

**Green Development & All-Win in Harmony**

**2010 Sustainable Development Report**

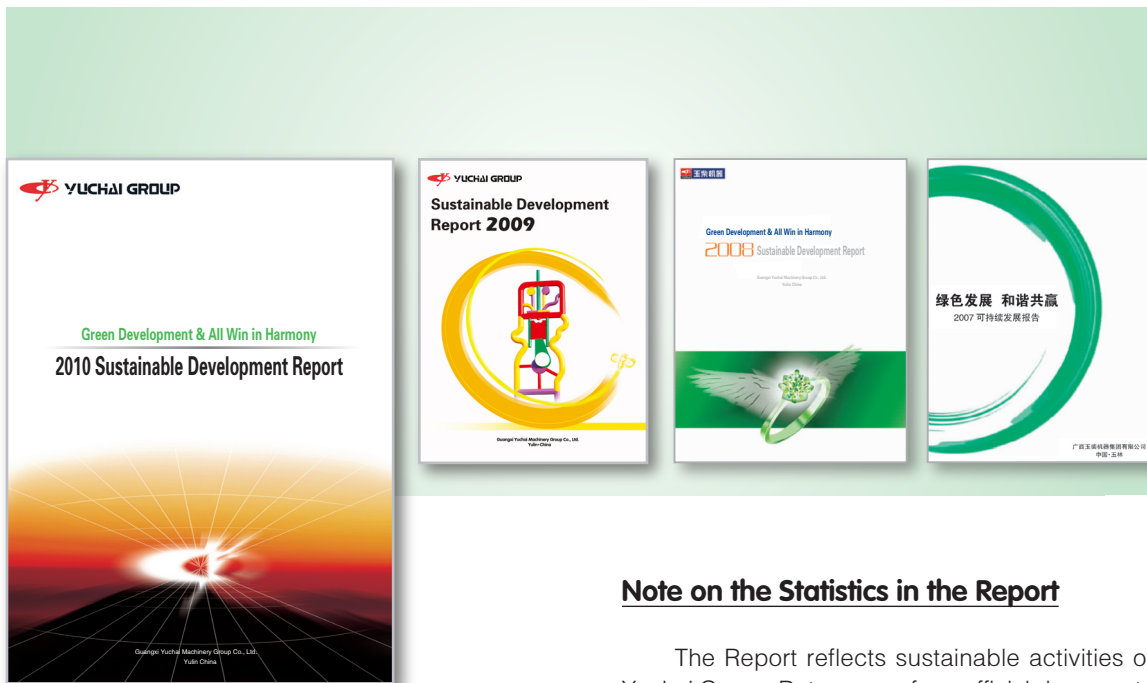


### **Group Logo—YC**

The Group Logo "YC" is designed based on the acronym of the English name of the company.

"YC" represents initials of Yuchai and Yulin China, demonstrating that Yuchai is firmly determining to build an internationally recognized Chinese brand. The letter "C" is like the earth movement trajectory in the space, symbolizing Yuchai Group's global development trend and that it is on the road of becoming a multinational conglomerate. The dynamic letter "Y" conveys the Group's strategic objective and pursuit of excellence.

The shape of the Logo is mature in shape, sober mixed with dynamic, plain but passionate. It incarnates that Yuchai is a group full of passion and is pursuing "Green Development" and "All-Win in Harmony" as China's largest internal combustion engine manufacturer, and the largest producer and exporter of small and medium sized construction machines. The logo highlights Yuchai Group's global brand image of "Excellence Quality & Yuchai Globalization".



### Note on the Statistics in the Report

The Report reflects sustainable activities of Yuchai Group. Data comes from official documents and statistical reports released by the Group and its subsidiaries and affiliated companies. Financial figures come from Annual Financial Report 2010 of the Group.

### Availability of the Report

This report is published both in Chinese and English: To obtain a hardcopy, please write to Guangxi Yuchai Machinery Group Co., Ltd. You can also find the PDF version of this document on the group's website.

Company Name:  
 Guangxi Yuchai Machinery Group Co., Ltd.  
 Address: 1# Yuchai Road, Yulin City, Guangxi  
 Website: <http://www.yuchai.com>  
 Post Code: 537005  
 Telephone: 0775-3228884  
 Fax: 0775-3288168  
 Customer Service Telephone: 95098

### Reliability Commitment of the Report

Group Board of Directors and all directors promise that the Report does not contain any false records, misleading statements or material omissions; they will shoulder individual and joint liability for truthfulness, accuracy and completeness of the Report.

In order to facilitate presentation and reading, "Guangxi Yuchai Machinery Group Co., Ltd." in this report is also referred to as "Yuchai Machinery Group" "Yuchai Group", "the Group corporation", "Yuchai", "the Group", "the Company" and "we or us".

### Report Coverage

The report mainly covers Yuchai Group's sustainable development activities from January 1st to December 31st, 2010; it also covers relevant information on subsidiaries and branches. If necessary, the activities before that period may also be included.

### The Release of the Report

The Sustainability Report was firstly released in June 2008—"Sustainable Development Report 2007", and has since been running for three consecutive years. The Report 2010 is the fourth of its kind.

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Yuchai has been focusing on energy saving and environmental protection. With advanced technology as support, it has been actively developing clean power. In December 2007, Yuchai launched the first Euro V engine in China, 5 years earlier than the schedule in the national plan. NO<sub>x</sub> emission is 60% lower than that of Euro III, and particulate emission 80% less. Yuchai is able to mass-produce Euro V engines as compared to the domestic counterparts. In 2010, Yuchai completed the development of three models of Euro V engine, namely YC6L-50, YC6L-51 and YC6J-50, put them into mass production and launched in the market. It has contributed to a wide range of environmental protection in Beijing, while laid a solid foundation for the promotion of more extensive use of Euro V engines.



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In 2010, Yuchai Group, with the guidance of concept of scientific development, actively implemented the strategy of "Strength Yuchai to Eerich YuLin", seized the opportunities of global economic recovery and strictly implemented the operating principle of "strengthen capabilities, secure objectives and build stamina"; all business segments strengthened product development and innovation, made timely adjustment of marketing strategy and upgraded management capabilities, which has contributed to continuous improvement of sales. The year-end total sales reached RMB 37 billion, up by 36.21% from that of last year, exceeding objectives set in early 2010 and surpassing the threshold of RMB 30 billion, which open a new chapter in the development of Yuchai.

2010 marks the end of the "11th Five-Year Plan". In retrospect of the "11th Five-Year Plan" period, the Group withstood the global financial crisis and other adverse economic challenges, conducted corporate restructuring, steadily improved operational efficiency and developed business portfolio from relying on a single business segment of engine manufacturing to an extended portfolio involving six segments of engine, construction machinery, energy & chemical products, automotive parts, logistics & automobile trade and special vehicles. Sales jumped from RMB 12.1 billion in 2005 to RMB 37 billion in 2010. In the first 10 years of the new century, Yuchai achieved sustained high growth and leapfrog development. These achievements are inextricably attributed to Yuchai's core philosophy of "Green Development & All-win in Harmony", and its commitment to corporate social responsibility and resource-saving and environment-friendly-oriented sustainable development. In the past five years, Yuchai did not only deliver on its own corporate social responsibility, but also actively include upstream and downstream partners in its industry chain by signing social responsibility agreements which thereby helping and motivating them to fulfill their social responsibilities. Many encouraging results had been achieved. Yuchai

was also ranked as Top 100 in 2009 Corporate Social Responsibility List, winning "2009 China Corporate Social Responsibility Special Award", the Chinese Corporate Social Responsibility "Supplier" Special Award, "World Low-carbon Environment, China Driving Force Top 100 Enterprises", "Guangxi Project Hope 20th Anniversary Contribution Award". Today, Yuchai is taking a lead in the CSR practice of Chinese companies.

The year of 2011 coincides with the centenary of the Revolution of 1911, the 90th anniversary of the Chinese Communist Party, the starting year of "12th Five Year Plan", and also Yuchai Group sixtieth anniversary. At this critical juncture, the Group sounded the clarion call to make the sales breakthrough of RMB 100 billion by end of "12th Five Year Plan" period and achieve RMB 40 billion sales for the first year-2011. A guidance is formed to achieve the objectives - "succeed in the beginning year; implement projects in a timely and effective way; enhance core strengths". Succeed in the beginning year requires full implementation of the "12th Five Year" strategies to ensure that the first year sales could surpass RMB 40 billion threshold; "implement projects in a timely and effective way" is to have a number of projects started or put into production, adding momentum to enterprise development; "enhance core strengths" is to make existent advantages even bigger, so as to comprehensively improve enterprise's core competitiveness. To ensure the a successful start, we will follow "two product chains and multiple industrial clusters" strategic guide, and develop strategies of the Group, segments, subsidiaries and functions; make thoughtful plans, systemize organization, solidify foundation, create conditions and seize the opportunity to scale new heights. To accomplish these goals and tasks, Yuchai will set up a social responsibility management institution, further improve CSR management system and mechanism, set appropriate indicators and evaluation system, and integrate them into the daily management, so as to continuously improve the Group ability to fulfill its social responsibilities.

Captivating time has come, inspiring piece of music has been played, and builders of Yuchai are embarking on a new journey towards the first RMB 100 billion with bold and confident steps.

Bureau of Directors,  
Yuchai Machinery  
Group Co., Ltd.

Chairman of the Board



## 2010 Business Highlights

### Sales income hit RMB 37 billion Yuan, 750,000 engines were produced and sold.

Group sales revenue in 2010 reached RMB 37.046 billion Yuan, an increase of 36.21% YOY, achieving the full-year objective of RMB 30 billion sales two months ahead of schedule. Engine business segment had an outstanding performance. 750,000 units of engines were sold in 2010, rising 11.13% YOY, hitting a new record high of selling more than 700,000 units of engines over the year, of which the Yuchai Machinery Company Limited sold over 550,000 units.

### Pioneered the mass production of Euro V engines.



On October 26, 2010, the first batch of 50 buses using Yuchai Euro V engines were put into service in Beijing Bafangda Bus Co. Ltd.--Tongzhou branch. It indicates a formal launch of the self-developed Euro V engines in the market.

### Yuchai saw its ranking move up to No. 38 among Top 500 Chinese Enterprises in 2010.

In 2010, Yuchai Group ranked 227 among the Top 500 Chinese Enterprises, up by 38 places compared with 2009. It listed as one of the fastest growing 100 companies in the top 500 Chinese enterprises. Meanwhile, Yuchai ranked 113 in Top 500 Domestic Manufacturing Enterprises in 2010, up by 28 places compared with 2009.

### Yuchai brand value rose to RMB 8 billion



### The first domestic company that is capable of producing 10,000 excavators annually as a single factory enterprise.

On October 23, 2010, Yuchai Heavy Industry's 50,000th hydraulic excavator rolled off the production line in Yulin production base, making a breakthrough the limitation of production capacity bottleneck and becoming also the first local brand with market share reaching 50,000 units.



Yuchai Heavy Industry's 50,000th hydraulic excavator successfully came off

"Yuchai", with a brand value of RMB 8.009 billion, won the World Brand Laboratory's 2010 "China Top 500 Most Valuable Brands", with a ranking of 109. It listed as the top Guangxi brand. Yuchai's brand value nearly doubled, up by 10 places over the past five years, with a brand value of RMB 4.682 billion Yuan (Rank 119) in 2006 rising to RMB 8.009 billion and (Rank 109) in 2010.

"Yuchai Machinery" was also named as China's Excellent National Brand" together with other 20 brands in "Show of the Chinese National Brands" organized by the Xinhua News Agency.

**Yuchai 863 High-tech Project "Commercial Vehicle Hybrid Powertrain" passed the Science and Technology Department Verification.**

Yuchai's 863 High-tech Project "Commercial Vehicle Hybrid Powertrain" passed the Guangxi Science and Technology Department Verification. The system is China's first independently developed commercial vehicle hybrid powertrain with single-axle parallel system in mass production, representing a leading domestic technology. The development of Yuchai hybrid powertrain began in early 2004, which lasted for 5 years; it filled a domestic market gap. It was launched to market in April 2009,

saving an average of 20% energy, witnessing good market performance and energy efficiency. This system has been used by seven domestic automobile factories; nearly 300 hybrid city buses are running with Yuchai technology. Guangzhou Asian Games used 113 Yuchai gas-electric hybrid buses, highlighting Yuchai breakthrough in new energy products.

**Further improve strategic layout.**

In 2010, Yuchai set up offices in Ningxia and Tibet, completing a strategic layout covering all the Chinese provinces except for Hong Kong, Macao and Taiwan. It has created the most complete coverage of sales and service networks in the industry.

Engine companies were put into operation in Xiamen City, Fujian Province; Wuhu City, Anhui province; Ziyang City, Sichuan Province and other cities; engine production bases construction was accelerated in Tiantai County, Zhejiang Province; Jining City, Shandong Province; Suzhou City, Jiangsu Province; Zhuhai City, Guangdong Province and other places.

Yuchai Heavy Industry completed the first phase of the strategic layout, entering Changzhou City, Jiangsu Province in the east, Luzhou City, Sichuan Province in the west and Wuqing District, Tianjin Municipality in the north.



**RMB 1 million granted to highly-quality personnel**

On March 29, 2010, Yuchai Highly Skilled Personnel Award Ceremony was held, offering letters of appointment to 11 skill or expertise masters, recognizing six top-notch technicians of 2009, 23 technical achievements, vocational skills contest winning individuals and teams of 2009; the total incentive payments were over RMB 1 million. This is the largest scale and most influential event to reward skilled talents since Yuchai was established 60 years ago.



**Sustainable Development Roadmap during the 11<sup>th</sup> Five-Year Plan Period**

**Stakeholders of Yuchai Group**

**Sustainable Development Performance 2010**





Sustainable Development Roadmap during the 11<sup>th</sup> Five Year Plan Period

Core Philosophy

Green Development & All-Win in Harmony.

Mission

Taking the Lead & meeting the power need of the general public.

Vision

Making Yuchai a famous brand in the world, Building Yuchai a large transnational corporation.

