



More advanced electric vehicles

(Stock Code: 1585)

YADEA GROUP HOLDINGS LTD. 2016 Environmental, Social and Governance Report



This 2016 Environmental, Social and Governance Report (the “Report”) covers all aspects of Yadea Group Holdings Ltd. (hereinafter referred to as the “Company” or “Yadea”).

REPORTING PERIOD

This Report is the first annual environmental, social and governance report of the Company and its subsidiaries (collectively the “Group”), covering all times during the reporting period from 1 January 2016 to 31 December 2016 (the “Reporting Period”), and some of its contents may fall beyond the above Reporting Period.

PRINCIPALS OF PREPARATION

This Report is prepared in accordance with Environmental, Social and Governance Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), by reference to the Sustainability Reporting Guidelines (G4) issued by Global Reporting Initiative.

EXPLANATION OF REPORT DATA

Some of the financial data in this Report are extracted from the consolidated annual results of the Group for the year ended 31 December 2016. If the data are inconsistent with those in the 2016 annual report of the Company (the “Annual Report”), the data in Annual Report shall prevail. Other data are mostly for the year of 2016 (expect some may fall beyond the above range) and are mainly from the Company’s internal systems and its subsidiaries’ statistics. The currency amounts in this Report are denominated in RMB, unless otherwise stated.

FORMS OF RELEASE

This Report is released in electronic versions. Electronic version can be both accessed on the Stock Exchange’s website (www.hkexnews.com) and the Company’s website (www.yadea.com.cn).

This Report is published in both Chinese and English. In case of any discrepancies between the two versions, the English version shall prevail.

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As the world's largest electric two-wheeled vehicles consumer market, the People's Republic of China (the "PRC") has a growing demand for electric two-wheeled vehicles, and the combination of new technologies like Internet of Things and Internet with the industry brings new opportunities and challenges for the development of the electric vehicle industry. Yadea has always been adherent to its pioneering and innovative spirit as an enterprise development guidance for its designing, researching, developing, manufacturing and selling of electric scooters, electric bicycles and related accessories so as to create products with craftsmanship spirit in each session. On 19 May 2016, with the collaborative efforts of all employees of Yadea, our Company was listed on the Stock Exchange, being the first domestic electric vehicles enterprise listed on the Stock Exchange. Revenue from the sales of electric two-wheeled vehicles and related accessories in 2016 was RMB6,662.14 million, an increase of approximately 3.6% of those in 2015; gross profit for the Reporting Period amounted to RMB430.13 million, representing an increase of approximately 14.6%.

Fulfilling product responsibility, cooperation and innovation are the key criteria to Yadea's development. In 2016, we introduced 45 new models of electric scooters and 47 new models of electric bicycles with advanced performance characteristics. Currently, we are also in the process of developing lithium battery with advanced performance for electric two-wheeled vehicles with one of our strategic alliances, Lightning Motors Corporation, a U.S. company specializing in researching and developing advanced electric two-wheeled vehicles.

Insisting on green operations is the core to achieve Yadea's sustainability. For the Company's operation session, we achieved standardisation of emissions management and effectively used natural resources during the production and working processes. For the products and sales sessions, we produced green products, publicized environmental awareness and strived to create a "higher-end" green lifestyle for global electric vehicle consumers.

Yadea Implemented "People-Oriented" as its policy to care our employees. We devoted to build up a corporate belief of "Love, Altruism and Harmony". We attached great importance to employees' safety, enriched their spiritual life, created a clean and comfortable living environment, built a sound training and development platform, as well as nurtured a very cohesive team with high implementation capacity. As at 31 December 2016, our Group had 3,131 employees in total.

Continuous improvement of supply chain management is the prerequisite for Yadea to achieve multi-win situation. We managed suppliers in all respects, improved suppliers' grading system and provided them with regular trainings. We developed partnership with suppliers to the greatest extent we can.

Participating in charitable events is a practical way for Yadea to make contribution to the local community. We fulfilled our corporate responsibilities and participated in public welfare undertakings through various channels, including carrying out precision poverty alleviation, making donations and encouraging employees to participate in volunteer work. With the idea of "When You Drink Water, Think of Its Source", we strived to make contribution to the local community.

We firmly believe that sustainable development and the Company's sound operation are mutually reinforcing. We will combine the systematic deployment of "High-end Strategy" and continue to focus on environmental, social and governance responsibilities of a company. While seeking our own development, we will link with community to achieve sustainable development and build "higher-end electric vehicle" brand.



Group Founder / Chairman: Dong Jinggui


COMPANY PROFILE


Yadea is a leading electric two-wheeled vehicle brand in the PRC, focusing on designing, researching, developing, manufacturing and selling electric scooters, electric bicycles and related accessories. Headquartered in Wuxi City, Jiangsu Province, the Group has production facilities in Wuxi, Tianjin, Cixi and Dongguan. Considering the increasing demand of electric scooters in southern China and the overload capacity of Dongguan production facility, the Group relocated Dongguan production facility to Qingyuan. The PRC operating subsidiaries include Yadea Technology Group Co., Ltd. ("Yadea Group"), Jiangsu Yadea Technology Development Co., Ltd. ("Jiangsu Yadea"), Tianjin Yadea Industry Co., Ltd. ("Tianjin Yadea"), Tianjin Yadea Weiye Vehicle Co., Ltd., Wuxi Yadea Import and Export Co., Ltd. ("Yadea Import Export"), Zhejiang Yadea Motorcycle Co., Ltd. ("Zhejiang Yadea"), Guangdong Yadea Motorcycle Co., Ltd., Jiangsu Xindi Technology Development Co., Ltd., Yadea Technology Group Sales Co., Ltd., Shanghai Yadea Investment Co., Ltd. and Guangdong Yadea Motorcycle Co., Ltd.. The Company was listed on the Stock Exchange on 19 May 2016 and became the first listed company of electric two-wheeled vehicle in the PRC.

