong regulation on work safety responsibility of production and operation entities was provided. Special equipment personnel training was organized. Employees’ skill level and safety awareness were enhanced.

3. Organized special equipment management

In accordance with requirements of Special Equipment Law, we invite special equipment inspection agency to complete annual inspection of special equipment within inspection period. In 2016, more than 1,100 boilers, pressure vessels, factory motor vehicles, lifting machinery, elevators, safety valves were inspected, ensuring safety and efficacy of special equipment.

4. Organized potential danger investigation and rectification

Organized company-level safety inspection such as safety inspection before festivals, specific inspection of safety responsibility implementation, seasonal safety check, centralized investigation in safety month, daily safety inspection. More than 260 potential dangers were identified and rectification rate reached more than 98%. With reference to Safety Standardization assessment criteria, we conducted safety condition assessment of units with poor foundational management.

5. Executed dangerous production procedure safety management

With reference to safety standards of dangerous operation in chemical industry, we established dangerous operation approval mechanism. Management procedures of dangerous operation were compiled and safe operation permits for dangerous operation were issued. Assessment and control of dangerous operation were standardized.

6. Multi-level safety risk control was conducted and potential danger investigation and recertification system construction was executed

Work on multi-level safety risk control and potential danger investigation and recertification was undertaken. Leading group and working group were formed. We formulated "Identification of hazard sources, risk assessment and control procedure", "Guide of Multi-Level Risk Control System Construction" and "Guide of Potential Danger Investigation And Recertification System Construction". We also requested relevant parties to conduct risk areas identification, assessment and recertification.

7. Work on emergency management

To ensure the applicability and effectiveness of the emergency plan of the Company, revision, review, release and registration record of integrated emergency plan, special emergency plan and on-site rectification proposal were conducted. In accordance with emergency plans formulated at the beginning of the year, we requested different parties to conduct training and drilling work relating to annual emergency plan so as to ensure emergency conditions are handled in an efficient and suitable manner.

(V) Major indicators 2016

1. Number and rate of mortality due to work were both '0'.
2. Working days lost due to work-related injury were "90 days".
3. **Prevention of employees' occupational disease.** In accordance with requirements of Technical Specifications For Occupational Health Surveillance (GBZ188-2014), employees exposed to occupational diseases' hazards were arranged occupational health checkups before and during employment and after their resignation from their positions. Employees found suffering from occupational contraindication in checkups were transferred from their original working environment and provided new positions.

4. Occupational health and safety measures adopted and how they are executed and monitored

- Strengthened red line consciousness and safety foundation. Revolving around “Safe production is greater than everything“, different measures were adopted so as to enhance employees’ safety awareness and red line consciousness. Safety production foundation management was strengthened;
- Safety technique and occupational health education and training was conducted. Safety induction training of new staff was executed. Pre-employment safety education of staff switching positions as well as special equipment training are conducted. Both safety consciousness and operation skills of our staff were enhanced. Staff exposed to occupational hazards were arranged pre-employment occupational health training and 4-level occupational health training during employment. Self-protection awareness of staff was enhanced;
- Conducted occupational health and safety supervision and inspection. Safety supervision and inspection efforts were strengthened. A long-term mechanism for inspection and rectification of potential trouble relating to safe production undertaken was established. Seasonal safety inspection, specialized safety inspection, safety inspection before festivals and holidays, daily safety inspection and occupational health inspection were conducted. Potential safety dangers were rectified, ensuring safe production throughout the year;
- Efforts in labour protection were made so as to ensure production safety and occupational health of staff. Staffs were provided with different kinds of protective device meeting national standards. Anti-heat stroke materials and food were provided for high-temperature positions, ensuring production safety and occupational health of our staff;
- Special equipment safety management was promoted. To regulate the use and management of special equipment and prevent special equipment accident, testing and special inspection are conducted in accordance with the principle of safety first, focus on prevention, energy saving and environmental protection, comprehensive management. Existent potential dangers are rectified and special equipment safety is enhanced;
- Conducted testing of hazard factors of occupational diseases. We invited units qualified for occupational diseases’ hazard testing to conduct 2016 entrusted inspection of hazard factors of occupational diseases such as dust, noise, benzene series (BTEX), high temperature, vibration. Testing reports are provided by entrusted units. The occupational hazards detection station of the Company conducted 2016 daily inspection based on occupational hazards daily inspection plan;