Management philosophy

Excellent Quality & Yuchai Globalization

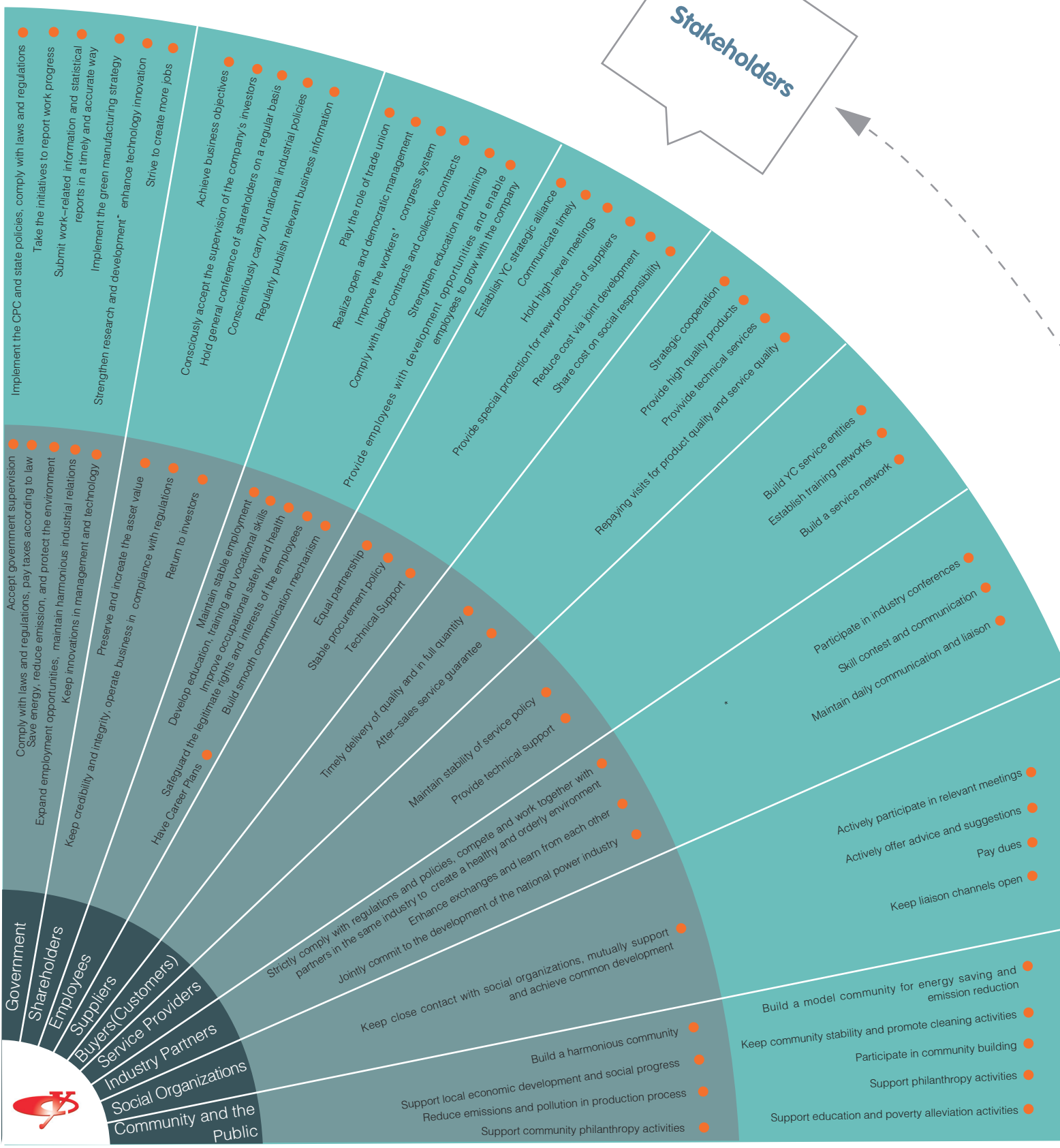
**2006** | Set up strategic philosophy – Green Development & All-Win in Harmony  
 Achieved RMB 14.1 billion of sales revenue, with 360,000 units Engines sold  
 Successfully developed China's first Euro IV Engine  
 Yuchai Technology Center Laboratory was recognized as "National Accredited Laboratory"

**2007** | Achieved RMB 18.4 billion of sales revenue, with 500,000 units Engines sold  
 Successfully developed China's first Euro V engine  
 Achieved mass production of Euro IV engines  
 Strengthened incentive system of compensation and benefits and provide assistance to employees with financial difficulties  
 Actively promoted training on social responsibilities

**2008** | Achieved RMB 21 billion of sales revenue, with 550,000 units Engines sold, which means building another Yuchai within 3 years  
 Successfully developed China's first Euro V electronically controlled diesel engine  
 Became the first batch of qualified pilot enterprises remanufacturing automobile parts and components  
 Entered into a new round of collective contracts, safeguarding interests of employees  
 Joined the United Nations Global Compact  
 Published the first sustainability report of China's machinery industry

**2009** | Achieved RMB 27.2 billion of sales revenue, with 670,000 units Engines sold  
 Developed the world's first renewable air-hybrid engine  
 Staff career development channels were fully open up  
 Signed a special collective contract for protection of female workers  
 Built harmonious supply chain through YC alliance  
 Signed CSR commitment letters with partners

**2010** | Achieved RMB 37 billion of sales revenue, with 750,000 units Engines sold, restructuring two Yuchai within 5 years  
 Achieved the mass production of Euro V engines domestically  
 Rewarded highly skilled personnel  
 Built institutional mechanisms to strengthen anti-corruption  
 Strengthened CSR training



Stakeholders

Stakeholders' Expectations

Responses and Measures

## Sustainable Development Performance 2010

- : improving;  
○: maintain;  
△: worsening

Sustainable Operation		
Sustainable Development	Specific Performance	Compared with 2009
Business operation capacity	Main businesses revenue raised remarkably	●
	Income taxes increased continuously	●
	Total assets increased constantly	●
Management capability	Strengthen anti-corruption	●
	Strengthen closed-loop management	○
	Comprehensive budget management	○
	Improve internal auditing management	○
Innovation ability	Develop new products on continuous basis	●
	Patent number has been increasing	●
Partner's responsibility	Strategic partnership has been strengthened	●
	Information communication with upstream and downstream partners has been enhanced	●
	Push partners to implement CSR	●
Customer service	Customer satisfaction has been improved	●
	Service capabilities have been improved	●
Environmentally Friendly		
Sustainable Development	Specific Performance	Compared with 2009
Eco-friendly products	R&D breakthrough in eco-friendly products	●
	Reduce noise of products	○
Eco-friendly manufacturing	Reduce energy consumption	●
	More renewable materials are used in R&D and production	●
	Reproduction capabilities are upgraded greatly	●
Environmental governance	Reduce discharge of wastes(oil, water and materials)	○
	Reduce use of dangerous chemicals; categorized management	○
	Enhance reuse of wastes (oil, water and materials)	●
Care for staff		
Sustainable Development	Specific Performance	Compared with 2009
Democratic management	Increase communication and consultation channels between staff and management	●
	Improve system of Workers Congress	●
Capacity management	Improve staff productivity	●
	Increase ratio of highly skilled personnel	●
	Provide multi-layer and multi-channel training opportunities	●
Rights and interests protection	Improve career development platform	●
	100% labor contract signing	○
	Wages and benefits grow at the same pace with financial performance	●
	100% social insurance coverage	○
	Prohibit discrimination & promote employment equality	○
Occupational safety and health	Further improve staff welfare	●
	Organize colorful staff activities	○
	Low work safety incidence	○
	Zero major safety accident	○
	Continuous reduction of occupational disease incidence	○
Social harmony		
Sustainable Development	Specific Performance	Compared with 2009
Improve community development	Help with community employment	●
	Localized sourcing	○
	Promote local economic development	●
Public welfare	Make donations	○
	School donations	○
	Volunteer activities	●

**Continuously Enhancing Capabilities in Company Operation**

**Stably Developing in Management Level**

**Maintaining Technology Innovation Advantages**

**Strengthening Strategic Partnership**

**Serving All Types of Customers**



## Continuously Enhancing Capabilities in Company Operation

### Continued healthy development and optimized product portfolio

Yuchai Group achieved sales of

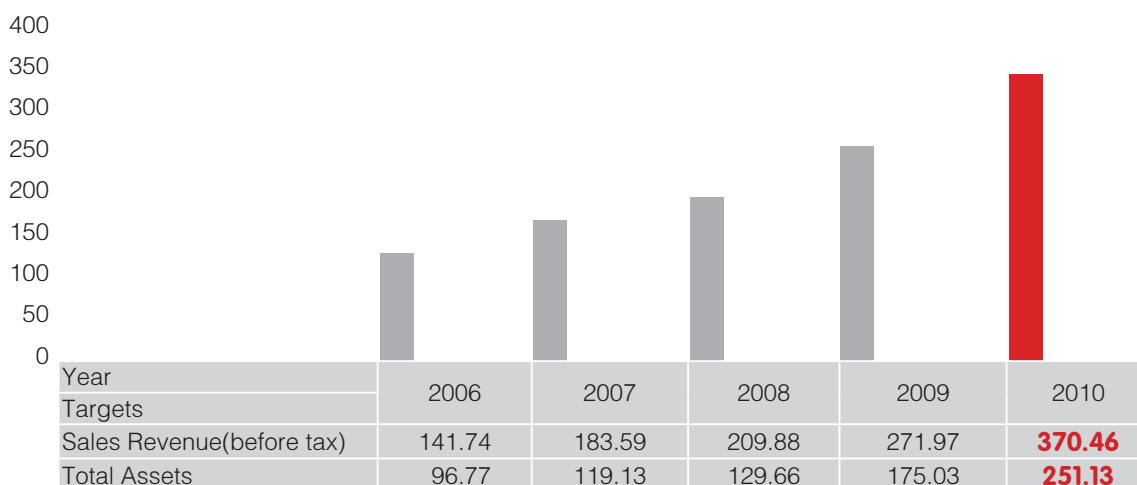
RMB **37** billion,  
creating two Yuchai in 5 years.

In 2010, total annual sales of Yuchai Group reached RMB 37.046 billion, a year-on-year increase of 36.21%. It is the first time that Yuchai Group

passed the threshold of RMB 30 billion, reaching a record high, doubling the sales of 2005. In 2010, Yuchai sold 750,000 units of engines, an increase of 11.13% year on year; sales reached RMB 20.52 billion, an increase of 27.83% year on year. Heavy industry sales exceeded 120 000 units, an increase of 62.8% year on year; product market structure was further improved. Yuchai's achievements during 11th Five Year Plan (2005–2010) laid a solid foundation to reach RMB 100 billion of sales by the end of 12th Five Year Plan–2015.

### Economic Targets Accomplished in 2010

Unit: RMB 100 million



In 2010, all business segments strengthened product development, innovation and marketing strategies, seeing fast growth of engine, construction machinery, auto trade logistics, energy and chemical

products and parts. Energy and chemical products reached sales of RMB 6.5 billion, nearly doubled that of 2009. Sales of construction machinery and logistics & automobile trade increased by half compared with 2009.

### Sales Revenue of Six Segments of Yuchai's Business

Business Segment	Engine	Construction Machinery	Logistics & Automobile Trade	Energy & Chemical Products	Automotive Parts	Special Vehicles
Sales Revenue in 2010 (RMB 100 million )	205.20	29.05	34.72	65.18	34.44	1.87
Growth compared with last year ( % )	27.83	58.44	43.75	99.74	1.44	-21.16

## Operation

In 2010, Yuchai achieved a remarkable sales performance in the overseas market, with brand image built strongly and a large and growing client base. Yuchai exported over 26,000 units of engines in 2010, with total sales exceeding RMB 800 million. Based on current large-volume export to Vietnam, Cuba, Japan, Russia, Saudi Arabia, Egypt, Algeria, Peru, Turkey, the Philippines, India and other countries, Yuchai is entering North America, Western Europe, Korea, Singapore and other developed markets in a gradual and orderly way. Yuchai is competing with international brands in the global market.

Yuchai Heavy Industry is the largest exporter

In 2010, Yuchai sold

**750,000** units

of engines and exported

**26,000** units

of excavators with domestic brands over the years. In 2010, Yuchai Heavy Industry exported 402 units of excavators, of which a batch of 48 units were exported to Brazil; the export sales reached RMB 57.53 million. Starting

its business presence in Europe and North America with establishment of two subsidiaries, Yuchai Heavy Industry has begun to build an overseas marketing network, planning to establish new subsidiaries or offices in seven hot spot regions.

### Yuchai G-drive engines providing emergency back-up power supplies for three major telecom companies in Philippines



In recent years, Yuchai products continue to enter markets of the ASEAN countries. In Philippines market, the scope of application of Yuchai products have been enlarged from vehicle engine to Gen-sets, marine engine and off-highway engine. Philippine POWERCITY has been fully equipped with Yuchai

engines. Since POWERCITY Gen-sets launched the market, they have been identified by three major Philippines telecommunications companies – SMART, GLOBE and SUN as bidding-exempt products. POWERCITY has purchased more than 1,500 units of Yuchai engine for its generating plants.

Creating the best golden supply chain of engines and construction machinery

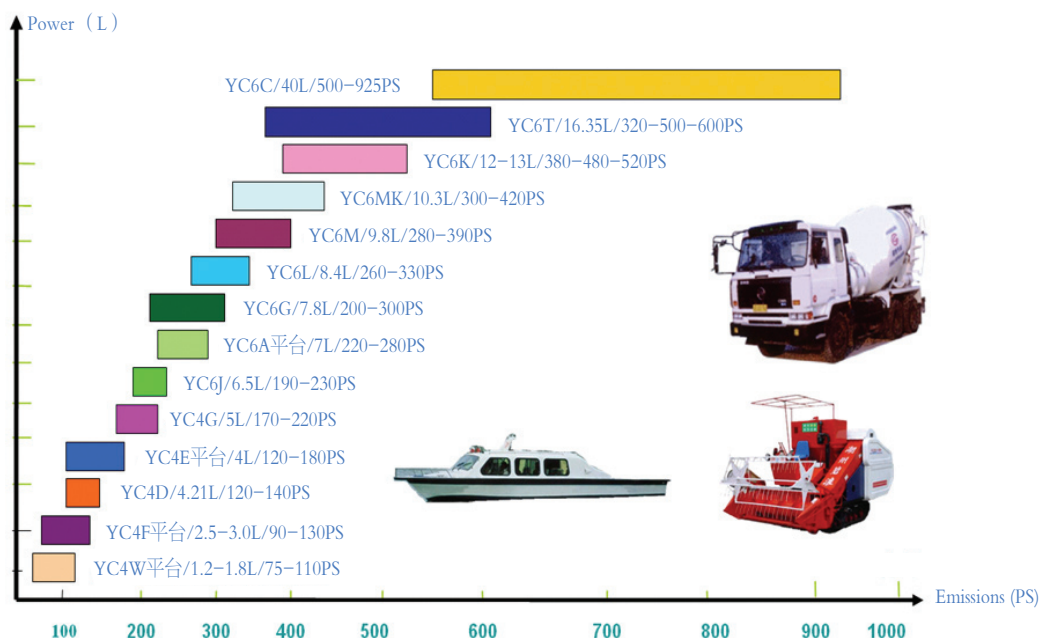
"Two product lines and multiple industrial clusters" is Yuchai strategic positioning during 12th five year plan period (2011–2015). "Two product lines" means engines and construction machinery; "multiple industrial clusters" indicate companies under Yuchai Group grouped by industry, which have expanded or developed in new areas on the basis of existing industrial structure.