The Company continued to enhance its value creation capabilities and strived to be more powerful and capable of manufacturing products which can bring customers happiness, so as to build "higher-end electric vehicles" brand and create "higher-end" green lifestyle for electric vehicle consumers across the world. Under the guidance of "High-end Production Strategy", Yadea continuously enriched its important deployments such as "high-end design, high-end technology, high-end quality, high-end services and global exports", introduced 45 new models of electric scooters and 47 new models of electric bicycles with advanced performance characteristics, and sold its products in the PRC by a nationwide extensive distribution network consisted of over 1,700 distributors and over 9,150 sub-distributors. At the same time, the Company actively expanded overseas markets and sold its products to over 50 countries. In 2010, with its excellent quality and leading brand, Yadea's electric vehicle became servicing electric sanitation vehicle in Shanghai World Expo pavilions, which made great contribution to the success of Shanghai World Expo and won unanimous acclaim from both inside and outside the industry. In the electric vehicle industry, Yadea's electric vehicle was the only one to be elected as one of the 2012 Top 100 Enterprises in China Light Industry (2012年度中國輕工業百強企業), and ranked No.1 among the Top 10 Electric Two-wheeled Vehicle Enterprises of the China Light Industry (中國輕工業電動自行車行業十強企業) for the seventh consecutive year since 2010. In the same year, Yadea's electric vehicle was selected as the designated vehicle for Chinese National Team of General Administration of Sport at the London Olympic Games and won the "2012 London Olympic Games Outstanding Contribution Award" (備戰2012年倫敦奧運會突出貢獻獎) with its excellent performance.

Currently, Yadea is also in the process of developing lithium ion battery with advanced performance for electric two-wheeled vehicles with one of our strategic alliances, Lightning Motors Corporation, a U.S. company specializing in researching and developing advanced electric two-wheeled vehicles. With continuous innovation and development, revenue from the sales of electric two-wheeled vehicles and related accessories was RMB6,662.14 million in 2016 and its profit for the year of 2016 was RMB430.13 million, representing an increase of approximately 3.6% and approximately 14.6% respectively as compared with 2015. As at 31 December 2016, the total number of employees of the Group was 3,131.