- Execution and operation of environmental/occupational health and safety management system. To ensure the effective operation of the Company's environmental/occupational health and safety management system, identification of hazard source and environmental factors was conducted. Control mechanism of important hazard sources and environmental factors established with environmental/occupational health and safety objectives and monitoring mode of effectiveness of indicator control. Environmental/occupational health and safety behavior of various units are regulated. Through internal assessment and inspection assessment, non-compliances with system operation are discovered. Corrective and preventive measures were formulated and executed. Continual improvement was ensured.

IV. Performance of environmental protection, energy saving and safety duties by major subsidiaries

(I) KION

1. Emission

In 2016, KION complied with HSE policy, compliance code and other regulatory requirements to fulfill its obligation of emission standards. KION ensures adherence to all environmental protection regulations applicable to the establishment and operation of production and service units. KION obtains permits and approvals in good time and comply with the rules and requirements associated with them. KION obeys the statutory limits for pollution levels and aim to reduce the impact on the environment – particularly in terms of noise, odours, soil contamination and waste water in an appropriate manner.

KION aims at avoiding creating waste in the first place. The waste produced has to be disposed of with the minimum environmental impact. KION complies with all waste disposal regulations, which particularly applies to hazardous waste, such as paint, acid and oil.

2. Use of resources and environmental protection

Protecting the environment is part of KION's sustainable corporate development. KION maintains its competitiveness and fulfills its responsibility as a corporate citizen by making a commitment to protect the environment. KION complies with its HSE policy, compliance code and other regulatory requirements to guide how to use resources efficiently, and to minimize the impact on environment and natural resources.

KION develops and builds energy-efficient products, uses recyclable materials and deploys eco-friendly manufacturing techniques in the production process. KION drives the development and deployment of environmentally responsible technologies that help to preserve the environment or reduce the impact on it. KION expects that all areas of KION and all employees use natural resources in a sustainable manner.

3. Health and safety

KION complies with the requirements in ILO, Compliance Code and HSE policy regarding health and safety. These include taking comprehensive precautions to create a safe working environment and ensuring employees know how to avoid risks and accidents.

KION provides a safe working environment by identifying, eliminating or reducing hazards to an acceptable level as dictated by a risk management approach. KION regularly provides all employees with comprehensive information about existing and amends rules in healthy and safety in workplace, like all employees must wear the stipulated protective gear, in particular safety shoes, protective goggles, gloves and helmets when and where applicable. In the event of an accident at work, the accident area must be made safe, help should be fetched if necessary, and first aid should be given. All accidents at work must be reported to the manager in charge to continuously improve processes so that KION will avoid accidents in future.

(II) Shaanxi Heavy-duty Motor

1. Emission

Shaanxi Heavy-duty Motor invested heavily in the construction of equipment and facilities for environmental protection.

(1) Standards and measures for treating exhaust fumes and wastewater

Category	Classification	Standards of Implementation	Measures for Treating Pollutants
Exhaust Fumes	Organic Exhaust Fumes from Coatings	The "Volatile Organic Compounds Emission Control Standards" (DB61/T1061-2017) is implemented for benzene, methylbenzene, dimethylbenzene, non-methane hydrocarbon, sulphur dioxide	An advanced exhaust fumes purification and catalytic combustion device is in place to process the methylbenzene and dimethylbenzene in the organic exhaust fumes generated during the coating process. The exhaust fumes could be emitted upon reaching the standards under the regulations. Ventilation equipment and precipitators have been installed throughout the welding workshops to remove the soot effectively
	Exhaust Fumes from Welding	The "Comprehensive Air Emission Standards" (GB16297-1996) is implemented for soot, carbon monoxide, nitrogen oxide	
	Exhaust Fumes released by vehicles	The "Comprehensive Air Emission Standards" (GB16297-1996) is implemented for nitrogen oxide, carbon monoxide	
Waste Water	Level 1 Treatment and Control Indicator for Workshops	Level 3 of the "Integrated Wastewater Discharge Standards" is implemented for COD, PH, total phosphorus	Industrial sewage treatment stations and comprehensive sewage treatment stations are in place in plant areas. Waste water goes to the coating sewage treatment station for a preliminary treatment, and then enters the comprehensive sewage treatment station for another round of treatment. After the treatment, the waste water is recycled and used for irrigation purposes in the greening of the plant areas
	Level 2 Treatment and Control Indicator for Sewage in Plant Areas	The "Urban Water for Municipal Use (Greening) Standards" is implemented for COD, BOD, NH ₃ -N, PH, SS	

