

Green Development & All Win in Harmony

2008 Sustainable Development Report

Guangxi Yuchai Machinery Group Co., Ltd.
Yulin · China



Explanation of Editing

Time period of the Report:

It is mainly focused on the sustainable development activities of Yuchai Group in various aspects during Jan. 1st –Dec. 31st, 2008, and also includes relevant activities before this period when necessary.

Release Cycle of the Report:

The **2008 Sustainable Development Report** is an annual report, and Yuchai will release sustainable development report annually onward.



Coverage of the Report:

It takes the sustainable development activities of Yuchai Group as the main theme, and also introduces relevant information about the branches and subsidiaries of Yuchai Group.

Status of Previous Report Releases:

The Group released its first **2007 Sustainable Development Report** in June, 2008.



Major Changes in this Report's Structure and Content:

This report is the second sustainable development report of Yuchai Group. Based on the comprehensive elaboration of the Group's sustainable development evolving history and current state in 2007, the Report mainly concentrates on 2008 sustainable development strategy, activities and major achievements. The focus is on the information of the Group's efforts to improve production organization, and environment protection by carrying out the strategy of "Green Development".

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Address by Chairman of the Bureau of Directors

2008 is an unusual year. In this year of tremendous hope and dream, the Yuchai people went through tough challenges and tests, and transformed the solemn commitment of “building another Yuchai within three years” into an actual magnificent scroll of reality. Upholding the philosophy “Green Development and All Win in Harmony”, Yuchai people faced up to the crisis and challenges with determination and calm.

Fulfilling the social responsibility is the representation of a company’s participation and integration into the sustainable development efforts of the whole society, the foundation of achieving “all win in harmony” philosophy between the company, customers, business partners, employees, communities, society and environment, as well as the basis of sustainable development for the company itself. In the process of economic globalization, the business circle commits to enhance competitiveness, and reviews economic, environmental and social performance in the course of growth. The sustainable development is attracting increasing attention as part of the strategy to elevate corporate competitiveness. The sustainable development emphasizes the enterprise’s contribution to the community and the environment, the “sustainable development value” of products and services is the key basis to measure a company’s contribution in that regard. Such philosophy reflects enterprise’s long-term growth prospect in a more holistic manner, and plays an important role in maintaining and strengthening enterprise’s sustainable business operation. Therefore, social responsibility and sustainable development concept inevitably become the value orientation running through Yuchai’s corporate strategy, growth, business operation, and other activities.

As a large wholly state-owned diesel engine enterprise that manufactures diesel engine as the core business, Yuchai has made great efforts in establishing and implementing green growth strategy, and actively responded to various issues surrounding sustainable development. As a member of “United Nations Global Compact”, Yuchai Group always pays great attention to the sustainable development, and has achieved prominent economic, environmental and social benefits through process improvement, science and technology innovation, improved staff awareness of environment & resources, comprehensive resource utilization, and energy-saving & consumption-reduction.

The global financial tsunami is spreading at a quicker pace, with impact on automobile industry beyond expectation; Yuchai will face tough challenge of the crisis. Yuchai people will transform the crisis into opportunity, and continuously carry out the people-oriented, comprehensive, coordinated and sustainable concept of scientific development; we will take optimizing product structure as the core, vigorously develop high-quality and new-type products, and elevate product grade; we will continuously improve indigenous-innovation capability, strengthen competitive advantage; we will optimize the process streamline operation, reduce cost and increase efficiency, and improve capability in value creation and risk management; we will solidly advance the construction of planned projects, and enhance overall control and influence; we will encourage entire staff to actively engage in environment protection, and intensify international cooperation. Our ultimate aim is to build the Yuchai Group into high-quality engine manufacturing base with stronger core competitiveness and more environmental friendly culture.

Yuchai Group released its first sustainable development report last year, offering detailed description of Yuchai's sustainable development concepts and activities which attracted the extensive attention and commendation from all walks of life. The 2008 Sustainable Development Report takes the of United Nations' Global Compact principles as reference, and provides comprehensive explanation of "Green Development and All Win in Harmony" concept, with highlights on efforts of Yuchai to lead the engine industry with green power, and on adjustment of the corporate governance based on new corporate strategy, as well as on the development of "all win in harmony relationship" between staff, customers, suppliers and communities and other stakeholders. Yuchai cannot develop without public support, assistance and motivation, on behalf of all staff, I would like to express gratitude to those people of all circles who are caring and supporting to Yuchai. Yuchai will develop green power in full steam with even greater efforts to repay the concern and support shown by the public.



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

Yan Ping



Overview of the Company



Picture of Yuchai Power Mansion

- Yuchai—China's Green Power Capital
- Achieved the goal of “building another Yuchai in three years” on time
- Continuously elevate its position in the industry

Yuchai—China's Green Power Capital



== Yuchai Heavy-duty Diesel Engine Assembly & Trial Workshop ==

Founded in 1951, Yuchai Group is located in Yulin, Guangxi, which enjoys the fine reputation of being “ancient prefecture for thousands years & capital in the south of the Five Ridges”. Yuchai Group is a state-owned company, and now possesses 31

solely-owned, holding or equity-participating subsidiaries, employs 17000 staff and has a total assets of 13.5 billion RMB. As the largest independent production base of diesel engines in the world, Yuchai is known as the “China’s green power capital”.

Production Capability

The core business of the Group is composed of six sectors, i.e. diesel engines, construction machinery, automobile parts, automobile chemical industry, logistic machines, and special purpose vehicles Yuchai Group is the largest independent production base of diesel engines in the world and the largest production and export base of small-sized construction machinery in China; Yuchai high-grade lubricant occupies half of the high-grade diesel engine market in China; the automobile parts business has achieved international or domestic advanced level; and Yuchai modern logistics system provides the service in the whole country.

Operation Management

Upholding the road of green development, considering technology as the guide, basing on products, talented people and operating mechanism and taking strategy, culture and property as the bond, the Group pushes the enterprise forward rapidly in a sustained and healthy way by adopting the advanced information technology, introducing splendid performance results evaluation mode, implementing full staff operation and overall budget management, carrying out the brand strategy and constant, and continuously reforming & innovating. In recent years, Yuchai has achieved high-speed growth of the average over 30% per year, creating the unique “Yuchai Phenomenon” in the whole industry.



== Yuchai Heavy-duty Diesel Engine Workshop ==

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Technology R&D

In cooperation with world famous scientific research institutions in Germany, Austria, UK, USA, Japan, etc. and dozens of famous universities in China, such as Tsinghua University, Tianjin University, Shanghai Jiaotong University, etc. to establish the product R&D centers or working stations, Yuchai has built a strong R&D platform which focuses independent technology R&D, connects world leading technologies, and takes advantages of outside resources to serve inside development. In recent years, the Group has got two national "863" high-tech research projects; participated in compilation of several national or trade standards, put on the market first diesel engines up to N-III and N-IV standards and ones for passenger cars, and developed the first diesel engine up to N-V standard in China. It has constructed a platform for serials and various products which cover wide power range and large application scope.