 **Yadea**
More advanced electric vehicles

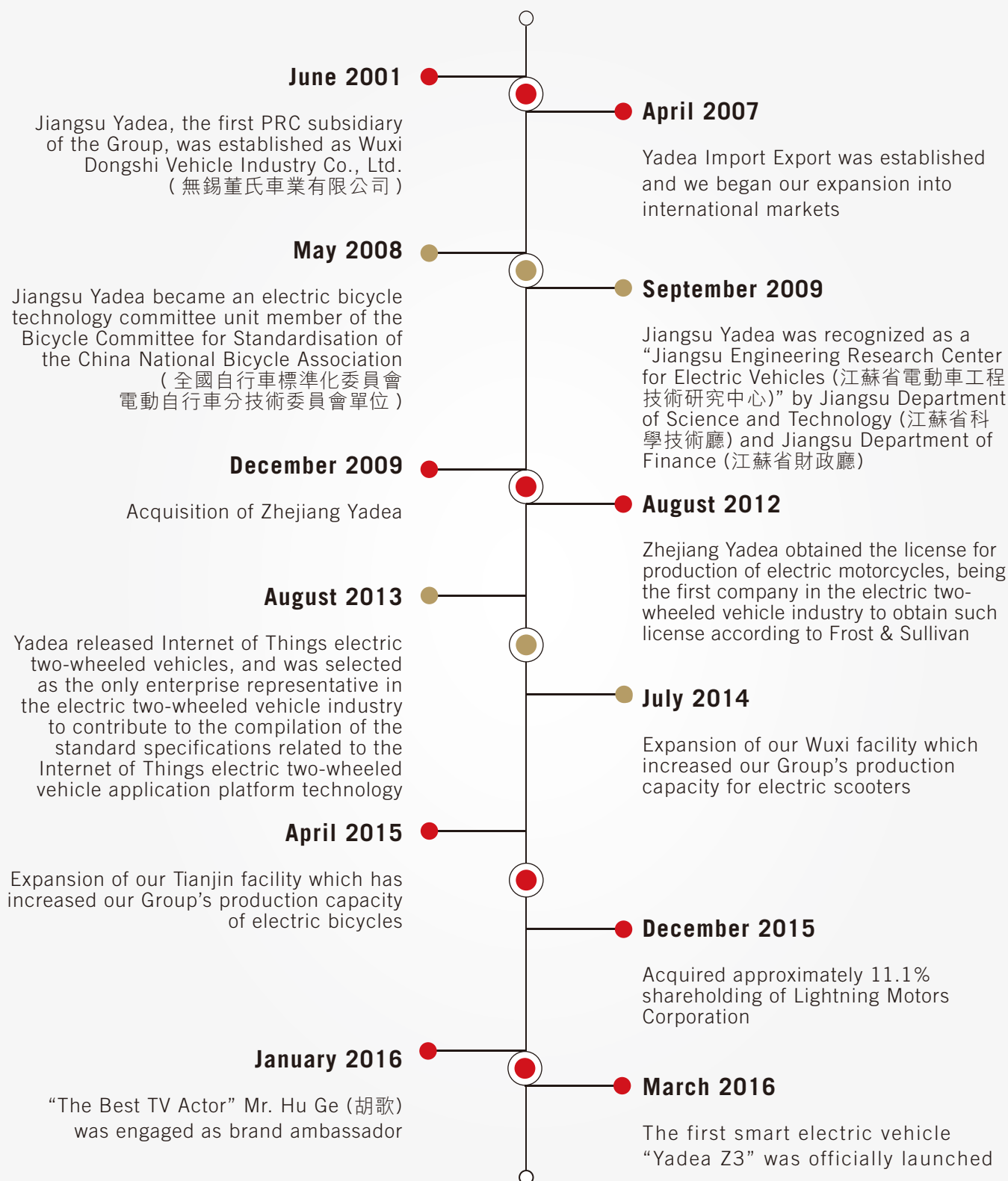


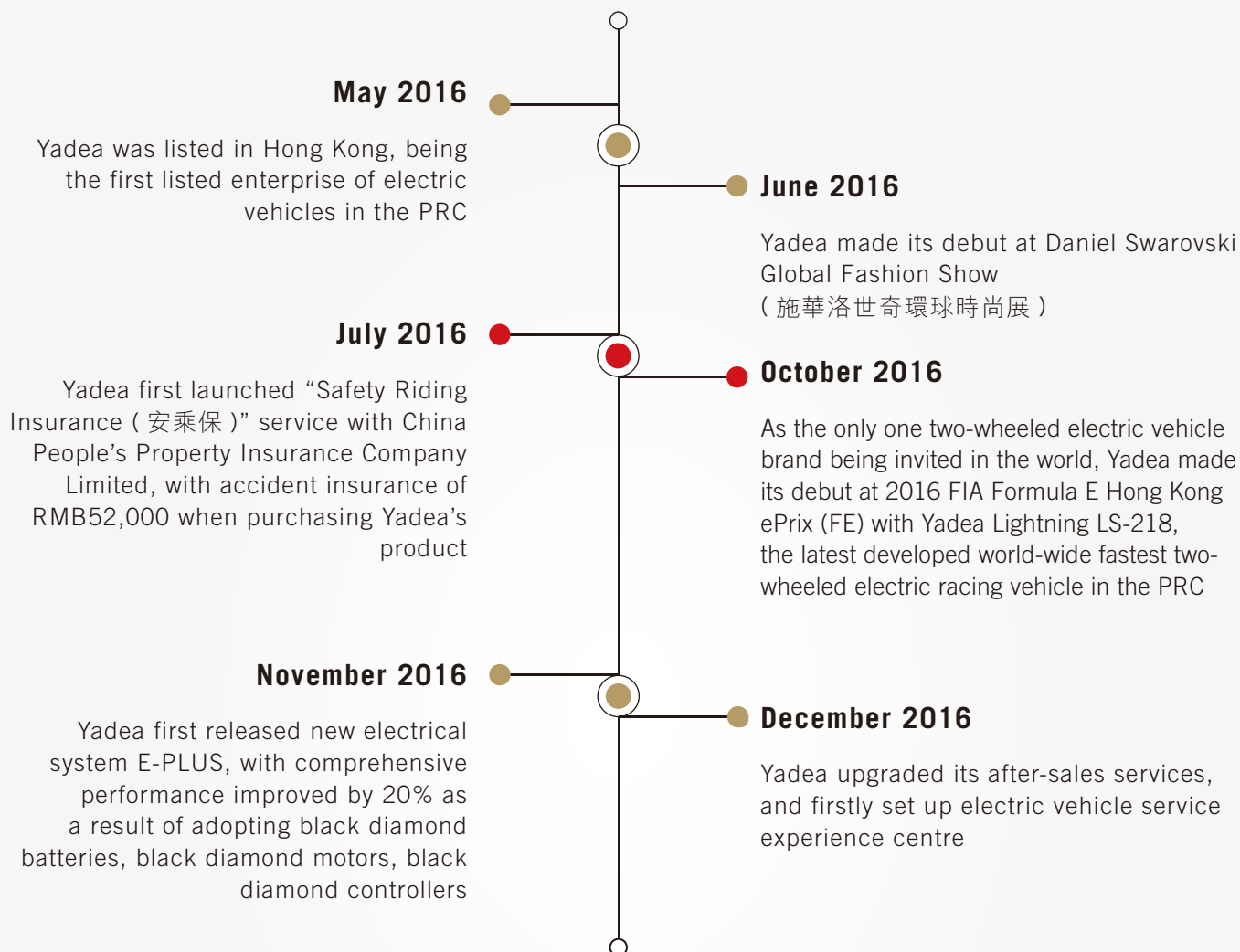
More exports
Exporting to over 60 countries including the United States, Germany, and Italy.

1,700+
distributors

624
patents in maintenance

60+
exporting countries





Awards and Industry Participation

Award	Authority
Ranked No.79 in the fifth ranking of Top 100 Enterprise Evaluation in China Light Industry in 2016	China National Light Industry Council
Ranked No. 1 in the Annual Evaluation of Top 10 Electric Two-wheeled Vehicle Enterprises of the China Light Industry from 2010 to 2016	China National Light Industry Council China Bicycle Association
“Red Cross Merit Award” in “Red Cross Humanity Donation by Ten Thousand People” activity in 2016	Wuxi Propaganda Department of Municipal Party Committee, Wuxi Municipal Civilisation Office, Wuxi Municipal Labor Committee of Municipal Party Committee and Wuxi Municipal Red Cross

Name	Involving Unit
Jiangsu Bicycle and Electric Bicycle Association	Vice President Unit
Jiangnan University	Director Unit
China Lithium Battery Industry Alliance	Vice President Unit
China Chamber of Commerce for Motorcycle	Council Unit
Wuxi Trademark Association	Standing Council Unit
China Association for Consumer Products Quality and Safety Promotion	Council Unit
China Bicycle Association	Vice President Unit

Communication of Stakeholders

The Company has established a sound and sustainable system which is led by the board of directors, governed by senior management, initiated by the audit department and linked with every production bases and subsidiaries and branches. The Company actively communicates with stakeholders and responds to stakeholders on key appeals to continuously strengthen responsibility management.