Regarding engine segment, at present, Yuchai engine products cover automotive, marine, construction machinery, agricultural machinery, power generation and diesel power– 6 major categories, 22 series and over 2,000 species of micro–light, light, medium and heavy–duty multi–cylinder diesel engines; its products' power range between 6 ~ 25,000KW; it has the most extensive and most complete spectrum of diesel engines among domestic companies. With features like high–power, high torque, high reliability, low fuel consumption, low emission, low noise, strong compatibility, combined with convenient services, it has become the preferred engine for automobile, construction machinery, agricultural machinery and power generation. In the future, Yuchai engine product chain will continue to build on medium–sized diesel engines and to extend on two dimensions – from the micro, light, medium to heavy–duty engines; it will enhance its leading position in diesel engine supply chain domestically

(the longest product chain, the broadest range of products, the best suitability and the biggest production and sales), based on which, Yuchai will strive to build the engine product chain into the world's most competitive and most valuable product chain.

In the construction machinery segment, the current range of products of Yuchai Heavy Industry have already developed from stand–alone excavator into earth–moving machinery and pile–driving machinery, of which hydraulic excavators have over 200 varieties covering 40 series ranging from 0.8 to 220 tons. The products are known for compact structure, reliable and energy efficient performance; and its performance indicators have reached international advanced level. Yuchai Heavy Industry has the most complete spectrum of small and medium–type hydraulic excavators; it is the first domestic excavator manufacturer with annual capacity of 1 million units.

In the future, Yuchai Machinery Group will continue to implement the product chain "vertical extension, horizontal development" strategy, forming a diversified operation pattern with excavators as the core products and pile driving machinery, mining machinery, lifting equipments, non–excavation machinery, construction machinery spare parts and other products as the supplements.





Guangxi Yuchai Machinery Group Co., Ltd.



Engine production bases across the country



Yuchai Heavy Industry across the country



CSR Yuchai Sichuan Engine Co., Ltd.



Sichuan Bonny Heavy Machinery Co., Ltd



Guangxi Yuchai Machinery Group Co., Ltd.





Yuchai Heavy Industry Tianjin Co., Ltd.



Jining Yuchai Engine Co., Ltd.



& C Engine Co., Ltd.



Yuchai Heavy Industry (Changzhou) Co., Ltd.  
Yuchai Pile-Driving (Changzhou) Co., Ltd.



Hubei Yuchai Engine Co., Ltd.



Yuchai Remanufacturing Services (Suzhou) Co., Ltd.



Zhejiang Yuchai Sanli Engine Co., Ltd.



Xiamen Yuchai Engine Co., Ltd.



Zhuhai Yuchai Marine Power Co., Ltd.



## Operation

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### Advance to top position in the industry

### Yuchai Group's "record " in the industry

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One of the largest production bases of the internal combustion engines;  
One of the first companies listed overseas;  
The most complete spectrum internal combustion engine manufacturing base domestically;  
The most complete spectrum of small and medium-type hydraulic excavator manufacturer domestically;  
No.1 state-level company technical center and laboratory in the industry;  
The earliest company in terms of R&D and mass production of Euro IV and V low-emission products;  
Largest number of and the most extensive coverage of the customer service network and the minimum service radius.

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## Awards and Honorary Titles 2010

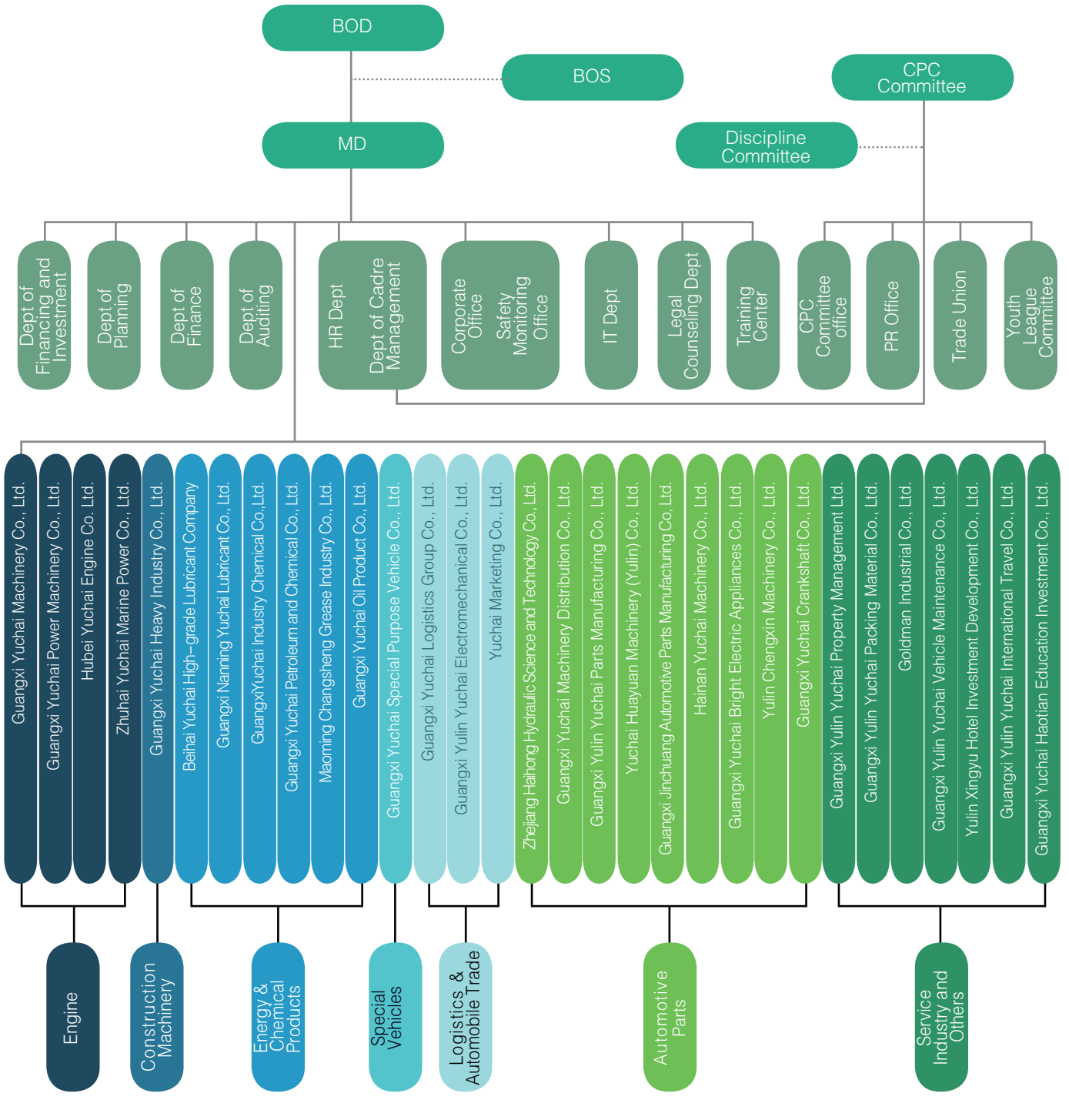
## Awards and Honorary Titles won by the Yuchai Group in 2010

Award category	Award (Certificate) Title	Issued by
General Award	China Top 500 Enterprises 2010	China Enterprise Confederation and China Entrepreneurs Association
	China Top 500 Manufacturing Enterprises 2010	China Enterprise Confederation and China Entrepreneurs Association
	China Top 500 Machinery Enterprises 2010	China Machinery Enterprise Management Association
	China Top 100 Enterprises in the foundry industry	China Foundry Association; "Foundry Technology" magazine
	National Leading Enterprise in the foundry industry	China Foundry Association
	2010 Top Ten Enterprises in Guangxi	Guangxi Federation of Enterprises and Entrepreneurs
Technology Award	Science and Technology Progress Award	Government of Guangxi Zhuang Autonomous Region
	Tianjin Technological Invention Award	Tianjin Municipal Government
	Agricultural machinery certificate of authenticity	Ministry of Agriculture, PRC
	Quality license of export products	Entry and Exit Inspection and Quarantine Bureau of Guangxi Province
	China Classification Society Certificate of Type Approval	China Classification Society
	Certificate of Type Approval for marine products	Ship Inspection Bureau of Guangxi Zhuang Autonomous Region
Brand Award	2010 Product of the Year , China Construction Machinery TOP 50	Construction Machinery & Maintenance Magazine
	China's 500 most valuable brands	World Brand Lab
	"Yuchai" won "60 Years China Brand Image Award"	Chinese Brand Development Commission, China Brand Forum Organizing Committee
	Selected as " Chinese National Brand"	Xinhua Daily Telegraph, China Top Brands Magazine
	National customer satisfaction brand of agricultural machinery	Chinese Society for Agricultural Machinery Popularity Working Committee, the Agricultural Machinery Magazine
Green Award	Top Ten Diesel Engine Brand in 2010	China Automotive Daily
	Top 100 China driving forces behind world low-carbon environment	Third World Environmental Protection Conference Organizing Committee, International Association of Energy Saving
	Application of new energy and energy saving coach components and parts	Low-carbon Transport and New Energy Passenger Vehicles Application Promotion Organizing Committee 2010
	LNG engine assembly YC6J210N-30 won the outstanding coach components and parts award for new energy, energy saving and emission reduction	Low-carbon Public Transport and New Energy Passenger Vehicles Application Promotion Organizing Committee 2010 & Guangdong Urban Public Transport Association
	2010 Green Internal Combustion Engine award certificates (YC6M won "2010 Green Power Award")	China's Automobile Newspaper, China Internal Combustion Engine Industry Association
Education Award	Construction Machinery fittings industry's most influential brand of engine components	China Construction Machinery Association, Construction Machinery Fittings Branch
	2010 Top 100 Chinese advanced enterprises in education	Organizing Committee of China Top 100 Enterprises in Education
	Excellence in National Machinery Industry Training School – Enterprise Co-operation and Talent Nurturing	China Machinery Industry Education Association, Education Development Center of Machinery Industry
Management and Service Award	Advanced Company in Staff Education in Guangxi Machinery Industry 2010	Guangxi Vocational Education Association of Machinery Industry
	National implementation of the Advanced Enterprise Performance Excellence Model Special Award	China Quality Association
	YC series engines after-sales service of customer satisfaction	China Quality Association, the National User Committee
Management and Service Award	The Seventh National Top 100 Outstanding Automotive Parts Supplier	China Automotive Daily, the Chinese Automotive Parts Enterprises Information Alliance

Stably Developing in Management Level

Corporate Governance Structure

2010 Yuchai Group Organization Chart



## Deepening social responsibility-oriented corporate culture system



In 2010, Yuchai Group has built and systematically reviewed a CSR-oriented corporate culture philosophy, and developed a medium-term corporate culture development strategy and measures to establish corporate culture evaluation and examination system, trying to promote a

corporate social responsibility-oriented culture. Yuchai built the philosophy of "Green Development & All-Win in Harmony" in April 2006; afterwards Yuchai set up its mission of "Taking the Lead & meeting the power need of the general public" and developed the vision of "Making Yuchai a famous brand in the world, Building Yuchai a large transnational corporation". It also built business concept of "Excellent Quality & Yuchai Globalization", a team spirit of "high state wind mind good education great accomplishment", a cooperation philosophy of "honesty, trust, fairness and justice" and service culture of "do my best to provide good service to users"; such ideas are serving as guiding principles for the company's daily production, operation and management. In addition, the Group has also made full use of newspapers, magazines, television, Internet, OA office systems and other channels, communicating Yuchai culture to the community; and through forums, cultural shows, skill competitions, sports competitions, exhibition of corporate culture papers, rewards to highly-skilled personnel, Yuchai corporate culture has been vigorously promoted and starts to take root, spread, flourish and produce fruits.

## Fighting corruption and promoting fairness in business operations

In line with actual situations in recent years, Yuchai Group has seriously promoted the anti-corruption work and proposed a clean company concept featuring "law-abiding, honesty, self-discipline". In a framework with clean operating system as the basis, clean management system as the support, supervision measures as assurance and integrity activities as carrier, Yuchai gives equal attention to advocating, educating, regulating and overseeing in anti-corruption activities and builds an anti-corruption system where management before, during and after corruption acts is conducted, and supervision is imposed at all levels across the company and outside the company. In 2010, Yuchai continued to promote anti-corruption work and won the honors of "advanced company in anti-corruption education of Yulin City" and Guangxi zhuang Autonomous Region "outstanding research information in discipline inspection".



## Operation

### Strengthening anti-corruption education

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Yuchai Group held a series activities to promote anti-corruption concept, including positive publicity, training, e-education, law lectures, editing and publication of Clean Yuchai brochures and Clean Yuchai video, anti-corruption policies and regulations to promote

cultural communication and business integrity, honesty and fairness, guidance to workers in building clean awareness, education of relevant laws and regulations to improve prevention of corruption and creation of a fair business operation environment.

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### Strengthening Anti-corruption Regulations

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Yuchai Group has developed and implemented a series of rules and regulations to prevent and combat corruption in recent years, including the *Clean and Honest Administration for Yuchai Leading Cadres*, *Yuchai Provisions for Leading Cadres*, *Clean Accountability Assessment Methods*, *Provisions on Employee Self-discipline*, *Clean Management of Mutual Insurance Agreement*, *Clean and Honest Monitoring System*, *Disciplinary System*

*Management*, *Business Ethics Code of Conduct and Gifts Management System* and other sixteen policy documents in total. In the continuous improvements of these rules and regulations, Yuchai also strengthened the supervision and inspection of implementation, which has built a strong anti-corruption embankment to ensure that Yuchai, the diesel engine aircraft carrier of the manufacturing industry of China, can operate safely and fairly.

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### Strengthening inspection and supervision over anti-corruption

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Yuchai Group has taken major and sensitive issues as key inspection and supervision content; staff on key positions and working abroad as key supervision targets; eight areas including compensation, personnel, procurement, infrastructure, technological transformation, finance, quality control, material handling as the major scope of inspection and supervision

in implementing "self-supervision, family supervision, organizational supervision, supervision of the relevant parties and public scrutiny" –comprehensive and seamless inspection and supervision measures. As such, Yuchai has built a corporate punishing and preventing system against corruption to promote the fair operation of the enterprise and ensure clean employees.

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### Enhancing inspection over project tendering process

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Yuchai has four entities responsible for project tendering management– capital procurement, expense spending, non-parts procurement and production equipment parts repair, maintenance spending. In 2010, Yuchai improved the company's inspection management and project tendering management

system; through establishment and optimization of inspection platform, Yuchai has strengthened tracking, supervision and management of the bidding projects; Yuchai has also increased intensity of supervision and evaluation to ensure inspection results, thus reflecting Yuchai core corporate culture and values of fair operation.