Marketing Service

Yuchai Group's operation and business has already spread over the country, and expanded to Asia, Europe, America, Africa, and Oceania; and established 36 domestic & overseas offices, 1400 service stations, and almost 600 providers of machinery parts, forming the most perfect marketing service network. Its engines cover all automobile engine factories, construction machinery factories and agricultural machinery factories in China, and it has maintained good cooperative relations with the main enterprises in automobile industry, construction machinery industry, agricultural machinery industry, and shipbuilding & power industry. Its products are salable in China mainland and more than 30 developed countries and regions in Europe, America and Asia and its diesel engines have been sold more than 2.5 million.



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Post Code: 537005

Tel.: 0775-3289168

Fax: 0775-3288168

Customer Service Hotline: **95098**

Chairman of the Bureau: Yan Ping

Foundation Year: 1951

Major Businesses: diesel engine (including generator set), construction machinery, special vehicles, lubricant, automobile parts and modern logistics

Number of employees: 17000



Achieved the goal of “building another Yuchai within three years” on time

In 2008, the sales volume of Yuchai Group exceeded 20 billion RMB, standing at 20.988 billion RMB, the goal of “building another Yuchai within three years” has been achieved on time. Compared with 2005, the sales income of Yuchai Group increased from 12.137 billion RMB to 20.988 billion RMB, an increase of 72.92%; the production and sale of diesel engines were 550,000, increased by 107.17%, seizing the first place of production and sale in the industry in China and realizing double-digit growth for the latest eight years.

In 2008, Yuchai Group overcame the challenges of the snow disasters in Southern China and the pressure

of financial crisis. It has honored its solemn commitments of “loyalty, responsibility, passion and innovation”.

“Building another Yuchai within three years” is far beyond the concept of the usual “operation scale”, but with more connotations. These mainly represent on that the operation quality, elements and gifts of the enterprise have developed to the higher level, and the enterprise has laid a more solid foundation for accomplishment, capability, human resources, mechanism and other aspects, to provide strategic support for the further development of Yuchai Group.

2003–2008 Yuchai Business Performance

Unit: thousand RMB

Year	2003	2004	2005	2006	2007	2008
Indicators						
Sales income (after-tax)	6,945,474.7	10,704,714.1	12,137,506.1	14,173,552.9	18,359,063.4	20,988,187.4
Core business revenue (pre-tax)	5,773,826.6	8,973,275.4	9,898,269.1	11,307,338.8	14,883,781.8	16,889,833.0
Gross margin	992,689.6	1,068,629.6	706,689.4	913,016.7	1,531,977.1	1,747,087.3
Total assets	5,550,677.0	8,173,999.6	9,588,651.0	9,677,177.7	11,913,268.2	12,966,283.0
Total liabilities	2,919,619.1	4,873,437.0	6,059,821.7	5,938,358.5	7,130,474.4	7,522,527.0
Assets and liabilities ratio	52.60%	59.62%	63.20%	61.36%	59.85%	58.02%



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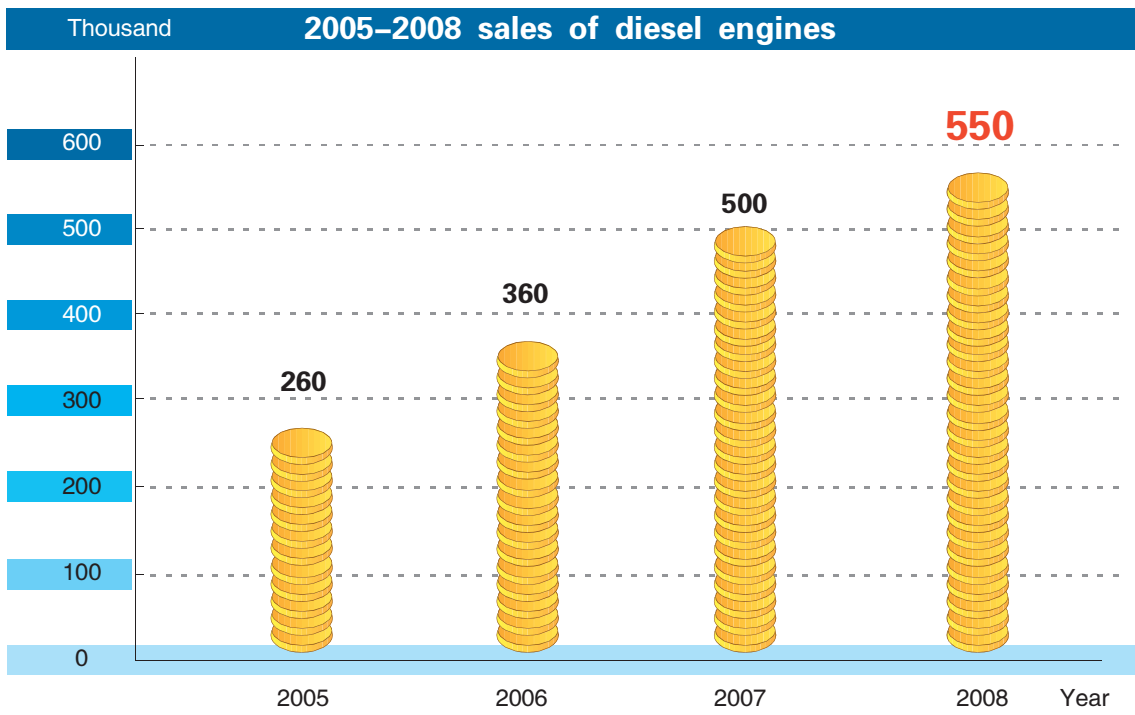
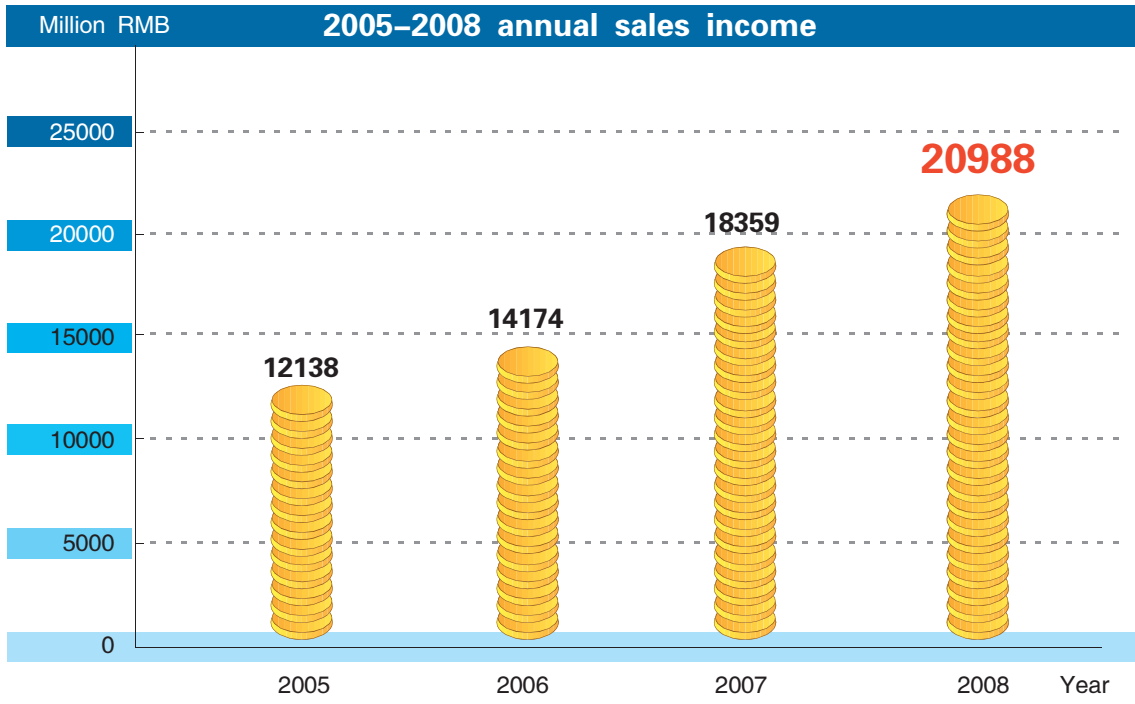
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Continuously elevate its position in the industry