Stakeholders	Communication mechanisms	Stakeholders' appeals	Responses of the Company
Government	<ul style="list-style-type: none"> ● policy guidelines ● daily communication 	<ul style="list-style-type: none"> ● implementation of national economic policies ● paying tax according to law ● honest and lawful operation ● providing employment opportunities 	<ul style="list-style-type: none"> ● sound operation ● comply with laws and regulations ● equal employment
Shareholders	<ul style="list-style-type: none"> ● shareholders' meeting ● board of directors ● daily communication 	<ul style="list-style-type: none"> ● continuous and reasonable return on investment ● regulating corporate governance ● comprehensive, timely and accurate information disclosure 	<ul style="list-style-type: none"> ● good operating results ● corporate governance ● comprehensive, timely and accurate information disclosure
Customers	<ul style="list-style-type: none"> ● company website ● WeChat public account ● official Weibo 	<ul style="list-style-type: none"> ● provision of diversified product designs ● provision of quality products ● assurance of safety performance of products ● continuously improved service quality 	<ul style="list-style-type: none"> ● collect advices from customers ● set up a service experience center ● launch "Safety Riding Insurance" service ● customer satisfaction survey
Employees	<ul style="list-style-type: none"> ● staff communication ● labor union ● workers' congress ● corporate cultural activities 	<ul style="list-style-type: none"> ● sound remuneration and welfare policy ● healthy and safe working environment ● clear career development ● caring for employees 	<ul style="list-style-type: none"> ● thorough production safety inspection ● diversified training programmes ● equal employment ● carry out cultural and recreational activities
Suppliers and partners	<ul style="list-style-type: none"> ● regular communication ● business communication and cooperation 	<ul style="list-style-type: none"> ● fair and just cooperation ● win-win cooperation ● joint development 	<ul style="list-style-type: none"> ● adopt grading strategy for suppliers ● establish a comprehensive coordination mechanism
Community	<ul style="list-style-type: none"> ● caring for the vulnerable groups ● community charity activities 	<ul style="list-style-type: none"> ● shared community development ● harmonious community relationship 	<ul style="list-style-type: none"> ● voluntary blood donation ● financial assistance for needy students ● participate actively in social charity activities
The public and the media	<ul style="list-style-type: none"> ● information disclosure via media ● charity activities 	<ul style="list-style-type: none"> ● open and transparent information disclosure ● fulfilling duties as a corporate citizen comprehensively and efficiently 	<ul style="list-style-type: none"> ● timely and objective information disclosure
Environment	<ul style="list-style-type: none"> ● environmental protection activities ● environmental protection publicity 	<ul style="list-style-type: none"> ● reducing energy consumption and carbon emission ● actively taking part in environmental protection activities 	<ul style="list-style-type: none"> ● actively develop new energy ● construct roof-distributed photovoltaic power plant ● green charity ride



EMISSIONS MANAGEMENT

Yadea has adopted a stringent policy over emissions management during production process and is strictly compliance with the relevant PRC environmental laws and regulations promulgated by both the central and local governments, including the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law on Prevention and Control of Water Pollution of the People's Republic of China (《中華人民共和國水污染防治法》), the Law on the Prevention and Control of Noise Pollution of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》) and the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》). In addition, Yadea is subject to periodic monitoring by local environmental protection authorities. Our waste treatment procedures have consistently been in compliance with applicable environment standards in our manufacturing facilities. The Company takes effective measures to deal with the waste gas, waste water and slags generated in the production process according to the pollution control requirements and meet the discharge standard. As for waste water from the principal emissions, it will be normally discharged into the municipal sewage pipe network and treated by sewage treatment plants designated by the government. The Company shall ensure that the chemical oxygen demand standard for the waste water meets the requirement. The Company has implemented waste treatment procedures in its manufacturing facilities. Hazardous wastes are recycled by professional firms with qualifications for disposal of hazardous wastes for unified treatment and registration will be made to avoid leakage. The Company has also implemented measures to control the noise levels caused by its machines in the operation of the businesses to further reduce the impact on the environment.

The Company's management on emissions and environment is also reflected in the "simultaneity of three processes", being designing, constructing and putting into operation at the same time when newly reconstructing and renovating projects, introducing new technology, new products and new equipment.

USE OF RESOURCES

According to relevant laws and regulations, Yadea has formulated “Management System on Environmental Protection and Resources Conservation” to direct resources conservation and management during production. Based on the annual comprehensive assessment of energy consumption, the Company injects funds to make improvement. In the year of 2016, old and aged lamps in the factories were replaced to reduce power consumption, achieving optimal efficiency and best use of energy resources.

Water conservation	<ul style="list-style-type: none"> dedicated person for daily inspection, tackling the problems such as running water, water emerging, dripping and leaking; designate a place for vehicle cleaning; and carry out water-saving publicity activities, post slogans to enhance water conservation awareness.
Electricity conservation	<ul style="list-style-type: none"> use energy efficient lighting and phase out lightings lag behind such as incandescent lamps and high pressure sodium lamps; rational use of air conditioner, with cooling temperature set at 25°C or above; and cut power in a timely manner after using equipment to reduce unladen operation and standby time.
Oil conservation	<ul style="list-style-type: none"> rational use of oil, implement the system of apply for usage when needed; and consolidate demand for vehicle riding to reduce waste.
Paper saving	<ul style="list-style-type: none"> recycle of used and waste items; double-sided print office papers and refill cartridges; and handle official business electrically via network to reduce paper consumption.



Yadea also actively explores the use of new energy. During the Reporting Period, Yadea has established one of the largest self-owned photovoltaic power plants in Wuxi which can generate and distribute electric power. In its Wuxi headquarter, the rooftops of the research and development building, the administration office building together with some of the departmental buildings are installed with high performance polycrystalline PV modules having the installed power capacity of 2.48MW. It is expected to generate a total power of about 2.57 million kWh at its first year of usage.

ENVIRONMENT AND NATURAL RESOURCES

As a domestic leading enterprise in electric vehicles production industry, Yadea also attaches importance to the potential environmental risks. Suppliers of lead-acid batteries are required to abide by related environmental laws and regulations in the PRC in producing batteries and to provide Environmental Management System Certification, National Industrial Products Production Permits, Quality Management System Certification and the test report issued by Quality Supervision and Inspection Center for National Power and Energy Storage Battery Products (國家動力及儲能電池產品質量監督檢驗中心) before entering into a cooperation agreement. As for recycling of lead-acid batteries, our distributors will generally appoint recyclers for disposal of lead-acid batteries collected. We do not participate in disposal of lead-acid batteries directly, but we encourage the exchange of new two-wheeled electric vehicles with second-hand vehicles, so as to avoid the possible problems on environment resulting from improper disposal of lead-acid batteries.