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## Signing self-discipline agreements and building anti-corruption & fair business network

To implement a series of self-discipline rules and strengthen the company's integrity management and anti-corruption work, Yuchai signed with subsidiaries *Agreement on Clean Operation Responsibilities*, signed with factories (supplier) *Clean Mutual Assurance Agreement*, instructed senior managers to sign a *Commitment to Business Ethics*, and signed with line managers, especially procurement and foreign business staff the *Honesty and Self-discipline Agreement*. These responsibilities and commitments clearly defined responsibilities, evaluation criteria and incentive methods. For abuse of power, bribery, dereliction of duty, private economic activity, extortion and other violations, Yuchai imposes financial penalties, public exposure, job transfer, termination of employment contracts and even transfer to judiciaries. These severe disciplinary measures reflect



Commission for Discipline Inspection represented in the evaluation process

Yuchai's determination to comply with law and fulfill the social responsibility to ensure fair and clean operation.

## Adopting Lean Six Sigma to promote effective operation of quality system

In 2010, the company successfully introduced into Lean Six Sigma management and organized advocator training, Lean Six Sigma operating system and financial effect audit training, yellow belt training, green belt training and lean management training.

Excellent Team building and quality management activities were carried out in 2010; a total of 42 teams obtained Guangxi honorary title of Outstanding Quality Management Team; 4 teams won the national honor of Outstanding Quality Management Team; Yuchai successfully passed audits by Dongfeng, FAW, JMC

and other big customers, as well as CCS certification, ship inspection and fishery inspection.

Through strict assessment mechanism, Yuchai tried to promote closed-loop quality management. 18 company-level projects have completed 324 corrective measures, with 94.5% completion rate; 16 measures have been consolidated. 225 external quality feedback information received throughout the year including 548 feedback from major customers, with 100% timely processing rate, measures promptly closed-loop rate of 97.7% and the due question closed-loop rate of 87%.

## Improving internal audit and effectively preventing operational risk

In 2010, the company further improved the management system of internal audit, which was divided into the routine audit, special audit and follow-up audit, and accordingly revised and released internal audit management system, so that audit work could be done in a more standardized and effective way. By auditing

main business management system and major investment and financing projects, evaluating whether company system implementation was sound and effective, whether major investment and financing projects proceeded in a manageable way, the business risks get reduced and operational efficiency was improved.

### Maintaining Technology Innovation Advantages

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#### Technology Leader and core breakthroughs

Over the years, Yuchai has been at the forefront of the industry in independent innovation and achieved fruitful results.

In tail gas emission control technology, Yuchai is the first to achieve mass production of Euro III diesel engines and the first to do R&D and produce Euro IV&V diesel in China. These filled a gap of diesel engines and meet stringent emission standards, breaking the monopoly of foreign technology; it is the first time domestic R&D can keep pace with international standards in engine R&D.

In hybrid engine R&D, Yuchai successfully developed the first city bus hybrid power, renewable air hybrid power and commercial vehicle hybrid

power train (ISG Technologies), achieving the first test run of low carbon & energy efficient engines in China and contributing to the development of low-carbon economy.

Yuchai also independently developed the first mini-cars diesel engine, which are installed on domestic cars and launched into market. It also successfully developed China's first CNG gas engine that meet the Euro IV emission standards, leading trends of a new generation of engine technology.

Yuchai has defined innovation as the core competitiveness, serving as a basis for sustainable development of Yuchai.



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#### Paying high attention to research and development

Yuchai R&D base is in a leading position in the industry. Following the upgrade of its Enterprise Technology Center into the Engineering Research Academy in 2007, Yuchai built Construction Engineering Research Academy in Nanning in October 2009, laying a solid foundation for Yuchai in future development into an international conglomerate.

In December 2009, Yuchai Technology Center won "State Enterprise Technology Center Achievement Award" jointly issued by the National Development and Reform Commission, Ministry of Science, Ministry of Finance, General Administration of Customs and State

Administration of Taxation. Yuchai Technology Center ranked No. 27 among 575 National Technology Centers and No.1 in the engine industry.

In June 2010, Guangxi Zhuang Autonomous Region's RMB 100 billion industrial R&D center and major Sci-tech Breakthrough Project was officially launched in Nanning, Yuchai was awarded the "Guangxi RMB 100 billion Internal Combustion Engine R&D Center." In September, Yuchai technology center's innovation capacity-building project passed the national inspection and acceptance, highlighting Yuchai's leading position in innovative R&D capability domestically.



**Yuchai technology center's innovation capacity-building project passed the national inspection and acceptance.**

On September 3, 2010, Yuchai technology center's innovation capacity-building project passed the national inspection and acceptance.

The project includes a diesel engine product design platform; a diesel engine trial production and testing platform; a trained R&D team with innovative capabilities. It could support the work of 22 major engine series R&D teams; it made a series of breakthroughs in key technologies, including whole vehicle thermal balance testing platform, mobile container-type plateau engine testing rack, organizational knowledge and analysis-driven integrated diesel engines R&D systems, which are never seen in China before.



Billion dollar industry R&D center in Guangxi and major scientific and technological projects launched



Yuchai pays high attention to nurturing R&D talents. Yuchai established a research and development center jointly with UK Brunel University in October 2010; it joined hands with Huazhong University of Science and Technology to establish another research center later. Currently, Yuchai Engineering Institute has 433 scientists, including 23 Ph.D., 71 Masters and 22 senior engineers; there are 4 employees enjoying special allowance issued by State Council, 2 experts of outstanding contributions to the State and 1 outstanding expert in the autonomous region.



Yuchai joined hands with Huazhong University of Science and Technology to establish research center

### Yuchai construction machinery talent pool has played a significant role

Guangxi diesel engine talent pool was built in 2004. Yuchai construction machinery talent pool was then created in 2006. Through the implementation of incentive measures, such as career planning for professional and technical personnel, fund options management standards for top-notch technology backbone personnel in key positions, new product revenue commission programs, project points reward, establishment of reward fund for board chairman and general managers, Yuchai has attracted top talents from home and abroad, including 2 doctors, 13 masters and 233 undergraduates. Over the past 4 years, Yuchai has rewarded key personnel of science and technology at a total of more than RMB 46 million, including an end year award of

RMB 7.8 million.

The talent pool became strong driving force for innovation. Yuchai Heavy Industry has received more than 60 patents authorized by the State, more than 40 R&D technology category awards by the State, autonomous regions, municipalities, more than 20 process improvement awards and more than 10 quality awards. Among them, the proprietary Yuchai YC60-8 hydraulic excavator won "Guangxi Science and Technology Progress Award" and "China Machinery Industry Science and Technology Third Prize"; this model of engine is the best seller in the domestic industry in 2010. Yuchai Heavy Industry also has won "Top Ten Brands in Chinese Construction Machinery Industry" for many years.



Researchers from Yuchai Heavy Industry Company are making technology research

Yuchai was granted

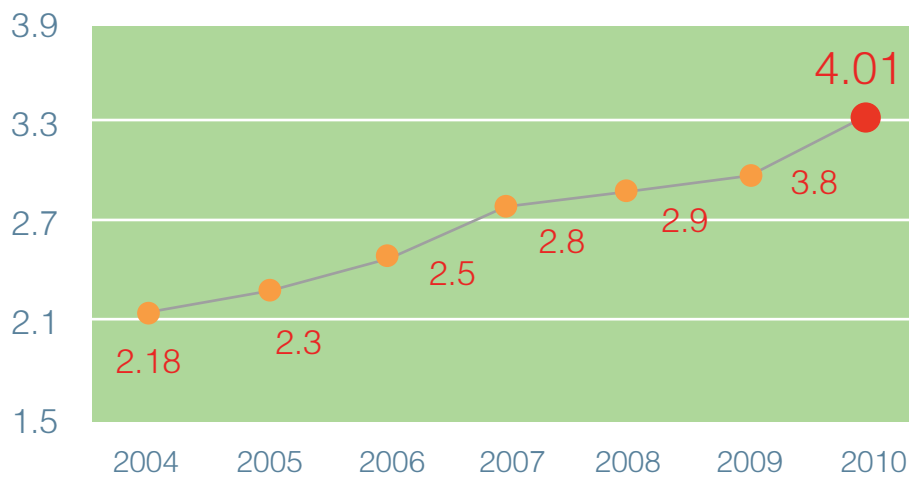
**230** patents

in 2010, 15.6% higher than that of 2009

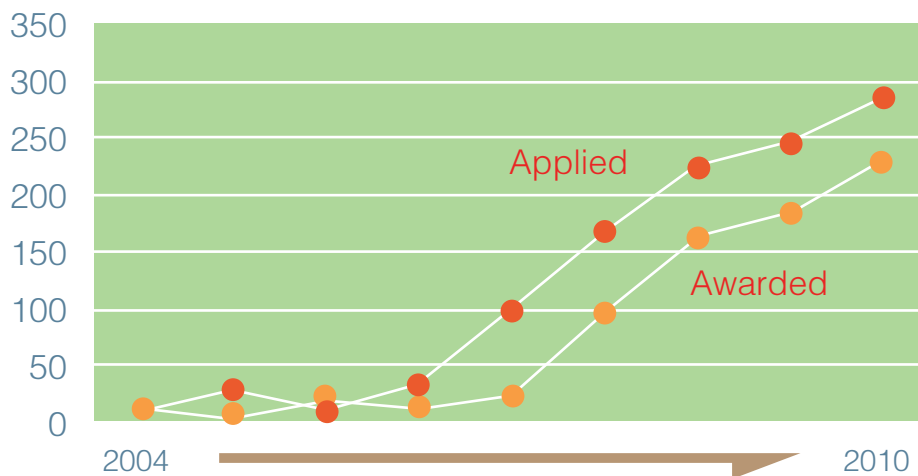
To ensure R&D capabilities, Yuchai's annual R&D investment is as high as RMB 200 million. The number of patents granted has increased year by year. In 2010, Yuchai applied for 286 patents and was awarded 230 patents, 10.8% and 15.6% higher than 2009 respectively.

**R&D Investment, 2004–2010**

Unit: RMB 100 million



**Number of Patents Applied and Awarded of Yuchai Group**



## Strengthening Strategic Partnership

### Coordinating to meet the needs of major clients

Guided by the mission of meeting customer needs for power with excellent and advanced products and services, Yuchai has been trying to create "excellent engine". In 2010, from product planning and development to production and

marketing, Yuchai has established strategic partnerships. In 2010, Yuchai was awarded the Seventh National Top 100 Outstanding Automotive Parts Supplier, and recognized by many partners as a good supplier or strategic supplier.

### Awards of Excellent Supplier Granted to Yuchai in 2010

Title	Partner	Title	Partner
Excellent Supplier 2009	Xingdi Group Co., Ltd. Hangzhou	Excellent Supplier 2010	Beijing North Huade Neoplan Bus Co., Ltd.
Excellent Supplier 2009 –2010	Beijing North Huade Neoplan Bus Co., Ltd.	Excellent Supplier 2009 –2010	XCMG Engineering Science and Technology Branch
Ankai Excellent Supplier2009	Anhui Ankai Automobile Co., Ltd.	Excellent Supplier AA	Dongfeng Automobile Co., Ltd
Excellent Supplier for Supporting Products 2010	Dongfeng (Liuzhou) Automobile Co., Ltd	Excellent Supplier 2010	Dongfeng ( Nanchong ) Automobile Co., Ltd
Excellent Supplier 2010	Nanjun (Sichuan) Automobile Co., Ltd.	Excellent Supplier 2009	Xiamen King Long United Automotive Industry Co., Ltd.
Excellent Supplier 2010	Fukuda Euro V New Energy Bus Co., Ltd.	Excellent Supplier 2010	King Long United Automotive Industry (Suzhou) Co., Ltd.
Dongfeng Commercial Vehicle Strategic Supplier	Dongfeng Commercial Vehicle Co., Ltd.		

### Guangxi Yuchai Machinery Co., Ltd. was named 2010 Excellent Supplier of Hybrid Powertrain



Yuchai was named "Excellent Supplier of Hybrid Powertrain " on December 29, 2010 at "2010 China Electric Car Industry Chain Award Ceremony and Chinese Electric Car Industry Forum" held in Beijing. The Ceremony and Forum was co-organized by China Automotive Daily, China Automobile Journalists Association and Automotive Network. The theme was "Green & Low-carbon China "; and evaluation criteria include influence, forward-looking, industry chain and value proposition under just, fair and neutral principles. Internet users vote and experts rating were combined, fully reflecting the profile of Chinese electric car industry, both upstream and downstream.

**One of the First Strategic Suppliers of Dongfeng Commercial Vehicle Co. Ltd.**

In the end of 2010 held Dongfeng Commercial Vehicle Strategic Supplier Ceremony & Annual Supplier Assembly, Yuchai was named as "Dongfeng Commercial Vehicle Supplier of the Year

2010 " and at the same time became one of the first strategic suppliers. Yuchai has been supplying engines for three brands of Dongfeng Commercial Vehicle – Hercules, Dragon and Tianjin.



Li Tiansheng, general manager of Yuchai Machinery Company (right) received the "Strategy Supply" Award from Huang Gang, general manager of Dongfeng Commercial Vehicle Company (left)

**Jointly creating the industry's best supply chain**

The concept of simultaneous development of Yuchai and suppliers has been widely recognized by companies in the supply chain. Yuchai cooperated with suppliers very closely, and the core competitiveness of the supply chain improved greatly with the help of the Yuchai. Yuchai and suppliers worked together to create "the best industry supply chain". To that end, Yuchai called for "win-win results, information sharing, joint development, mutual assistance in management, risk sharing, capital operation and forward-looking services and culture building" in establishing supplier strategic alliances and promoting common development, building close working relationship among suppliers.

**Yuchai "Supplier Strategic Alliance" Initiative**

**Strategic Alliance members have following characteristics:**

**Compatibility**

Compatibility with Yuchai in strategy, production, marketing, finance, corporate culture, etc;

**Complementary**

Complementary with Yuchai in terms of mid to long-term development capabilities, product reliability, cost control and competitiveness;

**Synchronization**

Ensure supply priority to Yuchai under mutual-advantage principles due to the alignment in the strategic objectives defined by the alliance.

### Strengthening strategic cooperation with heavy-duty engine part suppliers



In July 2010, Yuchai invited some representatives of the domestic parts suppliers to a heavy-duty engine part supplier meeting for discussion about strategic cooperation and simultaneously improvement of product & service quality, launching the battle of Yuchai and parts suppliers in consolidating Yuchai's market share in the heavy-duty engine market with joint efforts.

At the meeting, Yuchai proposed to further strengthen strategic cooperation with heavy-duty engine parts suppliers, increase the order of parts from quality suppliers to ensure stable and reliable performance of heavy-duty engine. The parts suppliers said they would closely cooperate with Yuchai to create quality products for the heavy-duty engine market.

### Serving All Types of Customers

#### Improving service network and delivering on commitments

900 new service stations were built in 2010 with the total number of stations exceeding

# 2,500

Yuchai constantly enhanced service system planning and improved service network. It built 900 new service stations in 2010, a YOY increase of 56%, which brings the total number of service stations to over 2,500; it thus created a pre-sales, during-sales and after-sales national services network with the largest scale, widest service radius, the longest warranty of mileage, and the fastest response in the industry. Yuchai also has a unique 24-hour dedicated service line-95,098, and has established a strong and efficient maintenance team.