Thanks to the strategic transformation, cultural change, technological innovation and management improvement of the Corporate, Yuchai continuously elevates its position in the industry for years. In 2008, the standards of Top 500 Chinese Enterprises were increased dramatically, but the rank of Yuchai Group still elevates obviously. It ranked 257th of Top 500 Chinese Enterprises, 135th of Top 500 Chinese Manufacturers, and 22nd of Top 500 Chinese Machinery Enterprises, which were 12, 7 and 2 higher respectively than that of the year before.

Due to its important position and influence in the industry, Yuchai has participated in the formulation of 14 national standards, and acquired the qualifications of secretariat unit for “HSSE Working Group of National Internal Combustion Engine Technical Committee” and “Electronic Control Working Group of National Internal Combustion Engine Technical Committee”. It is also in charge of coordinating between HSSE Working Group of National Internal Combustion Engine Technical Committee and the Electronic Control Working Group of National Internal Combustion Engine Technical Committee in the capacity of secretariat. Meanwhile, it has also participated in the preparation and drafting of relevant standards as a member of the core Working Team on fuel economy standard of national commercial vehicles. In recent years, it took the projects such as “863 development of diesel



engine for heavy commercial vehicles”, “863 CNG engine product development for large buses”, “863 technological development of diesel engine for cars” and “863 development of hybrid-power special diesel engine”, etc., and the ethanol diesel engine development project required by Guangxi Science and Technology Commission. These projects are going smoothly.

After involving in the amendment of the Hydraulic Excavators—Technical Specifications, which was an important national standard of hydraulic excavators in 2005, Yuchai Group participated in amending another important standard of hydraulic excavators, Hydraulic Excavators—Test Methods, and was listed as the responsible drafter for the standard in 2008.

Yuchai Awards and Honors in 2008

Award Time	Award (Honor) Title	Award Issuer (confirmer)
01/2008	National Demonstration Unit of Chinese Industry and Economy Pioneer	Chinese Industry Forum Organizing Committee
02/2008	Enterprise Credit Certificate (Grade AAA①)	Academy of International Trade and Economic Cooperation under Ministry of Commerce of the P.R.C.
04/2008	“Top 10 enterprises” in the third CEHRA	China Enterprise Evaluation Association, China Human Resource Development Association, CEHRA Organizing Committee
05/2008	Advanced Unit in the 7th “Spring Bud Project” in Guangxi	Women’s Federation of Guangxi Zhuang Autonomous Region, Guangxi Children and Teenagers’ Fund
06/2008	Top 100 Excellent Unit of National Enterprises Education	Top 100 Excellent Unit of National Enterprises Education Organization Committee
07/2008	China Automobile Service Five Star Brand	China Automotive News
07/2008	Top 500 in Chinese Machinery Enterprises	China Machinery Enterprise Management Association (CMMA)
08/2008	Top 500 Chinese Manufacturers	China Enterprise Confederation (CEC), China Enterprise Directors Association (CEDA)
08/2008	Top 500 Chinese Enterprises	China Enterprise Confederation (CEC), China Enterprise Directors Association (CEDA)
09/2008	Guangxi Excellent Credit Enterprises	Guangxi Excellent Credit Enterprises Evaluation Committee
10/2008	100th Anniversary Achievement Award of Chinese Internal Combustion Industry	China Internal of Combustion Engine Industry Association (CICEIA)
10/2008	Excellent Enterprise Special Award of the 30th Anniversary for quality management	China Association for Quality, All-China Federation of Trade Unions (ACFTU), etc.
11/2008	Excellent Unit of National Enterprises Culture in 30 years of reform and opening up	China Corporate Culture Institute
11/2008	Excellent Enterprise of Implementing Performance Excellence Model in China	China Association for Quality
11/2008	“China Quality Award” (confirmed three years after winning)	China Association for Quality
12/2008	Top 500 China Brand	Asian Brand Construction Association, Forbes Asia-Pacific Brand Research Center
12/2008	Top 10 China Independent Innovation Brands	China’s Top Ten Landmark Brands Organization Committee

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Sustainable Development Philosophy

“Green Development and All Win in Harmony” is the historic orientation , the ideological foundation for culture building, the behavioral guidelines for development, as well as the general strategic program for business activities of Yuchai in the new era.



As a leader in China internal combustion engine industry, Yuchai Group always insists on independent innovation, dares to be the first mover, takes responsibility of promoting national industry, creatively puts forward the core philosophy of “Green Development and All Win in Harmony”, and builds famous brand to achieve sustainable development of the Group. This philosophy has become a consensus of 17000 Yuchai employees, and has been generally recognized by people from all social circles.

- Lead the Development of Yuchai with the core value of “Green Development and All Win in Harmony”
- Released Sustainable Development Report
- Joined in United Nations’ “Global Compact”
- Attended ISO Social Responsibility Working Group Meeting

Lead the development of Yuchai with the core value of “Green Development and All Win in Harmony”

“Green Development and All Win in Harmony” is the core philosophy of Yuchai, it shows that Yuchai shoulders its social responsibility by providing green and environment-friendly products to the public, and pursues healthy and sustainable development of the Corporate to realize harmonious coexistence of employees, corporation, society and nature, and achieve win-win situation among all interested parties.

“Green” is Yuchai’s outlook on the responsibility. Yuchai considers it as its own duty to take the path of green industrial development and to provide green power and green machines with high ratio of performance to price.

“Development” is Yuchai’s outlook on the excellence. It includes the following aspects: to strengthen the core business; to upsurge the potential business; to expand related industrial chain; to complete Yuchai’s global configuration; to build Yuchai into a world famous brand, and to become a large transnational enterprise.

“Harmony” is Yuchai’s outlook on humanity. It is to construct basic elements of harmony; to bring up Yuchai’s culture featured by loyalty, fraternity, coordination and healthiness to have both enterprise and staff in an optimized situation.

“All Win” is Yuchai’s outlook on the value. It is the business philosophy and strategy for the survival and development of Yuchai. The idea of “win-win” runs through the whole course of Yuchai’s development. It is to share the achievements of the enterprise with interest-related parties and the society to realize long-term win-win situation.