We also convey low-carbon and environmental awareness to the public. In 2016, Yadea successively conducted the green charitable cycling activities with the theme of environmental protection in Handan, Beihai, Beihe, Linhe, Jiyuan and Qingzhou and so on, calling for adopting the charitable travelling way featuring green environmental protection.



**Beihai Green
Charitable Cycling**



**Linhe Green
Charitable Cycling**



**Jiyuan Green
Charitable Cycling**



Summer Cycling Party

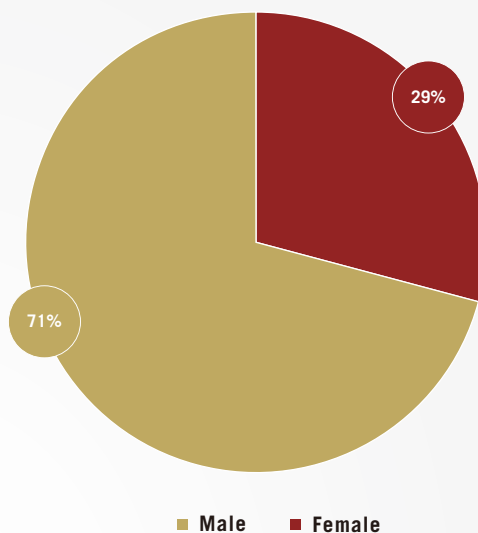


Handan Neon Cycling

EMPLOYMENT

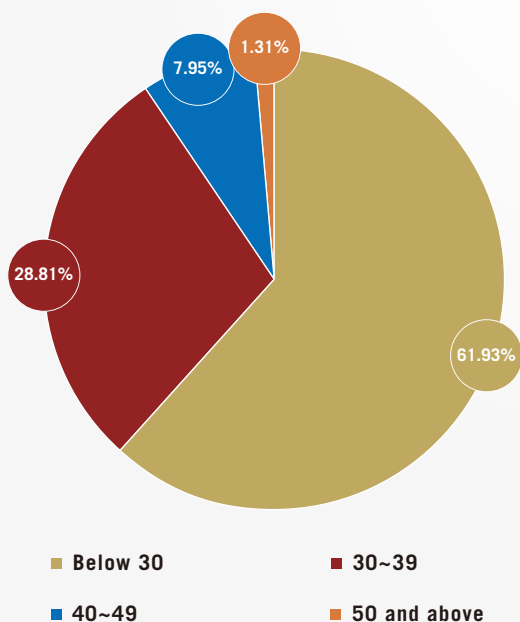
Yadea abides by the core concept of “people-orientation” and formulates Internal Employees Appointment Management Measures (《內部員工任用管理辦法》) in accordance with the judicial interpretations of the Labor Law of the People’s Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法》) and the Implementing Measures for the Labor Contract Law (《勞動合同法實施細則》) and other laws, rules and regulations. It insists in equal employment to provide suitable positions for employees with respective development needs and with differences in age, educational background, life experience, gender and hobbies and implements organic integration of enterprise employees’ needs and enterprise development needs to achieve a convergence, forming an exclusive employment mechanism and establishing a talent team with diversity features. As at 31 December 2016, the Group has 3,131 employees in total.

Percentage of employees by gender



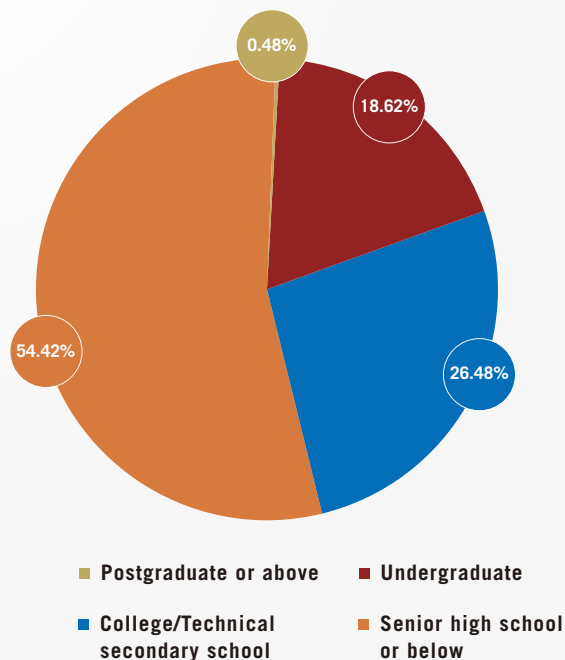
Percentage of employees by gender as at 31 December 2016

Percentage of employees by age



Percentage of employees by age as at 31 December 2016

Percentage of employees by education



Percentage of employees by education as at 31 December 2016

The Company also attaches importance to the protection of legal rights and interests of employees. It strictly complies with the requirements on working hour, promotion, training, democratic management and vocational health under the law, and formulates Employee Rights and Interests Protection System (《員工權益保護制度》). The Company has entered into labor contracts with employees, and such contracts are fulfilled very well in terms of avoiding illegal infringement from the third parties. The Company fully contributes social insurance premium and shows understanding to reasonable appeals filed by employees. We have established a labor union, through which the employees can implement democratic management and submit appeals smoothly. The Company also shows full respect to female employees by assurance of their legal rights and interests during pregnancy and lactation.



HEALTH AND SAFETY

Yadea paid great attention to the health and safety of the staff in daily production and operating activities. The Company regularly organized physical examination for the employees in respect of the health; issued labour protection appliance to production staff and regularly organized physical examination with specific items in accordance with national regulations to prevent occupational diseases.

To ensure the safety of the staff, Yadea formulated “5S Management Measures”, “Safe Site Management System”, “Measures for Investigating and Handling Production Safety Incidents” and a series of rules and regulations to ensure the valid implementation of safety production; weekly organized thorough safety production inspection in the whole Company, and such safety risks would be required to be rectified immediately once they were found. During the year of 2016, the Company had founded a total of 336 safety risks in the safety inspection, and all of them were rectified. In addition, the Company attached great importance to the training effect in strengthening safety management and enhancing safety awareness. The Company drew up safety training plan with detailed content every year; held thematic safety training activities every month; and each team also utilized the morning shift meeting to publicize safety matters. At the same time, the Company also held safety knowledge contest and emergency drills from time to time to stimulate more employees to participate in safety management activities. During the year of 2016, the Company trained 250 new employees in the three-degree safety education, 1,381 employees and 457 employees for other safety thematic education and safety matters publicity, and the number of employees participated in such trainings amounted to 12,897 in total. During the Reporting Period, the Company had no major casualty accident related to the safety production and had complied with relevant laws and regulations in respect of safe working environment and protecting employees from occupational hazards.