#### Sixteen commitments to consumers by Yuchai:

1. Share information with consumers in a transparent manner;
2. Advertising and marketing expressly to consumers;
3. Disclosure of price information of all product and services;
4. Provide facts and information requested by consumers and validate statements made by the company;
5. Systematic risk identification for product designs;
6. Provide consumers with proper product instructions and potential or foreseeable risk warning;
7. Take measures to prevent consumers from risks caused by improper handling or storage;
8. Provide consumers with effective usage recommendations;
9. Use product design and packaging that are easy for recycling, maintenance or recovery, and provide services or advice for recycling and disposal;
10. To provide consumers with the production, distribution and products related environmental and social information;
11. Provide information to consumers about products and services;
12. Clearly inform consumers about the product after-sales service and support, dispute settlement and compensation mechanism;
13. Provide adequate and effective system of business support and advice;
14. Provide affordable and easy access to maintenance services, and inform the need to purchase accessories in advance;
15. Provide alternative, low-cost dispute resolution and compensation procedures;
16. Collect, use and store consumer data in a responsible way.

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## Promoting leapfrog improvement in service quality

### Achieving breakthroughs in service system

Quality service network is a core competitiveness of Yuchai. Yuchai, Yuchai service consortium, and Yuchai consortium built a new model of cooperation, coordinated with each other, conducted comprehensive communication and had close cooperation in quality assurance, personnel and service, with the aim to achieve win-win situation.

Yuchai places service in a very important strategic position. The current competition of

market is very fierce; the industry trend of service system homogenization is more obvious. Facing such circumstances, Yuchai built specialized services for market segment, especially the agricultural market and the heavy machinery market. At the same time, it upgraded the existing service system, implemented relevant systems, established a scientific system of accessories supply, and rationally allocated resources, in order to protect the interests of customers.

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### Improving services for end-users

Yuchai engine customers have about 2.6 million units of Yuchai engines, with wide coverage and big social impact. Rapid response and effective solution of customer various difficult problems is Yuchai 's way to undertake its social responsibilities. In August 2010, Yuchai established technical support service center, aiming to establish a rapid response mechanism for major quality issues in line

with new market conditions and customer service requirements. At the same time, service networks were integrated with the OEM network to strengthen mutual communication and cooperation; carry out OEM authorized service qualification training, building electrical control, new energy, and marine electricity training bases for capacity building, so as to serve end-users better.

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### Leading R&D in intelligent service product--"Yuchai E-steward"

Yuchai places great importance on service, innovation, safety, energy conservation and fuel-efficiency, providing customers with personalized service and solutions; Yuchai developed an industrial leading intelligent service product--"Yuchai e-steward."

"Yuchai e-steward" system is composed of three parts--onboard module, information center and communication network. Based on modern electronic engine control technology, modern communications and network technology, Yuchai e-steward" system builds a platform for real-time interactive communications among human(driver), machine (engines and vehicles) and managers (Platform Management System)through e-steward

vehicle modules and information center; provides real-time alerts, remote intelligent fault diagnosis, expert online diagnosis and treatment services including failure, speeding, maintenance and gear-shift; through shifting reminder, multi-function control switch and driving behavior monitoring, it provides fuel consumption optimization program; by integration of GPS and vehicle recorder function, it provides navigation, positioning and vehicle monitoring and management services; it also provides maintenance, driver identification, fatigue driving, driving behavior management and other value-added services; all in all, E-steward provides a green, environment friendly and humane-oriented intelligence services.

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## Operation

### Good reputation for dedicated services

"Yuchai service is sincere and proactive". In the Shanghai World Expo and Guangzhou Asian Games, Yuchai has been providing quality maintenance services for vehicles, sending out teams who responded in quite timely and considerate way. Yuchai service was spoken highly. Once again it proved reliability of Yuchai machinery and service.

In addition, Yuchai also organized specialized service initiatives, such as machinery



service month, summer harvest, autumn harvest, 50 special machine service and ship engine services. Yuchai's sincere and quality service won users' commendations; customer satisfaction continued to rise. China Quality Association held "national customer satisfaction promotion meeting" in 2010 and Yuchai was awarded "customer service satisfaction" medal and certificate.

In 2010, Yuchai customer satisfaction was 74.45, continuing to stay at a high level.



Yuchai marine power service

### Yuchai Customer Satisfaction Index over the Years

Year	2006	2007	2008	2009	2010
Customer Satisfaction Index	78.00	78.40	78.50	77.60	74.45

Note: the customer satisfaction index was made by China Quality Association; customer satisfaction index was calculated by customer satisfaction degree for products, company, service and brand.

### Yuchai won "Model Service Provider" for the support service for Guangzhou Asian Games



Asian Games buses equipped with Yuchai engines

To ensure transportation needs of the Asian Games, Yuchai customer service center sent special support teams respectively to the Guangzhou Olympic Sports Center and Bus stations, providing comprehensive, fast and dedicated service for Asian Games. Yuchai won the title of "Model Service Provider". In the awarding

ceremony, Guangzhou government officials spoke highly of Yuchai service, which effectively met the transport needs of Asian Games. Yuchai teams were responsive and effective, achieving the result of zero complaint and zero break-down, thus making an outstanding contribution to the Asian Games.



**Yuchai services were commended by the World Expo**

During the World Expo in Shanghai, daily bus delivery of the Expo visitors was over more than 5000 sorties, most of which were equipped with Yuchai engines. To ensure the safety of the transport during the World Expo, Yuchai Shanghai Pudong service station, Zhongke service station and Yinglei maintenance station specifically held mobilization meetings for the Expo before the commencement, preparing all departments for the Expo. These maintenance personnel put customer needs first, worked hard despite the hot weather with the fastest speed and best quality, winning recognition from customers.



**Overseas sales services reaching a new high**



Service agent in Thailand organize skill training program on gas machine maintenance

Yuchai successfully built a service and sales network. By adopting the strategy of branding and supporting export to overseas market, Yuchai achieved an annual export of 26,386 engines, up by 38% over last year. The overseas market now has more than 12 million Yuchai engines. Overseas service efficiency and quality has been improved significantly by strengthening capacity building, service parts delivery, regular visits and training, opening overseas service information system YCSS, providing special tools and other measures.

To improve the professional skills of overseas service agent level, Yuchai held special overseas training workshops for three consecutive years. Special training programs were held in 2010 in headquartered for overseas service

In 2010, Yuchai engine had 16 new overseas service agents, making the total number of service agents reaching 58. Coupled with 22 sales agents,

agents and key customer s from Indonesia, Vietnam, Malaysia, the Philippines, Thailand and Hong Kong. This is the third of its kind.

**Continuously Upgrading Eco-friendly Products**

**Constantly Strengthening Eco-Friendly Manufacturing**

**Vigorously Promoting Energy Conservation  
and Emission Reduction**

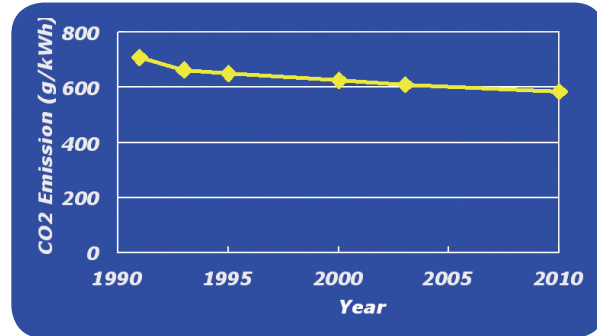


Continuously Upgrading Eco-friendly Products

Yuchai Engine's Lowest CO<sub>2</sub> Emission per Unit has been reduced by

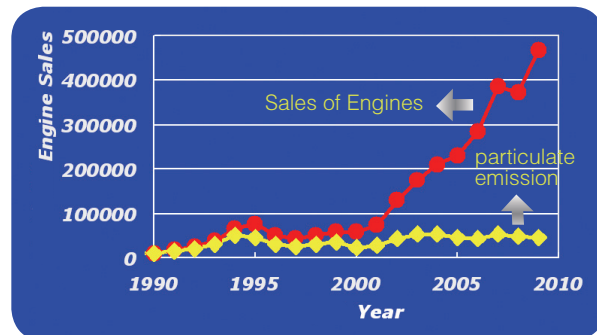
**20%**  
compared with that of 1990.

The Lowest CO<sub>2</sub> Emission per Unit of Yuchai Engines



Yuchai has taken a new step in eco-friendly product development and manufacturing in 2010. All engine product ranges meeting Euro IV emission standards; Euro V engines went into mass production; hybrid engines were widely installed. All of these products are new members to the green family of Yuchai. Over the 20 years, the CO<sub>2</sub> emission of Yuchai engines continued to decline and the sales of engines were 8.5 times more than that in 1994, but the product particulate emission remained the same in general.

Sales and Particulate Emission of Yuchai Multi-cylinder Engines



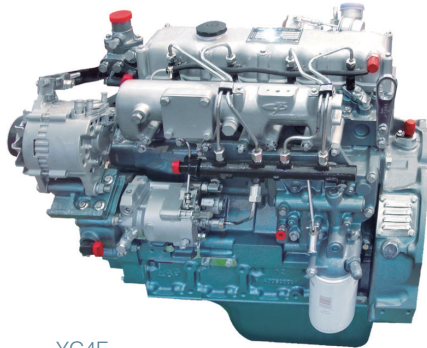
Mass production of Euro V engines



Yuchai Euro V engines put into service at Beijing public transport

Yuchai has been focusing on energy saving and environmental protection. With advanced technology as support, it has been actively developing clean power. In December 2007, Yuchai launched the first domestic Euro V engine, 5 years earlier than the schedule in the national plan. An Euro V diesel engine's NO<sub>x</sub> emission is 60% lower than that of Euro III, particulate emission 80% less. Among all domestic companies, only Yuchai Diesel can provide Euro V diesel engine in bulk. In 2010, Yuchai completed the development of three models of Euro V diesel engine, namely 6L-50, 6L-51 and 6J-50, put them into mass production and launched them in the market. It has contributed to the air quality improvement and environmental protection in Beijing, and laid a solid foundation for the promotion of more extensive use of Euro V engines.

### All product ranges meeting Euro IV standards



YC4F

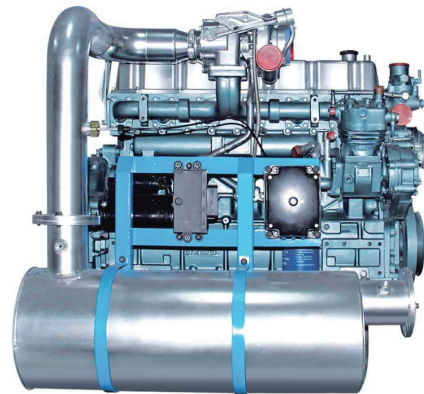


YC4G( Hybrid Engine )

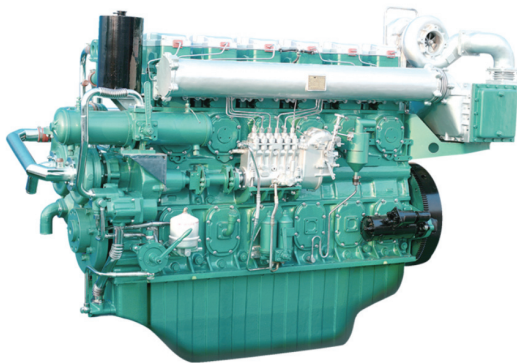
As a company with a strong sense of social responsibility, Yuchai has been working hard to ensure all its product ranges meeting Euro IV standards, following the launch of China's first diesel engine which meets the Euro IV emission standards—YC6L 4 in 2006.

As Yuchai's product line was very wide, the task of ensuring all its product ranges to meet Euro IV standards was very arduous. To achieve the goal, it invested heavily in developing its own control systems and integration technologies, improving and upgrading laboratory equipments to meet the ever-increasing emission technology research requirements and product development needs.

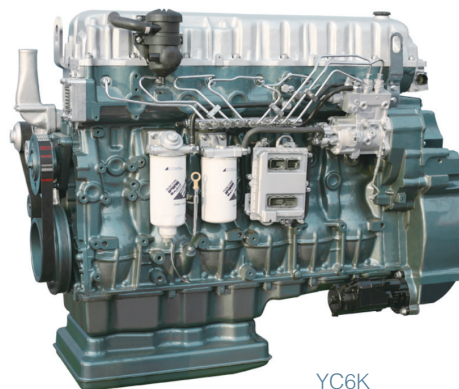
There were 71 models of Euro IV engines with 134 configurations developed in 2010; among which those put on the market were YC4F, YC4E, YC4G, YC6J, YC6A, YC6G, YC6L, YC6K series. Other series of products in conformity with the standards were also put on the market for wider use.



YC6L

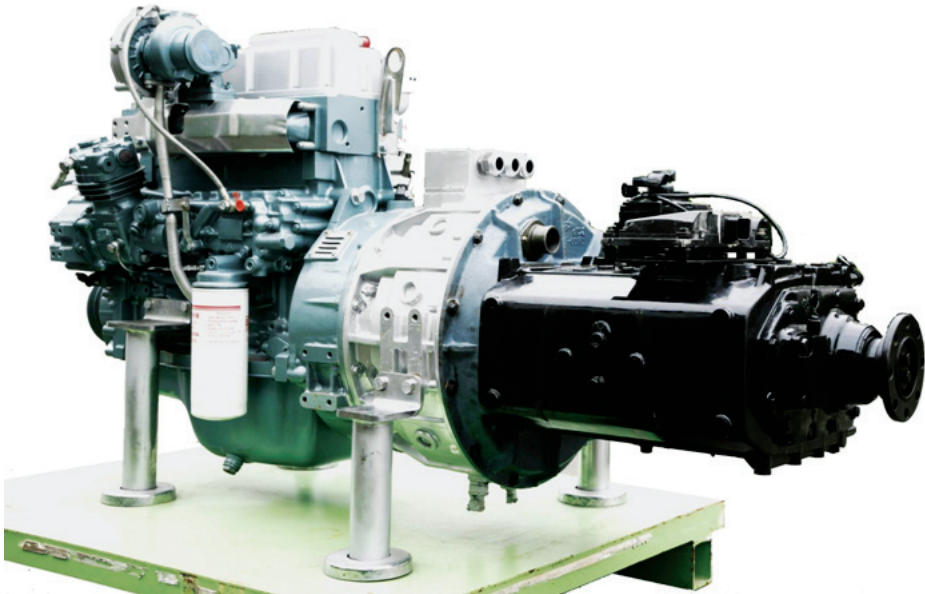


YC6C



YC6K

Yuchai hybrid powertrain taking the lead at home



Yuchai hybrid engines were placed on the market in large quantities in 2010. So far more than 300 hybrid engines had been sold, including LPG gas-electric hybrid system, CNG gas-electric hybrid system and diesel-electric hybrid system; Guangzhou, Suzhou, Chongqing, Tianjin, Xiamen, Kunming, Haikou and other cities were chosen

as the first group cities to launch Yuchai hybrid systems. The 114 vehicles equipped with hybrid systems put in use in August 2010 served as transportation means for Guangzhou Asian Games with 100% attendance during the service time and better energy efficiency, which was well received by users.