The establishment of the core philosophy of “Green Development and All Win in Harmony” shows Yuchai’s strong sense of social responsibility and enterprising spirit. It will continuously lead Yuchai to a new level and make new achievements on the path of building transnational enterprise and boosting national automotive industry.



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Released Sustainable Development Report



== Press Conference and Seminar Site ==

Yuchai Group officially released **Green Development and All Win in Harmony—2007 Sustainable Development Report** in Beijing on June 26th, 2008. This report referenced the “Sustainability Reporting Guidelines” of the Global Reporting Initiative (GRI) and the “Global Compact”. It is the first sustainable development report released by Yuchai Group, and it is an important symbol that Yuchai Group actively fulfills its social responsibility and consciously accepts

social supervision.

Famous domestic experts on social responsibilities gave high evaluation of this sustainable development report by Yuchai Group; the report takes “Green, Development, Harmony and All Win” as the philosophy and guidelines of Yuchai Group in fulfilling social responsibility, and it is the reflection of implementing scientific vision of development. It adheres the principles of “Global Compact”, objectively shows the strong sense of mission and responsibilities of a China large-sized backbone enterprise to make positive contribution to national economic development and social progress. The report gives prominence to key points, covers wide-range of information and is readable. It is an excellent report on sustainable development.

As the first enterprise to release sustainable development report in China internal combustion engine industry, Yuchai Group will lead the internal combustion engine industry to pursue and fulfill social responsibilities more consciously and take a path of sustainable development persistently.

Joined in United Nations ' Global Compact

In May, 2008, the UN Global Compact Office officially replied to Guangxi Yuchai Group's request and embraced Yuchai into the world's largest Corporate Citizenship Initiative—the “Global Compact”. Thus Yuchai became a formal member enterprise of the “Global Compact”.

In the development in past decades, Yuchai Group has always been adhering concept of scientific development, and incorporating social responsibility into corporate development plan, production, operation and other daily work. Facing with the fierce competition in the market of machine manufacturing industry, Yuchai Group inherits the Corporate core philosophy of “Green Development and All Win in Harmony”, and sets out the mission of “Providing excellent and advanced power products to meet public demand” to improve the corporate management, enhance operation efficiency, continue technological innovation and accomplish the ambitious goal of “Being the leader of Green Power in China”. Meanwhile, it has positively supported the government's call-upon that the company should also takes social responsibility. The Group has also achieved and contributed significantly in the aspects of safe production, environment protection, and protection of rights and interests of relevant parties and participation in public welfare work. It has facilitated the sustainable development of the local economy and society.



Yuchai will support and strictly abide by the principles of the “Global Compact”, make them as a part of the corporate strategy, culture and daily operation, and try best to make contributions to the sustainable development of the human society.

Chairman of Yuchai Bureau of Directors Attended the Session of UN "Global Compact"

July 2nd, 2008, UN Secretary-General Ban Ki-moon had a discussion with the corporate representatives of Chinese members of "Global Compact" in Beijing Daoyutai State Guesthouse during his visit to China. Yan Ping, Chairman of Yuchai Bureau of Directors was invited. The topics for discussion were about the ten principles of the "Global Compact" and climate change issues for businesses.

Yuchai was the only enterprise from Western China that was invited to the Session of "Global Compact". UN Global Compact Office attached much importance to the Yuchai's demonstration of social responsibility and its philosophy of "Green Development and All Win in Harmony".



Group photo of Chairman of Yuchai Group, Yan Ping (last row, seventh from right) with all meeting participants

Attended ISO Social Responsibility Working Group Meeting

August 30th—September 5th, 2008, the sixth Plenary Session of the ISO26000 Social Responsibility Working Group Meeting was held in San Diego, the Capital of Chile, and more than 400 experts and observers from over 80 countries all over the world attended the session. Yuchai Group attended the session as an observer, and it was the only Chinese local enterprise in the meeting.

During the Session, the participants from Yuchai Group made extensive contacts with the representatives and experts from different countries, carried out communication activities, introduced about Yuchai positively shouldering its social responsibilities and handed out Yuchai 2007 Sustainable Development Report. These were well-received and valued by the participants of the Session. Yuchai has participated in relevant international activities as a Chinese enterprise. This has played a positive role in expanding the influence of Chinese enterprises in international social responsibility field, and building good image for Chinese enterprises.



Chinese representatives at 6th plenary session of ISO26000 Social Responsibility Working Group (the front middle is Yuchai representative.)



Corporate Governance

Facing with new opportunities and challenges, the Group adjusts its strategy and innovates its management.

Regarding the changes and challenges in strategic environment, Yuchai made adjustments to the Corporate vision, strategic thoughts and strategic goals so as to accommodate the strategic plan of the Corporate to the changes at home and abroad. It has made a strategic deployment by establishing the medium-term strategic goal of “Five-year Plan” and the short-term strategic goal of “Annual Operation”. In order to meet the demand of strategic development, the Group reformed its organizations by reducing, integrating and flattening the organization. In the aim of improving performance management and strengthening performance incentives, the Group established a complete system of performance management, and formed a cyclical performance management mechanism consisted of performance analysis, performance evaluation and performance improvement.



- Yuchai Group Bureau of Directors
- Strategy adjustment and strategy deployment
- Product adjustment and market adjustment
- System innovation and management innovation

Yuchai Group Bureau of Directors

September 22nd, 2008, the Bureau of Directors of Guangxi Yuchai Machinery Group Co., Ltd was founded. Meanwhile, the previous Yuchai Board of Directors was dismissed. The first Bureau of Directors is made up of 11 people with Yan Ping as the Chairman of the Bureau, and Li Tiansheng as the Vice chairman. And there is an employee director elected by the staff. The

new executive team is made up of six members including the CEO Gu Tangsheng. Their average age is 36, and they all have bachelor's degrees or above. There are one PhD and three postgraduates in the executive team. This fully shows that the senior management team of the Group is young, intellectual and professional.



== Group photo of Bureau directors and staff directors of Yuchai Machinery Group Co., Ltd. ==