(2) Measures for waste disposal

Shaanxi Heavy-duty Motor took the initiative to review its clean production process by making the most out of the resources through the process of selection of raw materials, the control of production technologies and processes, and the output of products and by thoroughly considering the possibility of reducing the amount of waste generated at each stage of production. Shaanxi Heavy-duty Motor Company Limited also stepped up its management of hazardous waste to make sure it will not lead to environmental pollution. **All hazardous waste is handed over to qualified entities to perform safe detoxification disposal.**

2. Use of resources and environmental protection

Shaanxi Heavy-duty Motor followed the various kinds of environmental protection laws, regulations, standards and environmentally friendly industry policies promulgated by the national government and local governments, as well as the environmental protection standards and requirements the state has imposed on products.

Rigorously implementing the “Three Simultaneous” system in environmental protection, Shaanxi Heavy-duty Motor Company Limited followed through on the requirements of simultaneously designing, commencing the construction of, and putting into operation projects that are undergoing new construction, alteration and expansion. Shaanxi Heavy-duty Motor remained in strict compliance with the requirements of the environmental protection laws and regulations of China.

To lessen the impact of its production and operation on the environment, the company adopted such pollution prevention and treatment measures as investing in pollution treatment equipment and facilities to ensure the emission of pollutants stays within the limit permitted by regulations. Solid waste has to be sorted meticulously under standardized management. The emission of pollutants is subject to regular monitoring. Shaanxi Heavy-duty Motor resolutely carried out its review of clean production and accomplished the target of “saving energy, cutting consumption, reducing pollution and boosting efficiency” by minimizing pollution and emission at their source and reducing the use of resources.

3. Health and safety

In 2016, Shaanxi Heavy-duty Motor recorded no production-related accident resulting in serious injury or worse and no outbreak occupational diseases. Shaanxi Heavy-duty Motor was rated as “Advanced Unit” in fire prevention and safe production 2016. The major initiatives are as follows:

- (1) In strict compliance with the Work Safety Law, Shaanxi Heavy-duty Motor established a safety management department and put together a team of safety management personnel. Rigorously implementing a system of principal responsibility of work safety, Shaanxi Heavy-duty Motor put in place a work safety accountability system and a work safety management system, as well as the criteria for appraisal. In accordance with the Guidelines for Preparing Work Safety Accident Contingency Plans, Shaanxi Heavy-duty Motor prepared the company’s work safety contingency plan, submitted the plan to the government department in charge for the record and organized drills accordingly. In accordance with the Basic Norms for Work Safety Standardization of Enterprises (GB/T33000-2016), the company carried out the construction of work safety standardization and passed the National Level 1 Work Safety Standardization Enterprise Review.
- (2) In compliance with the requirements under the Law on the Prevention and Treatment of Occupational Diseases, the company organized special assignment check-ups and occupational health check-ups for its staff members, and confirmed that no staff member suffered from any occupational disease. An examination of the workplace hazard factors was conducted, yielding a result that was consistent with the relevant standards. The company organized briefing sessions on workplace occupational hazard factors and training sessions on knowledge regarding the prevention and treatment of occupational diseases. An occupational health file has been set up for each employee. The company distributed to its staff an adequate amount of work-related protective gear meeting the relevant standards and requirements to protect the health of the staff.

(III) Fast Gear

In 2016, Fast Gear actively fulfilled its responsibility in conserving energy and cutting down emission levels and achieved spectacular results in accomplishing such a mission by developing the energy-saving industry, energy-saving products and a circular economy, boosting the efficiency of the integrated use of resources and expediting the construction of an “environmentally friendly and resource-saving” enterprise.