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### Smart Generator Sets

The 300kW smart generator set used Yuchai self-developed, cutting-edge diesel engine of 6MK and advanced control technology to achieve remote control (telephone or Internet control), automatic booting, compounding and other functions. It had high degree of intelligence, electric properties and low energy consumption

and emission levels (up to T2, with T3 capacity), and the function of recycling the thermal power from emission. The smart generator set, through the intelligent control technology and the technology of recycling the thermal power from emission, can successfully save boot time, and reduce energy consumption and emission.

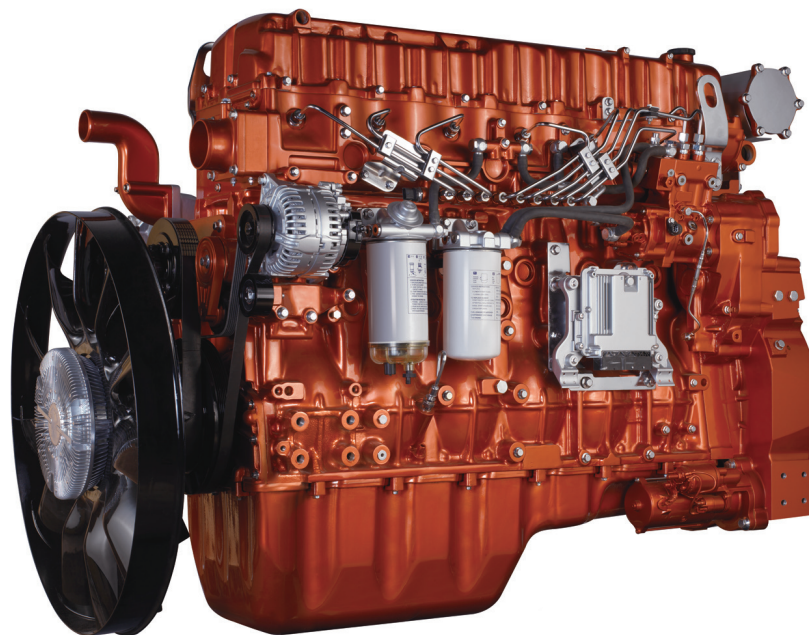
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### Launching new 6K products

The YC6K series were engines for heavy-duty machines officially launched by Yuchai in 2010, positioned as "energy-saving, highly-reliable, China-made world-class engine", which was developed by Yuchai based on similar, new-generation engine platform of world-renowned brands and integrated the latest technological achievements in the world today with more than 30 technology patents. This was the first time that reliability growth technology was used in domestic engine industry, breaking the weakness in reliability of China-made products. The precise burning and electronic control technology, the reversed cross-flow cooling technology, high strength materials and highly efficient engine

cylinder was used in a creative way, greatly lengthening the engine life. It can meet the emission standards of Euro VI and is of the same technology level of the latest European engines under mass production in 2012.

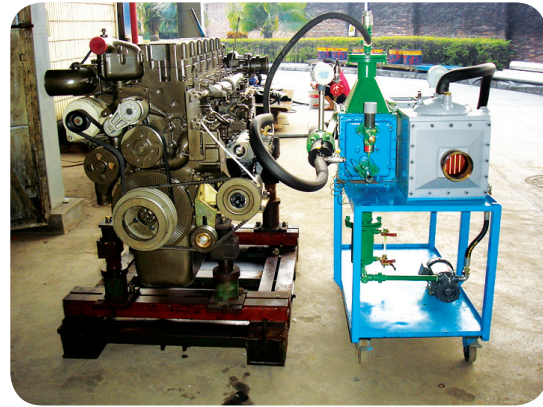
YC6K was far ahead of similar engines made in China in terms of its actual technical performance. The key indicators like fuel consumption and specific weight were the highest in the world: the minimum fuel consumption, fuel consumption rating point were lower than the world advanced level of 5% -8%; the main structure parts were made of high strength vermicular graphite cast iron, engine weight was 15% less than conventional ones.



YC6K

### 6M diesel engines of waste heat energy recovery

The 6M diesel engines of waste heat energy recovery developed by Yuchai is a major breakthrough in energy saving and emission reduction. The waste heat energy recovery system, with water as medium, recovers waste heat energy through evaporator and superheater and then produces high-temperature and high-pressure steam to drive piston steam engine for power output. The dead steam from the steam engine then condenses into water by condenser for recycling use. The output power from steam engine can be used to generate electricity or coupled to crankshaft. The system was designed to improve the thermal efficiency of diesel engines by 10%. And the highest thermal efficiency of diesel engines and waste heat energy recovery system, when working together, can reach as high as 48%. By using this technology to further



recover heat in engine cooling system, the thermal efficiency can be increased by 15%, and the highest thermal efficiency of joint operation can reach up to 55%.

### Successful R&D of YCK360 wide-body mining dump truck



YCK360 is the first wide-body mining dump truck in Guangxi developed by Yuchai specifically for domestic mines in line with their distinctive features. The mine trucks are equipped with 6M green engine specialized designed for mines, featured by low fuel consumption, powerful engine, high efficiency and flexible operation. The body is made of high-strength wear-resisting steel plates, which effectively increases net dead weight and reduced fuel consumption and maintenance. It is unique in shape, safe, reliable and comfortable to drive. YCK360 can be widely used in mining engineering works with poor road conditions and complex environment.

### Yuchai hydraulic excavators passed the review of international noise certification organization.

On April 16, 2010, Mr. Alan, Manager of the Industry Department of British AVT—a world-renowned noise certification organization—conducted sample noise testing of Yuchai hydraulic excavators. Results showed that YC35-8 hydraulic excavator's noise levels at all testing points were within the limits of 2000/14/EC, meeting the requirements of 2000/14/EC noise directive.

British AVT conducted sample noise testing of Yuchai hydraulic excavators

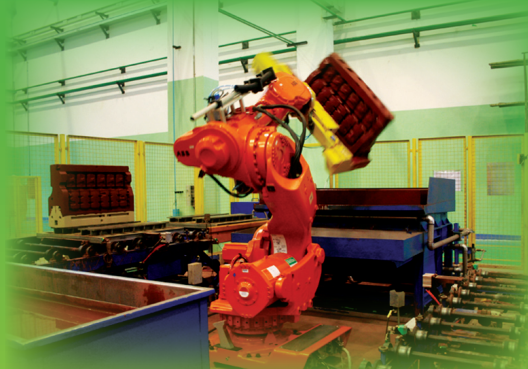


## Constantly Strengthening Eco-Friendly Manufacturing

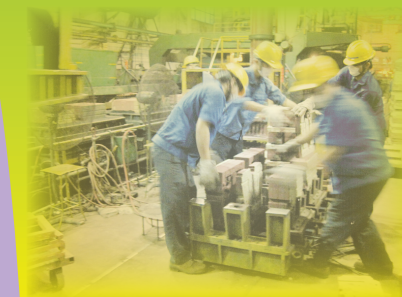
Yuchai extended environmental protection to the whole production chain, from raw material selection, emission control during the production process to the integrated waste recycling, with full consideration of environmental protection requirements. It constantly strengthened the concept of eco-friendly manufacturing through sustained efforts to achieve continuous improvement of the environment. The casting workshop was the workshop of heaviest pollution and facing the greatest difficulty to make improvement in eco-friendly manufacturing, but it is also the workshop which has made the biggest progress. The light spot of Yuchai in eco-friendly manufacturing in 2010 was the transformation of casting system.

**The first to rely on robot to do the core setting in the world, thus improving quality and saving materials.**

Core setting by robots needs high precision. There has never been a manufacturer in the casting sector around the world that had any success in using robots to do core setting. Yuchai's technique in this area had rewritten the history. Core setting by robots improved casting accuracy, significantly lowered labor intensity of workers, and reduced the use of tools like core setting fixtures and core assembly tires. As a result, the use of casting materials was reduced by 6% at most, energy consumption during the production process by 8%, and the casting rejection rate to less than 1%. The reduced consumption of molten iron alone contributed to a cost cut of RMB 10.58 million a year and the reduced casting weight helped save RM B7.94 million each year. All together, there was a cost saving of RMB 18.52 million per year thanks to the improvement in these two areas.



New look—Core setting by robots



Traditional scenes of core setting by workers



Scientific and reasonable layout of processing route significantly improving the work environment

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① A corner of the core making center

The new casting center was featured by "one-stop" processing line, high degree of automation, low labor intensity, complete separation of clean and polluted areas and thorough treatment of the polluting sites, thus contributing to a significant improvement in the work environment. Extensive use of advanced machines like robots or robot arms is adopted. The whole process, from core making, core assembly, dip coating, moving to core setting, is performed by robots. A "one-stop" processing line was established for all the activities in the workshop from core making, molding, melting, casting to clean-up. The logistics were smooth and labor intensity significantly reduced.

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② Sand core automatic transmission system

③ Clean lines, a change of the dirty and dark scenes in the past



③

Using new methods to control particulate and reduce emission for less environmental pollution

Scavenging towers were built for flue gas treatment. The efficiency of the FRP exhaust gas scavenging tower was  $\geq 99.5\%$ . 2–6% sodium hydroxide solution or detergent was used as absorption/neutralization liquid which can be recycled for continuous use. This did not only reduce environmental pollution, but also effectively eliminated toxic dust emission in the mold cooling corridors, reducing the risk of coal tar combustion and solving the lingering problem of the casting industry for the first time.



Scavenging towers in the casting center

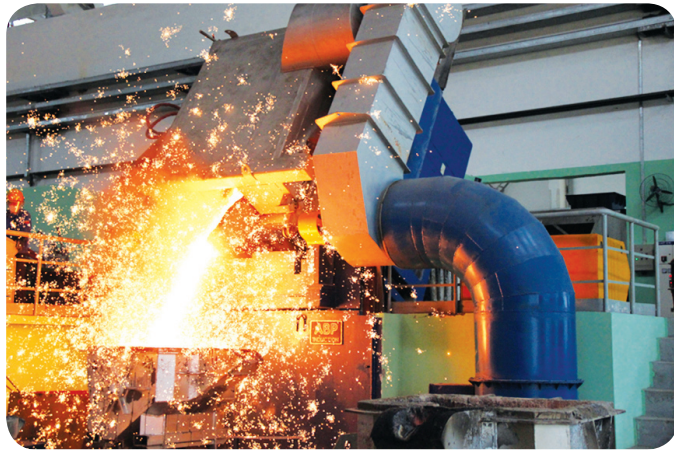
## Environment

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### Adopting single-furnace electro-smelting to reduce dust particle emission

Single-furnace electro-smelting was used to reduce the harmful substance like coke generated during the cupola smelting process and human factors in smelting operation, which helped reduce slag and pores of casting, improve casting quality and effectively lower the cost of furnace burden. At the same time, it also helped reduce production processes and personnel, eliminate the inside and outside emission of dust particles produced in cupola smelting. The Casting Center reduced 1190 tons of

dust emission, 15,000 tons of slag and 92 tons of sulfur dioxide emission in a year and significantly lowered the cost of casting materials and energy consumption.



Advanced technology of single-furnace electro-smelting



Automatic casting machine, the workers no longer have contact with high temperature ladle

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### Using eco-friendly materials and promoting cleaner production

Throughout the production process, Yuchai focused on the use of environmentally friendly products, and actively used non-toxic, harmless or low toxic, less harmful materials to replace toxic and harmful materials. Gradually it promoted the use of environmentally friendly water-based paint to replace ordinary paint which is more harmful to employees and the environment.

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### Classified treatment of waste to avoid secondary pollution

The waste produced during the production process was classified into recyclable and non-recyclable categories for better management. Separate hoppers were assigned to each category to treat the waste in a timely way, so as to prevent long-term stay of polluting source in the plant compound and environmental pollution. The rate of waste categorized collection and disposal reached 100%.

## Vigorously Promoting Energy Conservation and Emission Reduction

### Achieving energy saving with new processes

New technologies and production processes were adopted for energy conservation, which was an important part of environmental protection for Yuchai. In 2010, Yuchai has achieved a breakthrough in environmental protection through new technologies and processes.

With increasing efforts in eco-friendly

manufacturing and the implementation of various energy saving technologies, the energy, water and electricity consumption per engine produced was constantly lowered. In 2010, the energy consumption per engine produced was down by 23%, water consumption 54 % and coal 56% over 2005.

### Energy Consumption per Unit Product over Past 5 Years

Year	2005	2006	2007	2008	2009	2010
Energy Consumption per Engine Produced (kilo standard coal/engine)	187.60	151.08	136.30	150.41	119.80	144.61

### Water, Electricity and Coal Consumption over Past 5 Years

Year	2005	2006	2007	2008	2009	2010
Water(cubic meters/engine)	6.348	4.785	3.212	3.555	2.229	2.895
Electricity (KWH/engine)	452.722	423.456	390.822	436.713	349.080	519.295
Coal(kilo/engine)	58.80	47.71	36.68	51.49	28.38	25.79

Treat "harmonic wave" from intermediate frequency furnace due to its unique nature of "non-linear load" was treated. After treatment, the higher harmonics filtering rate reached over 80%, stabilizing system voltage, compensating the reactive power and increasing power factor. The treatment did not only reduce harmonics pollution, but also saved energy, resulting in more than 200,000 KWH of electricity saved

Energy consumption per engine produced in 2010 was down by

**23%** over 2005

over the year.

By using intermediate frequency smelting furnace to produce molten iron directly, Yuchai achieved remarkable energy-saving results. Compared with the original process (cupola smelting + temperature maintaining by main frequency maintaining furnace), the new technique can lead to an annual reduction of energy consumption equivalent to 4,000 tons of standard coal.

### Energy Consumption per Ton of Molten Iron over Past Five Years

Year	2005	2006	2007	2008	2009	2010
Energy Consumption per Ton of Molten Iron (kilo standard coal/ton )	373.4	308.0	311.2	315.5	294.2	265.2



Flue gas treatment using intermediate frequency smelting furnace

### Promoting resource recycling

Yuchai promoted water recycling technology vigorously. Some business units had already completed the transformation of water recycling systems, conserving more than 400 tons of water per day. It carried out advanced treatment (gravel filtration and chlorine dioxide disinfection) of effluent after sewage treatment, used recycled water discharged in conformity with the standards for furnace and cupola slag flushing, plant area water sprinkling to reduce dust in the air, rag cleaning and diesel engine test cooling. The water consumption per unit of product was gradually lowered. In 2010, the industrial water recycling rate reached 79.8%, reducing water consumption and sewage discharge.

Recycling of waste sand of casting was adopted to reduce solid waste discharge. The waste sand from three casting workshops went through the process of crushing + screening + dust elimination+ roasting for recycling. In 2010,

the solid waste discharge was cut by 13,260 tons thanks to the recycling of waste sand.