== Yuchai Group Executives Meeting Site ==

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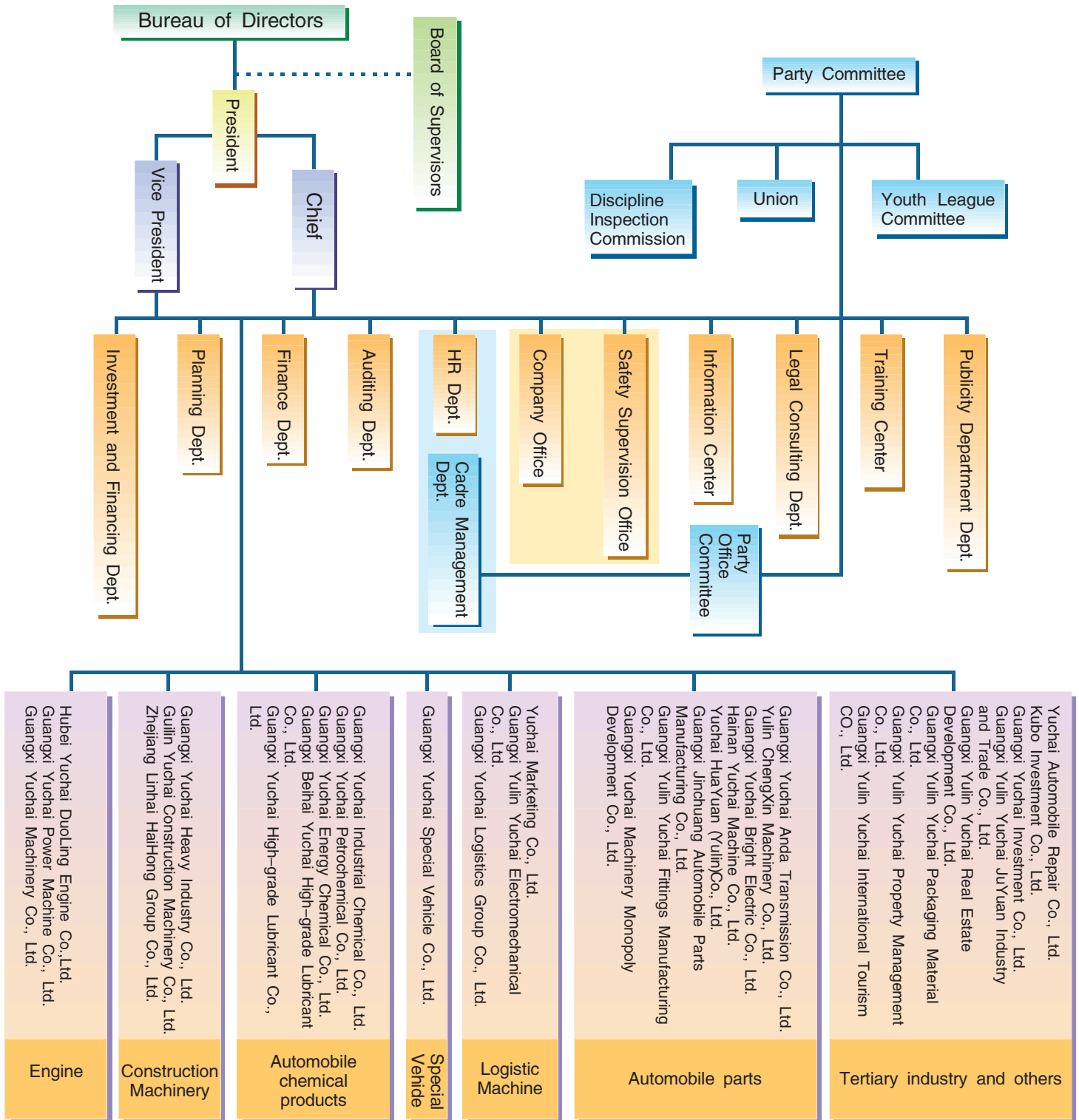
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Yuchai 2008 Organization Structure



- Note:**
- 1 Guangxi Yulin Yuchai Construction Machine Co., Ltd. was renamed as Guangxi Yuchai Heavy Industry Co., Ltd.
 - 2 The shares of Guangxi Yuchai High-grade Lubricant Co., Ltd. are held by Yuchai Heavy Industry Co., Ltd. They are managed by the Group, but the Group doesn't hold their shares directly.
 - 3 In 2008, state-owned shares were withdrawn from six companies: Guangxi Yulin Yuchai YISAIYA Automobile Air Compressor Co., Ltd., Guangxi Yulin Yuchai RuiFeng Standard Parts Co., Ltd., Guangxi Yulin Yuchai YingLong Rubber& Plastic Technology Co., Ltd., Guangxi Yulin Yuchai DaYe Mechanical Fittings Co., Ltd., Guangxi Yulin Yuchai General Machinery Co., Ltd.; there was one company was going through the logging out procedure, which was Guangxi Yulin Yuchai Hotel Co., Ltd.
 - 4 There were two new subsidiaries in 2008: Zhengjiang Linhai HaiHong Group Co., Ltd. and Guangxi Yuchai Petrochemical Co., Ltd.
 - 5 Currently, the Group holds shares of 29 subsidiaries directly, and manages two lubricant companies. So there are 31 subsidiaries altogether.

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Strategy adjustment and deployment

Strategy adjustment

Facing the changes and challenges in the strategic environment, Yuchai Group proposed new strategic goals and selected new direction of sustainable development for Yuchai. The strategic goal of Yuchai group for next ten years is changed into the following: overall national or international joint venture or cooperation, speeding up introduction and application of new high tech, extension of the industrial chain with the centre on the main business and development of relevant industries & products with diesel engines, construction machinery, automobile parts, automobile chemical engineering, special vehicles and logistics as the main sectors, rectification & reorganization of technical superiorities in order to construct Yuchai “aircraft carrier”, to further upgrade the competitive capacity in the international market, to make “Yuchai” well-known brand in the world and to build Yuchai into a large transnational enterprise group.

Strategy deployment

In accordance with the long-term strategic goal, the Group has delivered the “Five-Year Plan” and “Annual Operation Objective”. As a guideline for medium and long-term strategy, the “Five-Year Plan” defines medium and long-term strategic goals and breaks down those goals into feasible steps. Meanwhile, according to the analysis and prediction on current development and market environment, it forms clear and systematic strategy deployment. It depicts specific strategies, steps and timetables to realize the goals by clear competition strategies and measures and plans on market, products, productivity, quality, supply chains, R&D capability, financing capability, management and human resources. As such, the strategic plan becomes more useful and operative and serves effectively as an important foundation for developing the “Annual Business Goals”. While as a programmatic document for short-term strategies, the “Annual Business Goals” unfolds the medium and long-term strategic goals so as to ensure the realization of “Five-Year Plan”.

Product adjustment and market adjustment

Product adjustment

In view of market changes and development strategy, while maintaining its advantages in the original market, Yuchai adjusts its product structure timely to expand towards the field of over 10-litre heavy diesel engine and passenger car engine, and has achieved great effects in product adjustment. The heavy diesel engine is the high-end market in diesel engines. In recent years, Yuchai production and sale volume of heavy engines increase at over 30% per year, the year-on-year increase of the sales volume in 2007 was over 300%. Despite the hot first half and

freezing second half in the market of heavy truck and construction machinery in 2008, Yuchai still achieved an increase of 25% on heavy engine, realizing a leap in the field of heavy engine. In the market of buses, in spite of the shrinking bus industry in 2008, Yuchai still maintained an increase of 4% in bus power, taking over 50% of the market share in bus power industry and becoming the sole leader in the industry. In the shipbuilding and power market, it also increased rapidly, with an increase of 87%.