Safety
Training

Fire
Drill



DEVELOPMENT AND TRAINING

To enable the employees to continuously improve their personal self-cultivation, learning ability and professional and technical ability, the Company established a training system to provide comprehensive multi-level and multi-dimensional training system and training courses, so that the employees could find suitable training courses for their own development and improving their own abilities with different education levels and different professional backgrounds in different length of service, which provided the employees a rich and multi-dimensional intelligent skills support and provided a solid talent pool for the Company's sustainable development.

Smooth development channels	<ul style="list-style-type: none"> launched the "Successor Plan" by implementing the general manager/director responsibility system to promote the construction of talent echelon and smooth career channels from the top to down; planned to establish the "Talent Pool", and set up an entry and knock-out and talent assessment mechanism; implemented new generation business plan for fresh graduates; and divided into four modules by "management position, technical position, administrative position, and sales position" to build the usual promotion channel for employees with different types of work.
Built a learning platform	<ul style="list-style-type: none"> based on the actual needs of each department, developed training courses and forms with the "four runways" according to individual needs, departmental needs and public needs; in 2016, carried out trainings on financial management, comprehensive budget management, decorative construction technology, facade upgrade of franchise stores, infrastructure upgrade of franchise stores, Photoshop, automotive modelling design positioning, sealed lead-acid batteries for electric vehicles, drawing standards and so on based on different job requirements; provided more chances for supervisors and core employees to obtain external information and expertise; established an internal training system and continuously strengthened the team building of internal lecturers; encouraged employees to improve their academic qualifications; and conducted multi-dimensional reading activities to encourage employees to enrich their knowledge.

2016 Professional Skills Training:

Total training hours were 19,993.5 hours	Training covered 7,887 person-time	Investment in training was RMB72,100.0
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2016 Training by Content:

Training courses	Total time (unit: hours)	Total person-time (unit: person-time)	Training hours per capita (unit: hours)
Professional training	2,025	733	2.76
General training	182	91	2.00
Special training	105.5	64	1.65

LABOUR STANDARDS

Yadea strictly abided by the relevant laws and regulations, prohibited the employment of forced labour and children labour. All the employees were treated fairly and no one was discriminated due to factors such as gender, nationality, religion and age. In 2016, the Company had no judicial proceedings as the result of violating labour standards and relevant laws and regulations.

In order to create a harmonious, respecting and reassuring working environment for the employees, the Company put forward the concept of working hard and enjoying life advocating. It showed its care to employees and assisted the employees and their families in difficulties. The Company carried out a mass of entertainments and cultural and sports activities to constantly enrich the employees' amateur life, aiming at improving staff's collaboration, mutual trust and mutual love, making staff-supporting system and creating an indestructible and efficient work team.



In order to strengthen the collaboration and communication among the employees and enhance team cohesion and the collaboration among the departments, Guangdong Yadea held the first basketball game in November 2016.

In June 2016, General Union in Beichen District, Tianjin (天津北辰區總工會) held the Third Employees' Sports Games. Employees from Tianjin Yadea actively participated the matches such as rope skipping and basketball under the theme of "enrich cultural life and enhance corporate team spirit". Yadea's employees demonstrated the spirit of never being defeated in the competition and showed their friendship and sportsmanship.



In order to give the appreciation to the staff who worked in the front line under the extreme hot weather, and encourage them to keep working hard, during the period from July to August in 2016, Zhejiang Yadea held an activity of "Cool summer" where leaders from the Company and labour union went to the production line to give drink and heatstroke drugs to the employees so as to ensure the health and safety of the employees.

SUPPLY CHAIN MANAGEMENT

Yadea has been continuously strengthening the supply chain management and risk control mechanism of the Company to ensure a smooth operation of the Company and stable product quality, therefore Yadea manages the supply chain from different aspects.

Supplier management system has been continuously improved. The selection of suppliers was strictly controlled under the purchase strategy of “being open and transparent” and in accordance with the Company’s internal demand. In order to select qualified suppliers and establish a good supply environment, Yadea developed Management Measures for Developing New Suppliers aiming to develop and establish the supply capacity, technology, quality guarantee ability and advantages in price competition of the new suppliers.

For the selection of suppliers, Yadea investigated the suppliers’ background through environmental protection and patent certificates, and reviewed strictly on the suppliers’ compliance with the requirements of national laws and regulations and the certification of the quality safety system. Meanwhile, Yadea’s management department would also conduct site evaluation and investigation on the suppliers to assess the suppliers’ supply capacity on site, whereby to select qualified suppliers and sign quality contracts.

Supplier management was strengthened. Adopting a strategy of supplier classification and reviewing and managing suppliers through reasonable ways can make urgent adjustment to supply arrangement conveniently, avoid the over reliance on single supplier, which can reduce the difficulty of supply chain coordination management and the costs of supply chain management. Meanwhile, Yadea developed comprehensive coordination mechanism on sample management, organization, information resources and incentive measures for the suppliers, which enlarged the profit space mutually while share the risk responsibilities, increase safe inventory level, participate project development and improve productivity reasonably, making great efforts to improve the softness and resilient responding capacity of the supply chain. The main raw materials of Yadea include electric motors, vehicle frames, controllers, batteries, chargers, brakes, tires and other components. Generally, we would ensure that there were at least two alternative suppliers for each major component and entered into purchase agreements with each of them.