Yuchai also replaced hydraulic dynamometer with electric measurement and control system to measure diesel engines. In the process of engine testing, the system used the diesel engine power output, and at the same time converted it into main frequency alternating current and fed it back to the grid, so as to achieve the purpose of recycled use of energy. With the use of the new system, more than 3 million kilowatt hours of electricity were recovered over the year.

Yuchai also cleaned oil stained rags for reuse, which helped reduce pollution. The oil stained rags from equipment maintenance and hand wiping used to be only used once, which was a huge waste of resources and source of pollution. In this regard, the company bought cleaning and drying equipment to clean and dry the oily rags for recycling and reuse.

### Waste Oil, Slag, Waste Water Recycling in 2010

Waste	Unit	Value per Unit	Recycling Amount in 2010	Recycled Value (RMB)
Waste Oil	ton	RMB 2,683/ton	312.88 tons	839,500.00
Slag	ton	RMB12/ton	1,116.25 tons	13,395.00
Waste Water	cubic meter	RMB1.22/cubic meter	38,991 cubic meters	47,569.02

**The distributed combined heating and power system and the energy recovery system of Y & C Engine Co., Ltd. were recognized as a model of energy recovery.**

Y & C Engine Co., Ltd. implemented the overall energy plan effectively in the plant. For the first time, it used distributed combined heating and power technology and energy recovery technology in the manufacturing sector, laying foundation for the company to reduce energy consumption and achieve sustainable development.

It is the first to use the distributed combined heating and power technology in China. Its spray coating process used highly efficient combined heating and power generation set to send power back to the factory's intra power grid while providing heat for the drying process, the overall energy efficiency of such technology is as high as 90%, 15% higher compared with conventional separated heating or power supply. As for the electrical and heat energy recovery technology, it can transfer mechanical energy from the ex-factory testing of engine into electrical energy and feed it into the plant's intra power grid. It can also collect the heat of the exhaust gas & cooling water from the ex-factory testing of engine to heat the cleaning solution of the cleaning machines through the heat storage



and shifting technology. Thus, it achieved energy recycling under traditional mode of production. When the factory was working at full capacity, the heat and electrical energy recovery reached to 1300KW/h and 1600KW/h respectively, accounting for 1/3 of the total energy demand.

**Ex-factory testing process:**

- Recycled 1600KW/h electricity for manufacturing
- Recycled 1300KW/h heat for air conditioners and heating cleaning machines



**Protecting Employee's Rights and Interests**

**Developing Human Resources**

**Building Harmonious Labor Relations**

**Caring for Employees**



## Protecting Employee's Rights and Interests

### Respecting the basic rights of employees in workplace

Yuchai has always strictly implemented the *Labor Law*, *Labor Contract Law*, *Employment Promotion Law*, *Trade Union Law* and other national labor laws and regulations, protecting the rights of employees to form and join in trade unions, to conduct collective consultation and sign collective agreements. It adopted the principle of equality in employment and occupation, and prohibited any form of discrimination on staff

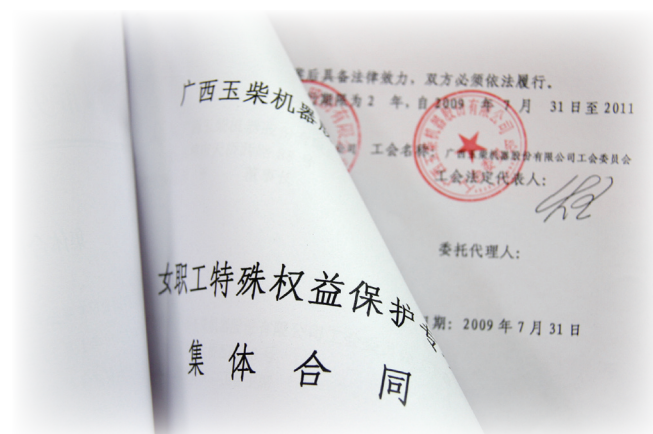
recruitment, salary, promotion, employment severance and retirement issues. It prohibited employment or use of child labor; prohibited forced labor. If there was a necessity to extend working hours, including overtime, cancellation or shortening of vacation, it would carry out full consultation with the trade union and employees and make public announcement in advance and fully respect the basic rights of employees in the workplace.

### Yuchai Group's Total Number of Employees and Its Composition

Number of Employees	Women		Minority Nationalities	
	Number	Percentage	Number	Percentage
19,509	3,825	19.61%	1,537	7.88%

### Special protection of the legitimate rights and interests of women employees

Yuchai conscientiously abided by laws and regulations on protection of the legitimate rights and interests of women employees, established work committees of women employees at all levels of trade unions, and offered fair treatment to women in recruitment, promotion and professional skill evaluation. Yuchai gave female employees special protection on occupational safety and health, marriage, pregnancy, maternity leave and breastfeeding in line with the state laws and regulations, established files on pregnancy, maternal leave and breastfeeding of women employees, and set up special lounge for women employees, lounge for pregnant women, room for breastfeeding, nurseries and kindergartens to provide convenient working and living facilities for female workers.



## Employees

### Yuchai was awarded the title of "Leading Organization in Protecting the Rights of Women and Children in Guangxi"

Before the Women's Day in 2010, Yuchai was awarded by Guangxi Women's Federation "Leading Organization in Protecting the Rights of Women and Children in Guangxi". Yuchai Group has been conscientiously complying laws on the protection of women and children as it developed and implemented the "Collective Contract on Protecting the Rights of Women Employees of Yuchai", and set up a working mechanism of "eight issues must be addressed" to solve the concerns of women employees. It also organized a "Spring Bud Program" to provide donation to impoverished girls and help them complete their schooling.



## Developing Human Resources

Yuchai human resources development and management in 2010 had following characteristics: Firstly, promoting employment flexibility and providing reasonable supports. Take initiative to understand employment needs and employment patterns of various departments, increase internal job rotation and transfer to build a flexible human resources team to meet the employment needs of production tasks. Secondly, making forward-looking and proper-planning in human resources employment. For

employment needs of plants, engineering research institutes and marketing companies, in-depth survey was conducted to figure out actual needs before running Yuchai technical schools to give targeted recruitment training; Yuchai also signed with the Huazhong University of Science and Technology the long-term strategic cooperation agreement to hire talents and develop talent reserves. Thirdly, increasing incentives to give recognition and reward to various types of talents.





### Education Level of Yuchai Employees

Year	MA and Above	BA	College
2010	1.60%	15.96%	22.64%
2006	1.02%	13.01%	17.35%

### Skill Structure of Yuchai Workers

Year	Senior Technician	Technician	Senior Worker	Medium-level Worker	Junior Worker
2010	1%	6.1%	17.56%	22.15%	13.19%
2006	0.48%	4.20%	12.03%	26.70%	19.74%
YOY Increase	228.57%	128.25%	129.14%	30.3%	4.9%

### Placing emphasis on employee training to nurture talents

Yuchai has always attached great importance to training, rewarding all kinds of talents; it formed a training concept to train staff competence, improve employees skills, bring out their potential, build intelligence pool and promote mutual development and progress; the program consisted of basic training, skills training, competence training and academic degree training—the four pillars of the training network at company level, department level and team level; training needs, innovative training model, training project implementation and training effectiveness evaluation—the four

links were effectively combined, forming a good atmosphere of respecting skills; multiple forms of training had been explored, including mentorship, six-step multi-position skill upgrade, monthly forum, English learning online, remote education, staff learning platform; batches of all types of high-calibre personnel had been trained to meet needs of the Group. In addition, experts in different fields at home and abroad were regularly invited to give lectures to Yuchai staff, teach management and cultural courses to broaden horizons and improve the overall quality of staff.

### The Group's Employee Training 2006–2010

Year	Training Cohorts	Number of Trainees(Times)	Total Training Hours
2006年	1,365	71,630	497,080
2007年	1,455	120,279	527,594
2008年	1,577	143,639	728,623
2009年	1,668	154,211	755,055
2010年	1,899	218,055	760,523

### The Group organized seminar on international CSR standard— ISO26000

In order to better promote corporate social responsibility and understand the essence of ISO26000, on December 16, the group invited well-known experts in the domestic CSR field to

introduce International Standardization Organization ISO26000 in terms of background, nature and the main content. Group leaders and more than 100 related personnel listened to the lecture.



Lecture scene

### Rewarding highly skilled personnel

Yuchai Group Board revised "Group Standard on Honorary Titles, Procedures, Award level and Benefit" in 2010 to further increase reward to honorable model workers at all levels and winners in national or regional employee vocational skills competition, especially giving big prize to first place winners of national or regional employee vocational skills competitions. On March 29, 2010, the highly

skilled personnel awarding ceremony was held, where letters of appointment were awarded to 11 skill masters, and recognitions were given to six top-notch technicians of 2009, 23 technical achievements, the winning teams and individuals of vocational skill competitions of 2009; the value of award exceeded RMB 1 million.

On December 31, the company announced the certificates and awards for teams and individuals who made significant technological innovation.

According to the Rules on Yuchai Award Management for Major Scientific and Technological Progress Winners, Yuchai will hand out big prizes every two years to recognize those scientific and technical personnel who have made great contributions to technological innovation in those 2 years.



RMB 1 million reward to highly skilled personnel

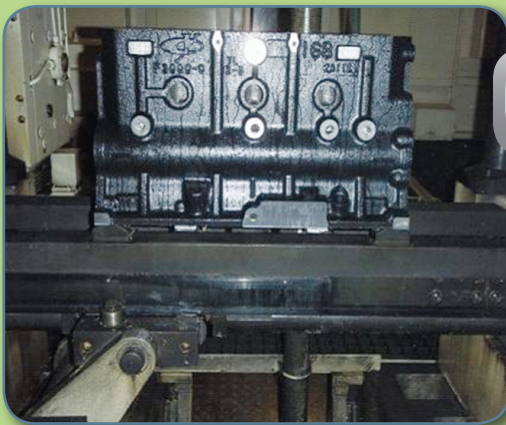
Encouraging employees to carry out a variety of innovative activities

Reasonable suggestions and minor reforms

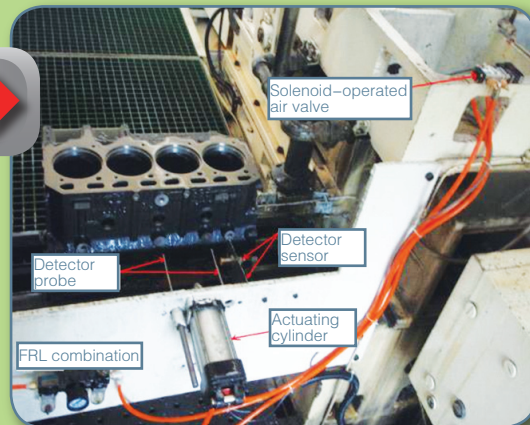
Encouraging employees to participate in technical innovation and raise reasonable suggestions has been a consistent policy of Yuchai. In 2010, frontline staff continued to put forward a number of reasonable proposals and conduct technical refinements, which achieved good results. In the manufacturing process, product measurement, material management and control

areas, a total of 4,428 reasonable suggestions were made along with 495 refinements, achieving a return of nearly RMB 20 million in production practices. On December 6, Guangxi Ceremony for Staff Economic and Technical Innovations & 4th Session of Guangxi Technical Workers Association awarded Yuchai the title of "Guangxi Demonstration Unit in workers Innovation".

4F cylinder block OP50 automatic assembly line incorporated with tool break alarm detector



Before the rebuild



After the rebuild

Demonstration Positions of Innovation and Performance Improvement of Communist Party Members

In 2010, Yuchai carried out the campaign of "Demonstration Positions of Innovation and Performance Improvement of Communist Party Members" among all Communist Party members working in front lines of production or directly serving the work in front lines of production. The campaign covered 7 areas including equipment improvement, process optimization, product quality improvement, energy saving, cost control, production efficiency increase and management optimization. Party members from 31 grass-root level business unit participated in the campaign, 92 projects of innovation

or performance improvement were reported, 18 positions were recognized as "Demonstration Positions of Innovation and Performance Improvement of Communist Party Members" and 18 Party members were awarded the title of "Outstanding Individuals in the Campaign of Demonstration Positions of Innovation and Performance Improvement of Communist Party Members". The campaign not only generated remarkable economic returns, but also established the role modes among Party members and promoted healthy and rapid development of the company's production and operation.

## Employees

### Technical transformation and innovation activities by technicians.

Yuchai established the Association of Technicians which organized various activities for technicians. The technicians employed experience and wisdom to solve problems arising in production in a timely and efficient manner and tackled difficulties in the work. The experienced or top-notch technicians took the lead to demonstrate their super techniques on the spot for others to learn. Every technician is assigned with important projects to be completed in quickly

and successfully. The technicians were also required to take on apprentices, teach them in the workplace, train and identify talents and pass on production experience, professional knowledge and unique skills to skilled workers selflessly, thus training and fostering a group of skilled talents with innovation.

In 2010, the technicians from various business units applied for 33 projects in three categories—project of innovation, project for

production efficiency improvement and project for quality improvement, of which, 23 projects won the Prize of Technical Achievements of High-skilled Talents of Yuchai. During the process, a group of skilled workers stood out and won titles such as "King of Efficiency", "Path-breaker for Tackling Difficulties," "Innovation Pioneer", "National-level Competitor". They did an excellent job in their work, had the willingness to make sacrifices, had the courage to make innovations, worked hard to break through bottlenecks, and equipped themselves with new skills to operate sophisticated equipment of the modern assembly line, thus making a significant amount of new accomplishments and boosting the development of the company.



Show on reporting new results by Yuchai technicians



Technology demonstration activity on "Yuchai Speed"

**Winning the Title of "Top 100 Chinese Enterprises in Promoting Employee Education" five times**

At the annual grand gathering of "Top 100 Chinese Enterprises in Promoting Employee Education", an corporate training evaluation and release event jointly initiated by the Economic & Trade/Economic Committees of 22 provinces, municipalities and autonomous regions and co-organized by Modern Enterprise Education, the Center of Corporate Business School Development of Tsinghua University and Human Resources Newspaper, Yuchai Group won the title of "Top 100 Chinese Enterprises in Promoting Employee Education" for the fifth time.



**Yuchai technicians frequently winning titles of science and technology talents**



Lin Zhiqiang



Feng Jing

On September 19, Feng Jing, vice president of Yuchai Engineering Research Academy was awarded the title of "Outstanding Expert in Guangxi Zhuang Autonomous Region", making herself the fourth Yuchai expert who received this honor and enjoyed the special privileges of outstanding expert. On December 21, Dr. Lin Zhiqiang, president of Yuchai Engineering Research Academy won the award of "Outstanding Young Talent of Science and Technology in the Automobile Industry", which represents the highest honor in the automobile industry to encourage young scientists and technicians to study science and technology and promote the development of the automobile industry. In addition, five Yuchai employees,



Lin Tiejian



Pan Guoyuan

namely Lin Zhiqiang, Feng Jing, Lin Tiejian, Pan Guoyuan and Liang Xiaodong, won the title of "Outstanding Talent of Professional Expertise in Yulin City" awarded by the Yulin Municipal Party Committee and Government. This was recognition of their individual outstanding contribution and Yuchai's efforts in respecting knowledge and talent, creating a favorable climate for talent development and utilization as well.