Yuchai Heavy Industry—Win dignity due to its positive progress

After almost 20 years of development and accumulation, Yuchai Heavy Industry Co., Ltd. (formally Yuchai Engineering Machinery Co. Ltd) has become the manufacturer for full hydraulic-power small and medium excavators with most variety of products in China. The products include twenty main series and over seventy varieties such as full hydraulic-power excavators (YC08, YC35, YC60, YC85, YC135, YC230LC and YC225LC), and small rotary radius excavators (YC18SR, YC35SR and YC75SR). The products of the Group have compact structure and reliable quality. Being equipped with strong power with high-efficiency and world-class imported hydraulic parts, each technical index of the products has reached the current international advanced level. The products have got many national patents, and many products have passed the “High-tech Products Certification”. The perfect combination of strong technology and economical price, and the excellent cost performance make the products very popular among the users and in the market.

In 2008, under the severe global economic environment, Yuchai Heavy Industry still ranked the second place in total sales volume of excavators(15 tons), and defended its title as the biggest exporter for excavators(15 tons). It won the honor of the “Fifth (2008) Top Ten Influential Brands in China Construction Machinery Industry” and it has won this honor for five consecutive years.

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Construction of the Production Line for Yuchai Phase III Project 6M Cylinder Block Began

Jan 15, 2008, the cornerstone laying ceremony for another flexible production line for heavy diesel of Yuchai heavy diesel engine 6M cylinder block convened. Since 2003, Yuchai has started heavy diesel Phase I and Phase II projects, and realized mass production in 2006. 6M cylinder block processing and production line is the Phase III project of Yuchai heavy diesel, with a total investment of 145 million RMB. After this line is put into use, the annual processing capability of heavy diesel engine 6M cylinder block would be 90, 000.



== Inauguration Ceremony of Yuchai Heavy-duty Diesel Engine Phase-III ==

China's passenger car market is now at the growth stage of rapid development, with safety, energy-efficiency and environment-friendliness gradually becoming the leading factors for consumers in deciding which cars to purchase. Therefore, the prospect of using diesel engine on passenger cars is very bright. As the

first enterprise with R&D ability for diesel engine on cars in China, Yuchai is investing in and constructing the R&D production base for diesel engine on cars. After it is completed and put into market use, it would fill in the gap in independent brands of diesel engine on cars in China.

Market adjustment

While seizing more domestic market share, Yuchai also made more effort in expanding the international market. The goal for internationalized development put forward by Yuchai in 2007 was: trying to increase the share of export volume to 10%-20% of the annual total sales volume and sales value in 2-3 years. After realizing the above-mentioned development goals, Yuchai would further expand the international market by developing brand

internationalization, product internationalization and production-base internationalization. At present, the overseas network begin to take shape, the system export and self-support export grow rapidly, and it has made great breakthrough on export, increasing rapidly in Vietnam, Middle East, Africa, and Latin America; its overseas service model has been further improved.

Breakthrough on Exportation of Engines to Developed Countries

In September, 2008, buses with Yuchai YC6L280-40 engines arrived in New Zealand. This was a breakthrough from zero on exporting Yuchai engines to developed countries, and it was also the first time for domestic heavy-duty national IV diesel engine of national independent brands to be exported to other countries. The good performance of Yuchai engine won trust of the clients in Yuchai brand.



== Bus equipped with Yuchai N-IV Diesel Engine in New Zealand ==

System innovation and management innovation

System innovation



== Yuchai's Blueprint Sculpture ==

Building multi-channel financing platform

Innovating financing channels, strengthening cooperation with the four big commercial banks and the cooperation with many financial institutions such as China Development Bank (CDB) and China Industrial Bank (CIB), it has successfully financed 780 million RMB from China Development Bank. The Group facilitates the work of project loans by CDB effectively and applies for new project loans. The loan for Yuchai Heavy Industry Excavator Project has been approved by the Loan Review Committee of the CDB, and it was the first project loan Yuchai has got since 2005. With more diversified ways of financing, the Group has commenced financing lease business, and has started cooperation with CDB Financial Leasing Co., Ltd. and CCB Financial Leasing Co., Ltd. on financing lease business.

Establishing a “orientating” Group management and supervision system

Innovate the management model of the Group, carry out study on “orientating” management, and establish a highly-effective, pragmatic and regularized management and supervision system featured by “orientation” as the core, well-arrangement, clear rights and responsibilities, proper empowering and controlling and forceful regulation.

Optimizing and restructuring the organization

Reduce and adjust the institutions so as to realize “optimizing functions and reducing personnel”. The functional departments of the Group were streamlined to 23 from 28, and the management staff of the functional departments was reduced from 767 to 684 persons. The management hierarchy has been simplified, the resources have been integrated, and the management has been strengthened. These are conducive to realizing highly-effective decision-making.

Flat structure and reduce hierarchy. Regarding that the overall efficiency of the organizational operation has been lowered by the multi-leveled management and complicated structure, the company began to undertake flat structure reform. Except for Engineering & Research Academy and sales companies, the management for each department would be limited within two levels and the deployment of management personnel would be more streamlined so as to form a balanced and highly-effective organizational operation model in accordance with the needs of the company for strategic development.

Establishing performance management system

Establish a performance evaluation system for the departments, medium and senior management staff. The system consists of performance index, evaluation targets, evaluation standards, supervisory measurement and evaluation methods. This is used to measure the management performance of each unit, medium and senior management staff. This has truly realized the supporting system for the strategic goals and annual objectives, and laid a foundation for detailing performance management and constructing long-lasting performance management mechanism.

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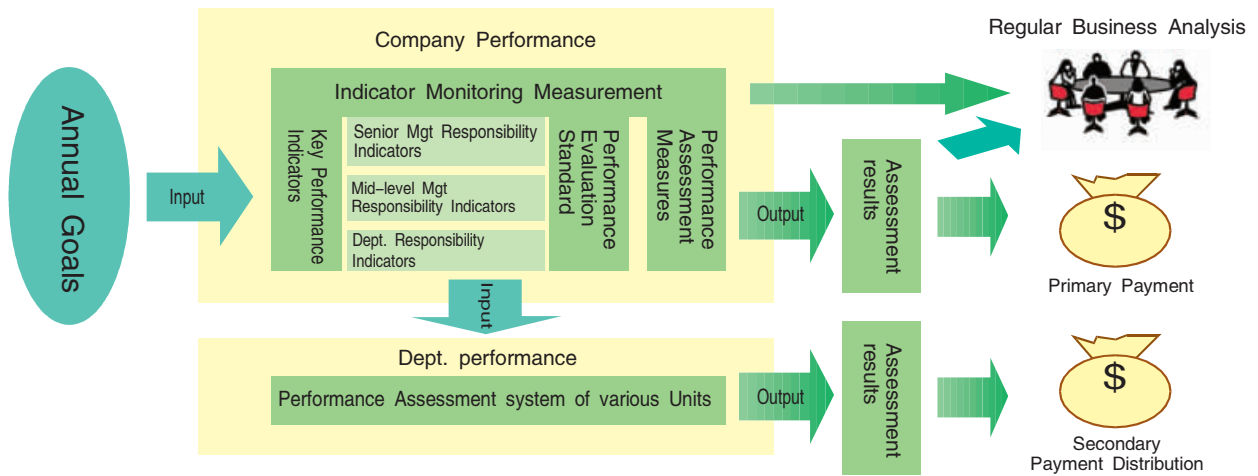
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Performance Management System Frame Diagram



Improve responsibility mechanism

The new responsibility mechanism model includes: one incentive positioning (take responsibility as incentive), two responsibility types (process responsibility and result responsibility), three ways of responsibility investigation (declared investigation, secret investigation and

self-investigation) and four dimensions (sense of responsibility, responsibility and authority, system and flows, responsibility-investigating evaluation). It highlights the mutual promotion and influence of the four links such as clarifying responsibility, fulfilling responsibility, supervising responsibility and investigating responsibility so as to form a cyclical system for responsibility mechanism.