1. Promotion of energy management systems

In 2015, Fast Gear set about building up an energy management system. Having undergone the review conducted by the internal audit team for energy management systems under China Quality Certification Center, the energy management system of Fast Gear was approved and earned the “Energy Management System Certification” on 31 May 2016.

2. Use of resources and environmental protection

In 2016, Fast Gear lowered its emission and pollution levels by replacing coal-fired boilers with those fired by clean energy sources (natural gas). The company introduced the use of oil fluid in the circular purification of emulsion in an online purification equipment to reduce the emission level of waste emulsion, effectively lowering the amount of hazardous waste generated. The company stepped up the application of green LED lighting by equipping its plants with high-efficiency and energy-saving lighting systems to control the electricity consumption of facilities and slash the power costs for lighting purposes. In 2016, a total of over 1,200 units of LED lamps were installed, significantly boosting the level of illumination while saving costs amounting to approximately RMB353,000.

In strict compliance with the national phase-out plans and limits for equipment with high energy consumption, Fast Gear phased out its backward electric products. In 2016, more than 20 units of the YE3-series high-efficiency motors were put into operation, leading to an increase in efficiency by over 4%, a boost in the power factor, remarkable results in energy saving and possible annual savings in cost of approximately RMB70,000. The replacement of 4 units of old, high-energy consumption transformers with the new S11-series transformers could bring savings in cost of approximately RMB150,000 every year. Stepping up the renovation of its capacitance compensation cabinets, the company renovated 5 units of capacitors, increasing the power factor from 0.75 to over 0.9, reducing the resonance of harmonics and improving the quality of the power generated.

Fast Gear also optimized and renovated the continuous furnace cooling in heat treatment workshops. The switch from continuous furnace oil circulation water cooling to wind cooling for the 5 units of IPSEN-series continuous furnaces completely solved the problem of water and electricity consumption under the pre-existing cooling method being too difficult to control and leading to massive waste. The change slashed the level of water consumption, bringing annual savings in water charges of approximately RMB120,000.

3. Health and safety

Fast Gear laid down a “Three Zero” work objective to complement a series of control measures: zero injury in safe production, zero tolerance for entering the workplace in attire and gear inconsistent with the requirements and zero emission of coolant. **In 2016, the number of mortality due to work was zero. Qualified medical organizations were also engaged to conduct occupational medical examinations for staff members assigned to toxic and hazardous operations. The incidence of occupational disease was zero.**

Community

In recent years, while achieving overwhelming and leap-frog developments, the Company organically combined the maximization of its economic interests with the society's interests by actively fulfilling its social responsibility, participating in community welfare activities, fostering local economic construction and enhancing the Company's reputation and goodwill.

I. Community activities

(I) Social activities

In 2016, the Company's volunteers combined the corporate vision of green development by launching activities such as "Sharing Redundant Articles, Sharing in Low-carbon Living" ("分享闲置物品·共享低碳生活") and "Be the Pioneer in Treasuring Water, Cherishing Water, Conserving Water" ("愛水、惜水、節水從我做起"), organizing experiential field trips in environmental protection and community welfare such as "Green Power, Living Blue" ("綠色動力'為'藍生活") and implementing green initiatives such as the "Evergreen 3.15 Tree Planting Activity" (3.15植樹"常青林"), while also volunteering in the CBA games and other social volunteering campaigns, such as "Civilized Traffic Instructions of Weifang City" (濰坊市文明交通指引). The volunteering initiatives were widely promoted through the media within the Company, in Weifang City and in the industry, strengthening the construction of the Company's spiritual civilization and elevating the Company's corporate image. The Company developed all by itself a tracking system to record the hours that Weichai's young volunteers served for. In 2016, our volunteers served for a total of more than 5,500 hours.



Volunteering at the national CBA games



Experiential field trips in environmental protection and community welfare

(II) Union activities

1. *Enriching the life of staff through organizing large-scale activities*

- (1) On the occasion of “1 July”, a singing contest with the theme “Bearing in Mind Our Mission, Implementing and Always Sticking to the Mission” in celebration of the 95th anniversary of the founding of the Party was organized, where 19 teams totalling 1,600 staff members took part and demonstrated the passion of Weichai’s staff.