Liang Xiaodong

## Building Harmonious Labor Relations

### Implementing the mechanism of democratic participation of employees in the management

On February 26, 2010, Yuchai convened the Second Session of the Sixteenth Employee Congress. The meeting discussed the Group's annual business goals, budget and final account as well as income distribution – the major issues involving the interests of business development and employees' rights and interests. It reviewed the implementation of 66 valid proposals from the last employee congress regarding production, operation, safe production, employee compensation and environmental protection, and urged the implementation of the untreated proposals. It also reviewed 37 proposals submitted to this year's congress and passed on to relevant departments and leaders for handling and implementation. When the Congress concluded, the three supervisory boards would follow up and review the implementation of the proposals and the key issues. The review results would then be submitted to the employee congress for further review. The system of employee congress ensured that the employees' rights to democratic management, democratic participation, democratic choice, and democratic decision-making and democratic supervision were protected.

In order to fully play the role of employee representatives in

participating in the administration and deliberation of the company affairs, the Group held quarterly employee representative workshops in 2010, listening to the views of employee representatives regarding production, operation, product quality, vocational training, employee compensation distribution, vacation, recreation and sports. The problems reflected were quickly replied or solved after the workshops.

#### Case:

In April 2010, an employee of simulation process from the engine testing workshop section, Engine Plant I, Yuchai Group suggested to adjust the compensation program. According to him, as the work time was changed from two shifts to three shifts, due to increase in employee number and decrease in working hours for each shift, the compensation of simulation process workers would not reach the average of the workshop section if it was still based on the previous working hours. The Democratic Management Group received the proposal, immediately conducted investigation and calculation in reference to the compensation program of similar positions of other organizations and made the decision to adjust the compensation program through voting.

① Yuchai employee representatives are communicating with company leaders

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② The Second Session of the Sixteenth Employee Congress, Yuchai

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③ Discussion site of Engine Plant 2 employee representative group

### Improving labor dispute settlement system

The Group signed labor contract with all employees, established a staff complaint and company mediation mechanism, set up a labor dispute mediation committee to ensure that staff complaints could be filed. It also made efforts to improve the labor

dispute settlement mechanism to resolve the disputes at the grass-root level. Over the past 5 years, the company only had 5 cases of labor disputes, mainly related to compensation for termination of contract, of which 3 cases were solved by consultation.

### Employee satisfaction improved significantly year on year

The Group conducted annual employee satisfaction surveys through an outside consulting firm. Based on the measurement method of American Customer Satisfaction Index (ACSI), the firm designed and built an employee satisfaction evaluation model and management satisfaction evaluation model. The model

used qualitative and quantitative analysis in order to get to the core needs of employees and measure employee satisfaction. According to evaluation, management satisfaction increased by 8.6% in 2010 over 2009, ordinary employees' satisfaction increased by 6.5% over 2009.

## Employees

### Strengthening Employment Health and Safety

The company has been attaching great importance to employment safety and health, with strict implementation of the "three simultaneous" review system for construction projects, i.e., simultaneous design, simultaneous construction and simultaneous production. It actively used new processes and equipment, improved working conditions to control the occupational disease hazards from the source. It also established records of employment safety and health management for all employees. It reached a credit rating of the employment health as individual records were particularly set up for those who were exposed to occupational disease hazards to monitor the employment

health. Continuous improvements were made in quality, environment, occupational health and safety management system in 2010; Yuchai passed through certifications in environment, occupational health and safety management systems and zero incidence was achieved in workplace death, serious injury, major fire, general fire, major equipment accidents, motor vehicles (in-plant) accidents and occupational diseases through environment, employment health and safety management system certification.

#### Yuchai Employment Health and Safety 2010

Major Equipment Accidents	0	0
Workplace Death, Serious Injury, Major Fire	0	0
Occupational Diseases Prevention Rate	100%	100%



Workers were receiving safety education

### Improving physical examination for employees

Yuchai adhered to the employee-oriented principle, arranged for employee free medical examination every year. In addition to regular health check for all employees once a year, there were other physical examinations offered including gynecological examination for women employees and examinations for special positions. In 2010, the company added the examination of "four renal functions" to the current examination items and widened the coverage of the testing of "four blood fat indicators" from employees over 50 to all employees. The physical examination pack was 20 Yuan more expensive than the current one. To avoid long waiting time for examination if it is scheduled for only a couple of days, the trade union of the Group negotiated with related Physical Examination Hospital and offered employees physical examination card. The employees can schedule the examination with the hospital anytime they want within the one-year valid time of the card.



Employees were receiving physical examination organized by company



## Caring for Employees

### Caring about the employees with financial difficulties

Yuchai's trade union, under the philosophy of "loving and good health" and out of great humanity, paid enormous attention to the various problems and difficulties facing the employees in work and life. Through proactive and reactive services, Yuchai earnestly helped employees with their difficulties through various ways, such as housekeeping services, home electronic appliance repair, greetings to family members of employees, help with the hospitalization of employees' family members, greetings to the pregnant employees and the new moms, congratulations on happy occasions, assistance and aid. It cared about the livelihood of the employees and took real actions to help them out of difficulties. For the 56 employees with financial difficulties due to

serious illness or natural disasters, the trade union drew money from the Staff Help Fund to help them alleviate their difficulties. The Group also organized women workers to participate in women workers mutual help program of Guangxi Zhuang Autonomous Region, bought special group mutual-help medical insurance for female workers to better protect women workers' rights and interests.



Company party leadership visit staff families with difficulty

### Improving recreation and sport facilities for employees

In 2010, 13 physical exercise and recreation projects were completed for employees including plastic track for football playground in Donghua community, volleyball court in Kanghua community, basketball court for the lubricant company, soccer fields for Nanning Special-Purpose Motor Vehicle Company, volleyball court for the logistics company, indoor ball-game court in Nanhua community; entertainment facilities in the Yuchai Life Plaza, additional fitness and gym

equipment for the residential quarters; change of beddings for the ex-pats in overseas external relations residence offices, and purchase of microwave ovens for the night-shift employees.



Brand-new plastic track in Yuchai Stadium

### Rich recreation and sport activities



In recent years, the Group's trade union organized various events, resulting in rich recreation and sport activities for the whole year. The program of "I exercise, I'm healthy and happy" become an important part of the life of Yuchai employees. Other events included the traditional Spring Festival gala, Chinese New Year Lion Dance performance, acrobatics show, series of activities of the Women's Day, balloon volleyball games, table tennis games, Children's Day party, "July 1st" singing show, "My beautiful home Yuchai – 2010 Yuchai Group's New Recruitment Welcome Party", family cultural festival, and line dance contest participated by all employees.



Tug of War game in the National Day



Yuchai Youth Debate

**Selecting front-line backbone employees to enjoy vacation in Nanning**

In 2010, Yuchai selected ten backbone front-line workers to enjoy vacation in Nanning Worker's Sanatorium Home as a reward. They were from the first line of production, outstanding representatives of Yuchai workforce, including autonomous regions' model workers, Yuchai Master Chief, job master, and gold medal winner workers and top-notch technicians. Sending them for rehabilitation reflected Yuchai respect and care for the frontline staff.



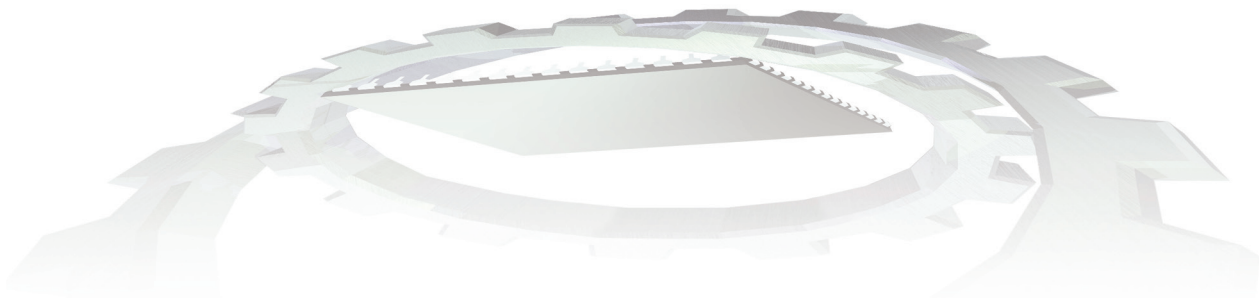
**Organizing study and sightseeing tours for model workers and other outstanding employees**

The Group's trade union organized an 8-day tour to Shanghai, Suzhou, Wuxi, Hangzhou and other places for 40 outstanding employees including model workers at various levels, woman pacesetter, model communists, Outstanding Young Workers, chief technicians, leading technicians of each profession and top-notch technicians, visiting the World Expo, historical sites and some famous large Chinese enterprises in those cities.



Yuchai model workers in the Humble Administrator's Garden





## Devoting to Community Development

### Promoting economic development of the community



Yuchai always took it as its responsibility to promote the social and economic development of the local community and responded positively to local government's call of "Strength Yuchai to Enrich YuLin". It constantly deepened its own institutional reform, continuously improved its capability of independent innovation to create a world leading brand. It actively played a clustering and radiating role to build stronger machinery industry clusters, help local enterprises improve technology and management level, and promote the development of industry in Yulin by leaps and bounds. It set up the Yuchai Industrial Park to house a large number of manufacturers of parts and particles, which did not

only improve the function of Yuchai's own industrial chain, but also provided a new platform for the development of the machinery industry of Yulin City and created a lot of employment opportunities. It established a Vocational and Technical College, which did not only help satisfy the demand for skilled personnel of Yuchai, but also provided a good training base of skilled workers for accelerated development of the industry in Yulin. Yuchai's efforts in promoting local economic and social development won the recognition from local government in 2010, and it was awarded the title of "Leading Industrial Enterprise in Guangxi 2010" and "Leading Industrial Enterprise in Yulin City 2009".



Yulin government held forum of "Strength Yuchai to Enrich YuLin" in Yuchai

### Creating more job opportunities

Yuchai, through its own rapid development, continuously created a large number of quality local job

opportunities. From 2005 to 2010, Yuchai created 3556 new jobs, up by 11.35% y-o-y or 711 jobs a year in average.

### New Job Creation by Yuchai over the Past Five Years

Year	2005	2006	2007	2008	2009	2010
Num. of People	15,963	16,459	17,331	17,029	18,287	19,509
Num. of Jobs	1,076	496	872	none	1,258	1,222

### Carrying out the Campaign of "Low-carbon Household & Fashionable Lifestyle"

The Group carried out a Campaign of "Low-carbon Household & Fashionable Lifestyle" to vigorously promote and popularize low carbon knowledge, calling for less energy, less consumption, less spending and low-carbon lifestyle. The activities included "My low-carbon life" Writing Competition, selection of the "Demonstration Family of Energy Conservation and Emission Reduction", blackboard newspaper contest of "Low-carbon Household & Fashionable

Lifestyle"; encouraging the employees and their families to save energy and reduce emission by using LED lights, turning off lights or pull the plug when needed, using more natural ventilation than air conditioners, using water-saving sanitary appliances, recycling water for reuse, carrying one's own drinking cup than using disposable paper cups, bringing one's own chopsticks when dining out, shopping without plastic bags and taking more buses than driving cars.



Signing ceremony of "Low-carbon Household & Fashionable Lifestyle" activity

### Engaging in Social Services

#### Providing disaster relief

In 2010, a series of natural disasters happened in China, including drought in southwestern China, Yushu earthquake and Zhouqu landslide. Yuchai employees

made donations to the disaster hit areas, and organized rescue teams to repair affected damaged vehicles in the disaster hit areas.



Yuchai actively participated in the Zhouqu rescue activity

Donating to education undertakings



Poor children received Yuchai' donation

Yuchai had been making donations to education undertakings for many years. In 2010, Yuchai, for the fifth consecutive years, donated to the "Spring Bud Program", making the total amount of donation reaching RMB1.25 million over the five years and extending help to 2,500 girls covered by the program. Yuchai also provided RMB600,000 of education funds in total to the children of Yuchai employees over the past five years to help financially stressed students complete their schooling. Scholarship was also provided by Yuchai at Tianjin University and 32 students received the scholarship in total.





Engaging in volunteer activities



Yuchai encouraged employees to participate in various forms of volunteer activities. The young employees of Yuchai actively responded to this call and organized their own teams for volunteer work. They visited the elderly in nursing homes and the orphans in the orphanage in their spare time, and offered help to the poor families in the community in one-on-one form, free tutoring for the children of Yuchai employees, or free medical consultation or haircut services for the elderly. There are 54 volunteers now, who had carried out a total of 63 volunteer activities in 410 person times with service time of 1,282.5 hours in 2010.



Yuchai Volunteer Team members visit the elderly living alone and try to solve problems for them





## Strategic Plan of the 12<sup>th</sup> Five Year Plan Period

### Development Strategy

Yuchai will carry out domestic and international joint venture cooperation and speed up the introduction and application of high and new technologies. It will expand its industrial chain centering on its main businesses and put

priorities on the development of industries and products including diesel engines, construction machinery, special vehicles, automotive parts, energy chemicals and logistics. It will integrate technology advantages, build the Yuchai flagship, and further enhance its international competitiveness so that "Yuchai" will become a world-renowned brand and a large multinational group.

### Strategic Positioning

#### Two product chains:

Product chain of engines and of construction machinery.

#### Multiple industry clusters:

Companies within "Yuchai" Group are divided into company clusters by industry. The clusters will be formed with expansion into new territories based on the existing industrial architecture, including logistics & automobile trade, energy & chemical products, special vehicles, automotive parts and incremental services.

### Strategic Objectives

Yuchai will make efforts to ensure that the "two product chains and multiple industry clusters" achieve sustained, rapid, healthy and coordinated development, and strive to rematerialize the sales revenue of over RMB 100 billion by 2015 as well as simultaneous growth of total profit and sales.

## 2011 Objectives

1

#### Operation and Management

Operation Guideline: "Ensuring a good start, focusing on projects and strengthening core competencies".

Business Objective: Realizing a sales revenue of RMB 40 billion and simultaneous growth of total profit and sales.

2

#### Safe Production

Zero workplace death, serious injury and fire accident.

Minor injury accident  $\leq 3\%$ .

3

#### Employment Health and Safety Guideline

People-oriented & safety first;  
Preventive measures & continuous improvement.

4

#### Environmental Guideline

Assuming responsibilities, and regulating governance;

Strictly process control, and harmonious development.

5

#### Employee Development Guideline

Securing employees' right and interests, and realizing decent work;

Implementing democratic consultation, and striving harmonious all-win.