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Management innovation

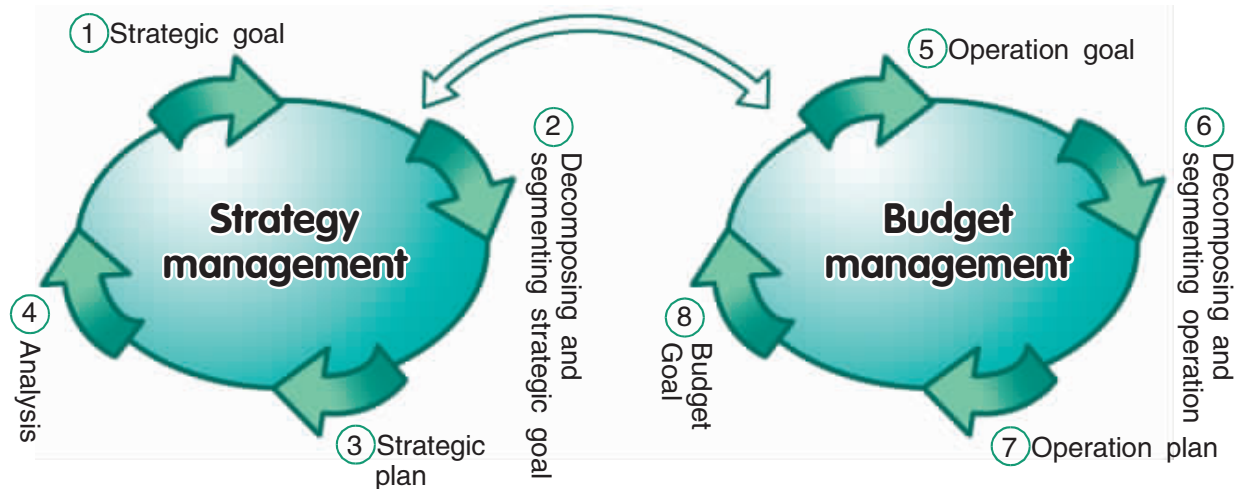
Excellent group management

Integrating the core value of Excellent Performance Criteria into the implementation plan and evaluation standards of the Excellent Group management, the Corporation has made and released a series of Excellent Group systems, and formed a Group Management Model with the content of “group training–communicating – evaluating – innovating – publicizing and carrying–out”. Nominate Excellent Groups in the production line, technology line and quality line, and enhance the comprehensive quality of the Group members by multi–form and multi–project trainings.

Overall budget management

Implement overall budget management approach. Establish a multi–dimensional budget management system consisted of budget management committee, budget management department and budget accountability unit; clarify the rights and responsibilities of each department so as to ensure orderly and highly–effective budget management; and build an overall budget model which takes sales as the leader, business as the backbone and budget products as the carrier so as to management the overall operation of different levels.

Relationship between Overall Budget Goal and Corporate Strategic Goal



Order management innovation

The innovation of order management is suitable to the production features of many varieties and small quantities, and to the market features of fast–changing order and short delivery term. It has enhanced the accuracy of prediction steadily and increased the sales/output ratio year by year. Therefore the inventory is good and controllable, and the operation is being improved constantly. After implementing the order management model, the rate of accuracy for order prediction has increased from 40% to 82%, the on–time delivery rate has increased from 70% to 99%, the selling rate for orders within three months has grown from 60% to 95%, and the stock for complete appliances and occupancy rate for funds has been reduced by 20–30%.

Advancing quality control

Carry out quality development and advance product quality control. Make and implement “General Rules on Yuchai Advanced Products Quality Control”. Taking the APQP process as the management target, stipulate the tasks, key activities and control standards of the departments, including the suppliers in the full life cycle of the products, and thus regularize the development and production of the products so as to make sure the development of new products succeed at the first try and realize the quality goals.

Building strong information system

The Group has successfully restructured and optimized the information system by establishing the information center and the department of information and technology. The system adopts a dual management model which takes projects as the mainline and involves relevant personnel in “project management and administrative management”, developing towards the direction of elaborate management, function expansion and decision–making management.



Green Development shows social responsibility

Pursue a path for green development of industry



Yuchai philosophy of “Green Development” is not only a true reflection of Yuchai development, but also an unremitting pursuance of Yuchai. Having inherited this philosophy, Yuchai pursues a path for green development of industry, becomes a leader of green power development, a controller of the “largest mobile pollution” and a pacemaker for developing diesel cars in China, and makes positive contribution to improving the natural environment of China. Yuchai Group has prioritized energy efficiency and emission reduction in its corporate development, carried out the work of energy efficiency and consumption reduction, anti-pollution and emission reduction, tried to realize continuous economic growth, reduce pollution and improve the ecological environment.

- Green power leader in the country
- Green production makes the sky blue again
- Full participation in energy saving and emission reducing
- Re-manufacturing makes breakthroughs
- Independent innovation achievements keep transforming into patents
- Strengthen international cooperation on technology development

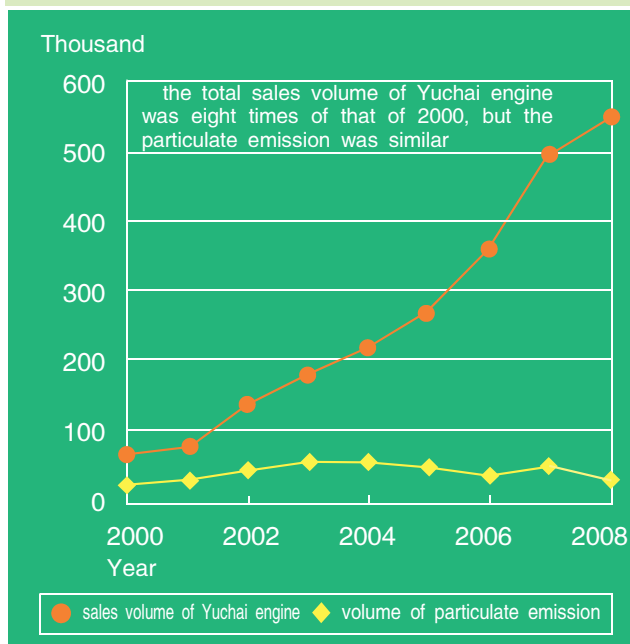
Green power leader in the country

As the leader in the industry of engine in China, Yuchai sticks to resource-conserved and environment-friendly path for green development, and facilitates the R&D and production of "green" products. It is already in the leading position in the world in the development of combustion technology, low emission technology and machinery technology. It has made positive contribution on improving natural environment.