Trainings for suppliers were held. An all-round, systematic, multi-dimensional supply chain management system provided powerful insurance for the supply chain risk management and control for the Company. In order to further improve the capacity and quality of the suppliers and reduce supply chain risk, Yadea developed a comprehensive supplier training plan from production method, organizational capacity to management method so as to provide an opportunity for the excellent suppliers to broaden their horizons and break through their ways of thinking. Yadea arranged suppliers to go to Japan to learn TPS management model in a well-known automobile manufacturer, get an understanding of the essence of their site management, learn the correct mindset in site management.

PRODUCT RESPONSIBILITY

Yadea developed internal control systems, including Management Measures on Quality Award/Punishment, Products Monitoring and Measuring Control Procedures and Quality Record and Control Procedures to strengthen product quality management, improve the staff's awareness of quality and ensure products' quality safety. Quality would be controlled strictly in the process of production. We would conduct inspection and test for the accessories through effective methods, check finished products and develop return procedure to avoid defected products being put into circulation for sale. For the sold products, Yadea conducted the follow-up for the whole process, visited our customers regularly, sought feedback from customers and actively improved the products to meet the requirements of its customers in the PRC. In addition, our Company has established policies concerning health and safety, advertising, labelling and privacy matters relating to products and services provided and method of redress. Our management confirms that our risk management and internal control systems are effective and in line with the Corporate Governance Code.

CASE: Yadea Z3

It shows that 90% of the traffic accidents were caused by sudden explosion of tires and flat tires. Therefore, Yadea Z3 adopted military self-filling leakproof tries. The blue jelly-like intelligent repair coating of military polymer with high flexibility and high adhesion was used on the tires. The fixing molecule of the coating would fill the puncture immediately when tire was punctured by sharp objects while riding, whereby the vehicle could be ridden as usual without flat tire or fixing, which significantly increased the safety of the electric vehicles in riding and that is what Yadea keeps improving for.



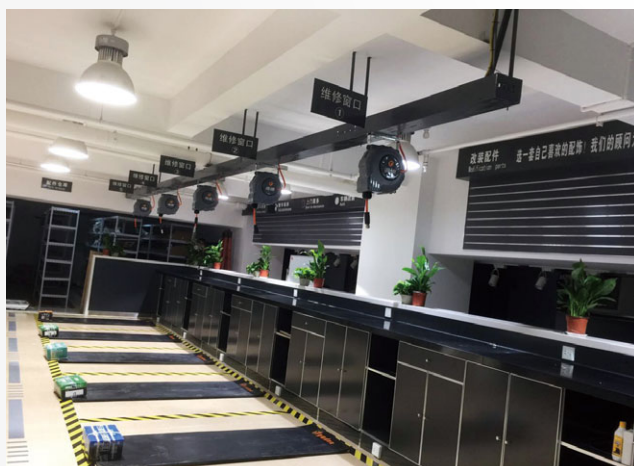
New changes of technologies have brought a reform in customer demand. Guided by high-end strategic planning, the Company continues to strengthen its innovation ability, establish an open platform with a focus on technology center and of extensive cooperation in production, study and research, cultivate innovative talents vigorously and improve its production technology capability and product quality through innovative cooperation projects. In 2016, the Company improved its innovation ability on an ongoing basis through the development of lithium ion batteries with advanced performance in cooperation with one of its strategic alliances, Lightning Motors Corporation, a U.S. company specializing in researching and developing cutting-edge electric two-wheeled vehicles, and the research and development of “Brand New Sport Vehicles of Yadea” in cooperation with Jiangnan University (江南大學) to expand its brand advantage. As at the end of 2016, Yadea has obtained 339 appearance patents, 262 utility patents and 23 invention patents.

Patent quantity	Appearance	Utility	Invention
As at the end of 2016	339	262	23

Meanwhile, Yadea has put in place an excellent service mechanism. Pursuant to such mechanism, for customers complaining of product usage, Yadea will communicate with them actively and analyze the causes of the problem; for matters caused by the product itself, Yadea will solve them properly at once; for matters caused by improper use, Yadea will give customers a guidance on changing product usage actively so as to solve matters in question. As for privacy information of customers, Yadea has a full set of protection mechanism to ensure that Yadea will not divulge the sensitive privacy information of its customers and the legitimate rights and interests of its customers will not be subject to unlawful infringement. In addition, during the Reporting Period, the Group was not aware of any incidents of non-compliance with laws and regulations concerning privacy, advertising and labelling matters relating to products and services provided.

Case: Five-star Service

As a leader in the industry, focusing on the strategy of “Higher-end Electric Vehicles”, Yadea introduced a five-star service standard with a commitment to establishing the 4S-level maintenance. Yadea has always pursued “Higher-end Services” in after-sale service. In February 2016, Yadea launched the “Maintenance Service Activity in Spring”, which aims at providing more than 20 maintenance services including brake handle, steering device and chain adjustment for products of the Company and electric vehicles of other brands to perfect its service chain, thereby driving the reform and upgrading of the electric vehicle industry.



ANTI-CORRUPTION

The Company complies with the relevant provisions of the Criminal Law of the People's Republic of China (《中華人民共和國刑法》) on the crime of anti-corruption and bribery and therefore constantly improves the internal control system. The Company insists on curbing commercial bribery and extortion as well as strengthens the sense of honesty and self-discipline of employees to consciously resist the corruption thought, in order to safeguard the legitimate rights and interests of the Company and promote the healthy and orderly development of business cooperation between the Company and its partners. The Company has implemented policies relating to bribery, extortion, fraud and money laundering which are stipulated in the employee manual.

The Company established anti-fraud management practices, and simultaneously established a complete anti-corruption reporting process. It also sets up anti-corruption reporting ways such as employee mailboxes, complaints hotline and e-mail and WeChat official account, and protects the employees who reported. The Company requested that each subsidiary or center and department of the Group must attach the "Yadea Anti-corruption Proposal" to the business documents such as agreements or contracts when entering into the same with business partners, and must enter into "Anti-commercial Bribery Agreement" with distributors and suppliers. In 2016, the audit department conducted a total of 49 audit projects, primary works of which include operational audit, internal control audit, anti-fraud audit, etc. In 2016, there was no disciplinary violation and corruption on the part of the Company.