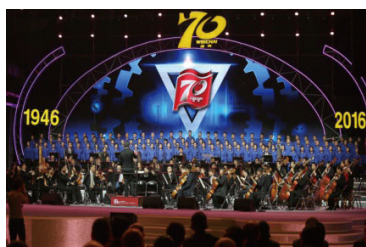


Singing contest marking the 95th anniversary of the founding of the Party



A performance given by the Art Troupe of the State General Labour Union

- (2) On 9 November 2016, the Art Troupe of the State General Labour Union of the People’s Republic of China came over to the front-line workshops, giving an exquisite performance for the staff, and visiting and touching base with the National Workers’ Pioneer (全國工人先鋒號), “the Three High Experimental Team of Weichai” (濰柴三高試驗隊).
- (3) A large-scale entertainment performance marking the 70th anniversary of Weichai’s innovative development was organized. Under the theme of “Going High-end, Lasting for Centuries, Staying True to Our Convictions, Carrying on”, a brilliant performance was delivered in front of Weichai’s staff and saw the participation of 6,500 staff representatives from all over the world.



- (4) The “Best Wishes in a Hundred-Metre-Long Scroll” activity was held, where over 5,800 domestic and overseas staff members put down their best wishes and signature in a scroll 100 metres in length and 70 centimetres in width.



2. *Demonstrating the capabilities of female staff members by launching activities for female staff members*

- (1) A host of activities were organized for female staff members to demonstrate their capabilities, raise their quality and safeguard their rights. More than 400 staff members in 22 teams took part in the “Flitting Drum and Dance” fitness, folk dance and drum contest (“鼓舞飛揚”健身秧歌腰鼓比賽). At the “Art at Their Fingertips” (“指尖上的藝術”) exhibition of the artistic creations of female staff members, over 200 pieces of calligraphy, paintings, embroidery, paper-cutting, knitting and creative alteration were put on display.



The “Flitting Drum and Dance” fitness, folk dance and drum contest held on the “8 March Festival”



The “Art at Their Fingertips” (“指尖上的藝術”) exhibition of the artistic creations of female staff members

- (2) The reading initiative for female staff members under the theme of “Enhancing Quality through Enriching Skillset” (“增強本領 提升素質”) was launched, where 68 pieces of compositions in the form of calligraphy and painting, as well as nearly 300 articles, were submitted by female staff members. 5 sessions of lectures on culture for female staff members were held, with more than 600 participants. Forums were also organized to meet the need of female staff members for personality development, such as the “Parent-child Education Community Welfare Salon” Forum (“親子教育公益沙龍”講座) and a special skill training forum hosted by the Workers’ Home of the General Labour Union of Weifang City (濰坊市總工會職工之家). 5 sessions of fraternity gatherings for single staff members were organized in collaboration with matchmaking organizations and over 20 corporations in Weifang City, with approximately 300 participants.



“Enhancing Quality through Enriching Skillset” reading and sharing club for female staff members



The Matchmakers’ Association of the Company organized fraternity gatherings for single staff members

3. Honouring and caring for the elderly, serving elderly staff members

Claims for medical expenses are filed on behalf of retiring cadre members and elderly workers born before 1949 free of charge. Financial assistance amounting to RMB640,000 have been granted to staff members fall on hard times. 18 sessions of culture and sports activities were organized for elderly workers to show them the care of the Company.



Visiting and touching base with retired elderly workers



A wide range of activities for elderly workers

4. *Caring for the living standards of workers, serving the front-line production staff*

Always mindful of the living standards of its workers, the Company supported its highly productive workers by showing its care. While production workers were given supplies such as microwave ovens and washing machines, the labour unions of primary units formed a service team devoted to the service of staff members and highly productive workers. The Company showed its care by handing out “mini medical kits” to its production workers.



Production workers were given microwave ovens and washing machines



The handing out of “mini medical kits”

(III) Activities for young staff members

1. Throughout the year, 3 sessions of “Youth Listens – Our Future” (“青聽-我們的未來”) forums facilitating the interaction between young staff members and the senior staff were organized, with over 700 staff members taking part in the activities. Young staff members and the senior management of the Company got to know one another better through these activities, leaving young staff members with a more solid understanding of the Company’s development, leading and inspiring all staff members to engage with their position and better themselves.



Forum “Youth Listens – Our Future” (“青聽-我們的未來”): forums facilitating the interaction between young staff members and the senior staff

2. Through mobile applications, the Company organized the “Studying the Classics and Raising the Upright Spirit as the Aspirations of Youth” (“讀經典提正氣青春志”) classical poetry online reading contest, the “Tones and Rhymes of Weichai Singing in Praise of the Party” (“濰柴聲韻，為黨而歌”) online singing contest and online volunteer charitable walk in an effort to boost the level of participation and wide the scope of coverage.
3. With the help of youth associations, over 10 Wechat groups for vocal music lovers, speaking and table tennis enthusiasts have been set up to bring together a total of more than 1,000 young staff members through interactions about hobbies and emotions. With the aid of other forms of communication, such as Wechat and H5, the Company launched awareness campaigns on various topics and stepped up the inculcation of values in young staff members to create a sense of belonging and serve as a source of guidance for them.

II. Combating corruption

(I) Anti-corruption, anti-bribery, anti-fraud and anti-money laundering policies of the Company

The policies mainly comprise of the “Interim Provisions on the Prohibition of Commercial Bribery” (《關於禁止商業賄賂行為的暫行規定》), the “Provisions on Administrative Penalties for Staff in Violation of Disciplines” (《違紀員工行政懲處管理規定》), the “Code of Conduct for Business Transactions in Operating Activities” (《經營活動業務往來行為規範》) and the “Administrative Measures for Inspections” (《巡察工作管理辦法》).

(II) The national laws, regulations, rules and policies the company is in compliance with

Combining the learning activities under the “Two Studies One Act” initiative (兩學一做), the Company organized the studying and implementation of the “Standards on Integrity and Self-discipline of the Communist Party of China” (《中國共產黨廉潔自律準則》), the “Regulation of the Communist Party of China on Disciplinary Actions” (《中國共產黨紀律處分條例》), the “Regulation of the Communist Party of China on Accountability” (《中國共產黨問責條例》) and the “Regulation of the Communist Party of China on Internal Supervision” (《中國共產黨黨內監督條例》), and laid down anti-corruption rules and policies such as the “Administrative Measures for Integrity Conversations and Discussions” (《廉潔談話約談管理辦法》), the “Implementation Measures for the Party Committee’s Primary Responsibility and the Discipline Inspection Commission’s Supervisory Responsibility for Building a Culture of Integrity in the Party” (《黨風廉政建設黨委主體責任紀委監督責任實施辦法》) and the “Case Management Process for Violations of Regulations and Disciplines” (《違規違紀案件管理流程》).

(III) Key indicators

1. Total Number and Percentage of Business Units Subject to Risk Analysis for Corruption

In 2016, the Company organized the enhancement of integrity risk dynamic management for 43 departments, with the coverage of risk analysis for corruption at 100%.

2. Percentage of Staff Trained in Anti-Corruption Policies and Procedure

In 2016, the Company emphasized the promotion and education of anti-corruption policies by organizing cautionary education activities on anti-corruption, launching quizzes and competition on knowledge of the “Standards on Integrity and Self-discipline of the Communist Party of China” (《中國共產黨廉潔自律準則》) and the “Regulation of the Communist Party of China on Disciplinary Actions” (《中國共產黨紀律處分條例》), the studying of the “Condensed Study Manual on Building a Culture of Integrity in the Party” (《黨風廉政建設簡明學習手冊》) and quizzes on knowledge of integrity. Promotion activities of anti-corruption knowledge has been organized for 12 key departments including procurement, marketing and intensive logistics to consolidate their learning of anti-corruption policies. To refine the anti-corruption learning platforms, a promotion and education platform for “Building a Culture of Integrity in the Party” has been set up on the OA system platform, while the platform “A Culture of Integrity in the Party” has been put in place for online television, ensuring the full coverage of integrity promotion and education.

3. No incident of corruption and bribery occurred in the Company in 2016.

4. Description of Anti-Corruption Measures, Reporting Procedure, and the Means of Enforcement and Monitoring

In 2016, the Company refined its numerous reporting channels including petitions through mail, in-person visits, phone, internet and letterbox by setting up a hotline and a mailbox dedicated to reporting purposes and making the channels available to the public in a conspicuous location. To ensure reporting is possible through multiple channels, a reporting network “I want to report” for building a culture of integrity in the Party has been established on the OA system platform.