COMMUNITY INVESTMENT

The Company incorporated the public benefit into its development strategies through putting a clear priority on the public benefit plan in its strategic planning, formulating a long-term strategic planning for the public benefit, actively conducting public benefit activities and forming a systematized social donation programme, and taking the enterprise as a partner to the society and its important component with a full account of the impact of an enterprise on the society and the environment. In 2016, Yadea continued to actively fulfill its social responsibilities by the investment in the joint establishment of a harmonious community and development of public benefit, setting-up of scholarships, conduction of a series of education support activities, carrying-out of public benefit donation, and encouraging its employees to take part in volunteer activities.

“Fraternity Yadea Fund of Red Cross” in Wuxi

Since 2014, in order to carry forward the spirits of Red Cross of humanity, fraternity and risk, Yadea established “Fraternity Yadea Fund of Red Cross” in accordance with relevant requirements in Management Measures on the Use of Financial Assistance of Disaster Preparedness in Red Cross in Wuxi City (《紅十字博愛雅迪基金》) and Measures for the Implementation of Humanitarian Relief of Red Cross in Wuxi (《無錫市紅十字會人道救助實施辦法》). The fund is used mainly for social welfare programs, including targeted assistance such as anti-poverty, medical aid and education support, disaster preparedness and relief, rescue training, social assistance, voluntary service, culture dissemination of Red Cross and foreign construction aid and assistance projects. Yadea has invested RMB5.00 million in aggregate for the fund as at the end of 2016, and in the past three years, it recorded an expenditure of RMB3.27 million in respect of clothing donation and personal assistance to Red Cross in, among others, giving financial support to rural project in Qinshui Village, Jinzhai County and to the reconstruction of Qinshui central middle school and primary school in Meishan town, Jinzhai county.

Case: Assistance in the development of Jinzhai County in Anhui Province

Jinzhai County, located in the Dabie Mountains in Anhui Province, is the old revolutionary base areas and state-level poverty-stricken county. The Company gave targeted subsidies to the Qingshui village in Meishan Town, Jinzhai County, Anhui Province through the Fraternity Yadea Fund of Red Cross in Wuxi, to help improve the local road environment, greening environment and develop education. From 2014 to 2016, the Company has invested RMB1.20 million in the reconstruction of central primary school and middle school, sports grounds construction and campus water supply and drainage works, as well as campus greening in Qingshui village in Meishan Town, so that students can enjoy a better educational environment. At the same time, the Company actively participated in the construction of local villages and towns, including street lamps installation, road reconstruction, greening and street landscaping, lawn carpeting, planting of metasequoia, cinnamomum camphora, osmanthus fragrans and buxus megistophylla, as well as riverside railings improvement and construction of cement arch bridge above the river for the Qingshui village in Jinzhai County. As at the end of 2016, more than RMB2.70 million has been invested in local service.



Picture Qinshui Central Primary School in Meishan Town, Jinzhai County

Sunflower Education Support

In order to help children in poor mountainous areas of the PRC, Yadea developed a public welfare promotion, Sunflower Education Support Activity, with the joint efforts of Wuxi Federation of Volunteers (Micro Angel Public Welfare (微天使公益)) to donate clothes, toys and books to such children in winter. Yadea increased its discount for trading up to a new car and broadened the types of old products applicable to a trade-up. Yadea issued "Trade-up Coupon" through on-line channels to consumers, and the consumers with a trade-up coupon could cancel the second-hand vehicle they drive to the store for a new vehicle after verification. Meanwhile, Yadea provided free door-to-door recycling service for bulky second-hand products. There were a total of 15,000 "Trade-up Coupons" issued in such activity, the number of activity anticipators was 300,000 and the amount of second-hand products recycled was approximately 150,000, which were all donated to remote schools through Wuxi Federation of Volunteers (Micro Angel Public Welfare (微天使公益)), bringing warmth to children in poor mountainous areas.



Volunteer Activities

In order to carry forward the spirit of utter devotion of servicing people and helping people, cultivate good moral habits and show the spirituality of the staff of Yadea, in 2016, Yadea recruited volunteers, planned voluntary programs and organized social volunteer service activities that were convenient and beneficial to the public. In 2016, Yadea organized blood donation activity among its staff, in which staff from several departments of Yadea's headquarter participated.



FUTURE OUTLOOK

In 2017, we will continue to manufacture more high-end electric vehicles, deepen research innovation and strengthen the ability of development and design. We will sustain our sound operations and devote ourselves to making Yadea the top brand of electric two-wheeled vehicle both at home and abroad through product quality enhancement, domestic and overseas service network expansion, customer experience improvement and product chain optimization.

Meanwhile, we will further strengthen the concept of sustainable development, improve the management system of sustainable development, promote the implementation and integration of sustainable development, incorporate sustainable development into the daily operation and production of Yadea and continue to practise sustainable development responsibility.

Yadea will continue to advocate green concept, strive to create green products and maintain low-carbon operations. We will pay sustained attention to the domestic and overseas trends of energy-saving and environmental protection and improve current environmental protection management system constantly, and promote energy-saving and emission-reduction in an active manner. At the same time, we will focus on the research and development of green products, spread the awareness of environmental protection to the social public and promote the practice of sustainable green development in society.

Yadea will always pay attention to staff safety, facilitate the growth of staff. It will step up its effort in safety management, improve systems and measures on safety production, and strengthen the publicity and training of safety awareness. In 2017, we will continue to follow the “people-oriented” core value to care for staff’s life, focus on their development and concern about their growth. Also, we will pay attention to local community, providing more employment opportunities for the place where we operate, devoting ourselves to community poverty alleviation and public welfare, and volunteering to make contributions to the society.

Looking forward to 2017, Yadea will, as always, adhere to the enterprise belief of “Love, Altruism and Harmony” to create more sustainable values for our stakeholders. It will bring greater returns to shareholders, produce more environmentally-friendly and higher quality products for customers and create wider development space for staff. It will also win more mutually beneficial opportunities for partners, create more well-being for local communities and open up a more sustainable way for local environment.





More advanced electric vehicles