Changing its way of supervision, the Company shifted from “passive waiting” to “proactive intervention”, and from “extensive involvement” to problem-oriented supervision. The Company initiated the monitoring of the fulfilment of responsibilities, the supervision of bidding processes and the inspection of systems, organically combining “inspection, prevention and control” and making it possible to detect risks of corruption at an earlier stage. Implementing the “Four Forms” (四種形態), the Company placed particular emphasis on the management of integrity conversations and discussions to make prevention at an early stage possible. Putting in place an innovative integrity risk prevention and control mechanism, as well as a dynamic detection and management mechanism, the Company enhanced the “Two Responsibilities” and “One Post, Two Responsibilities” of the cadre of leaders, attaining an anti-corruption network thorough in breadth and in depth.

(IV) Major initiatives at combating corruption and achievements for 2016

In 2016, the Company committed itself to “Thinking outside the Box and Proactively Reinventing Itself” by organizing and convening specialized meetings on building a culture of integrity in the Party, emphatically implementing supervision, the enforcement of discipline and accountability. Firstly, the Company organized conferences on building up integrity and honesty for related parties in the business, thereby putting in place mutual supervision for the purpose of preserving integrity. Secondly, the Company implemented a checklist for primary responsibility and the management of supervisory responsibility, thereby enforcing the two responsibilities. Thirdly, the Company innovated the integrity education by combining positive education with cautionary education. Fourthly, the Company piloted the management of position-related risk prevention and control, setting up a management and control mechanism where risks are broken down into manageable chunks. Fifthly, the Company stressed the containment of problems by ensuring that problems were managed and controlled in a closed system. Through adopting a series of supervisory and monitoring measures, the Company fostered a strong culture of integrity where members of the cadre and staff alike have become more vigilant than ever in resisting corruption.

2017 Outlook

As a leading enterprise in the equipment manufacturing industry, the Company sees it as a duty to further enhance its supervisory and management system for corporate social responsibility and considers the fulfilment of the Company's corporate social responsibility as a key indicator of efficiency for the Company to strive for, so as to become a better leader in the industry. The Company will remain in strict compliance with social mores and business ethics, subject itself to the monitor of the general public, and place greater emphasis on the legal rights of creditors and staff members while pursuing economic efficiency and safeguarding the rights of shareholders. The Company will pursue a course of development for the mutual benefit of suppliers and customers alike, achieving a win-win situation for all the parties. The Company will also stick to technological innovation and redouble its efforts at the research and development of technologies for new energy and new products, along with vigorously pushing ahead with clean production and the development of circular economy, bringing the Company in harmony with society in the course of development. Through its active participation in community welfare activities, the Company will contribute a positive spirit as a corporate member of the community at large.

Into 2017, opportunities lie ahead alongside challenges. In the face of new pressure on its development, the Company will always have in mind its social responsibility and remain committed to its development goal of "going high-end, becoming the first in the world" by starting with the full process of the product life cycle, holding on to the development model driven by technological innovation, strengthening the vision of value engineering, implementing cost management and control throughout the process, tirelessly refining its products, continuously improving the quality of products, creating products distinguished by their competitiveness in cost, technology and quality, thereby delivering differentiation value for customers. The Company will continue to speed up the integration of informatization and industrialization, construct a smart manufacturing base on a comprehensive scale, push ahead with the notion of "Made in China 2025" at a high level and lead the industry in transforming its development. The Company will enhance the e-commerce platform and customer service system of Weichai to continuously raise the standard of service. The Company will further deepen the reform of its security management system, enhance the building of energy management systems, construct a model base for circular economy, ceaselessly enhance staff awareness of safety responsibilities, conserving energy and reducing emissions, and endeavor to safeguard the safe production and green operation of the Company. While always seeking to add value to shareholders' capital and boost the Company's market value, the Company will conscientiously fulfil its social responsibility as a corporate citizen by giving back to society, bringing returns to shareholders and remaining grateful to its staff, gain the recognition of the market and the trust of customers and foster the harmonious and healthy development of the Company along with society.

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