Yuchai has always been in the leading position home and abroad on green power R&D, and its emission-control technology of diesel engine is also in the leading position in China. Yuchai successfully developed the proprietary diesel engines up to N-III, N-IV and N-V 3-5 years before the national emission standards came into force, thus having synchronized domestic engine industry with international engine R&D. In 2008, the total sales volume of Yuchai engine was eight times of that of 2000, but the particulate emission was similar.

Yuchai has successfully developed the first proprietary diesel engine YC4W on mini-cars, diesel engine YC6L350-40 up to N-IV and natural gas engine up to N-IV in China.

Changes in Sales and Total COD Emission of Yuchai Power Generators



The Project of Yuchai Passenger Car Engine Laid Foundation

In March, 2008, Jining Yuchai Engine Co., Ltd., co-invested by Yuchai Machinery Co., Ltd, Zhejiang Geely Group and Zhejiang Yinlun Machinery Co., Ltd, was officially opened. This project is to build production lines for manufacturing diesel engine block and cylinder cover

based on 2-liter passenger-car diesel engine and NV emission standard. Once the project is completed, it will have the capability of producing 300,000 environment-friendly diesel engines for passenger cars annually.



== Jining Yuchai Engine Co., Ltd. Project Laid Foundation ==

Now against the background that the government encourages resource-conservation and emission reduction, developing the diesel passenger car is a promising business. As the first enterprise that has the R&D ability to develop diesel car engine in China, Yuchai invested in Jining Yuchai Engine project to industrialize the research achievement, expand living and development space and thus filling in the blank of diesel car engine in China.

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After succeeding in developing the first diesel engine YC6L-50 up to N-V independently in China in 2007, Yuchai enhanced its input on expanding models of N-V diesel engines and improving the production technologies. It became the leader again on providing "green power" in domestic diesel engine industry.

Yuchai completed the development of N-IV products such as 6J,6L/ CR and 6L/ UP, and became the only enterprise to mass produce N-IV engines. In 2008, there were 2500 Yuchai N-IV engines for buses serving the Olympics in Beijing and Shenyang, etc.

Using gas as new power energy is an effective way to alleviate the energy contradiction in the development of bus industry and improve ecological environment. Ten years ago, Yuchai already began to develop gas engines, and now it has established several platforms for gas engine products, covering power of 170PS-340PS, up to N-III and N-IV standards, and with the potential to be up to N-V standard. These products have the features of energy-efficient, environment-friendly and durable. Yuchai also has undertaken the National 863 project—"the development CNG engine for large buses", securing its leading position in the technology of developing CNG engine in China. At present, Yuchai is widely supporting domestic mainstream bus manufacturers with engines and the usage home and abroad has totaled over 10,000.



2008 Customer Communication Session on Yuchai Gas-powered Engine

Yuchai has successfully developed hybrid power for city bus. This green power is the first innovation fruit of developing city bus power by ISG technology; it has been up to the international advanced level and led the next generation of new power technologies.

Yuchai succeeded in developing and producing city-bus hybrid power



Test Drive of Hybrid Vehicle

Yuchai city bus hybrid power is to use diesel engine and electric engine together as the power for vehicles. When accelerating the electric engine will perform as the power source so as to support the engine to maintain strong power; while gearing down, the electric engine will recycle the braking energy as a generator. The power adopts ISG technology and realizes acceleration effect of 6-cylinder engine with 4-cylinder engine, lowering the fuel consumption by 20% and reducing the emission of CO₂ and other off-gas. The R&D of this project started in the beginning of 2006; In Nov of 2007, the first city bus hybrid engine was born in Yuchai and demonstrated in China-AESAN Expo in May, 2008, Yuchai got this first order for hybrid engine and realized the production in small lot.

Yuchai 6K heavy-duty commercial vehicle diesel engine is a heavy-duty diesel engine for commercial vehicles designed to meet the future N-IV and N-V standards with the international advanced designing philosophy and process, and combining the most advanced engine technologies in the world. This engine has the features of compact structure, light weight, great power, low emission, little noise, low fuel consumption, high reliability, endurable and good safety, etc. so as to meet the N-IV emission standard and E-V, and has the potential to meet E-VI standard. It is a leading

heavy-duty commercial vehicle diesel engine both home and abroad.

Yuchai product development was very fruitful in 2008: 6K high-power diesel engine and 4Y car diesel engine succeeded in igniting; there were breakthroughs in application and development, the 452 newly developed models, with a year-on-year increase of 39.5%. 59 basic models of products were developed, increasing by 9.8% on year-on-year base; accomplished the electric control calibration R&D tasks of over 85 models of 18 series.

Lots of Yuchai N-III New Power Sent to Tibet



Group Photo of Lhasa Bus Company Leaders and Yuchai Office Staff

Dec. 4, 2008, 30 SHUDU buses equipped with Yuchai NH III engine (YCGJ 200-30) were sent to Lhasa in Tibet for usage by Lhasa Bus Company.

Due to the tough geological environment and fragile ecology, Qinghai-Tibet Plateau is entitled as the "Third Polar of the Earth", but it is also one of the places with least pollution and a Pure Land in the East of the world. Meanwhile it is also a very typical plateau in China and the world at large; it could best represent

and conclude the suitability of environmental technologies for construction machinery equipments. Therefore, it is a touch stone for construction machinery. Large quantities of Yuchai NH III engine being used in Tibet indicating that Yuchai NH III engine has been totally recognized and accepted by users at Qinghai-Tibet Plateau. Its good quality, performance and service guarantee have made it the first choice for engines on plateaus. It has made positive contribution to the natural environment protection of Qinghai-Tibet Plateau.

Thanks to a professional, visionary, and ambitious R&D team for green power, Yuchai has been in the leading position in engine emission technologies in China for a long time. Yuchai Engineering Research Institute founded in 2007 has a R&D team of many senior experts and

technicians in the links of engine designing, combustion development, electric-control calibration and machinery development, etc. Based on this team, the R&D capability of Yuchai has been dramatically enhanced, and the green power development has been accelerated.



Green production makes the sky blue again

Yuchai Group takes “providing green products to the society by green manufacturing” as the corporate social responsibility. While keeping providing advanced and suitable environment-friendly products to the society, the Group also highlights enhancing energy-efficiency and reducing environment pollution in the process of production, carries out technology innovation,

management innovation and energy-saving reform, and positively popularizes the application of new energy-saving technologies, materials, equipments and technics by different ways such as independent innovation. It has achieved a lot in lowering energy consumption, reducing pollutants emission and enhancing resource efficiency.

Improve manufacturing technology and realize clean production

It has developed and adopted a series of new technologies in the process of production to enhance product quality and working efficiency, reduce resource consumption and pollutant emission. Such as adopting new casting techniques, flexible processing technology, nuclide radioactivity measuring technology, high-power

ultrasonic cleaning technology and high-pressure cleaning technology and inner spray painting, and replaces the highly-toxic and harmful raw materials with non-toxic and harmless or low-toxicity and low-harm raw materials, etc. These techniques and technologies have played an important role in realizing clean production.



== Hot Running-in Bench Utilizing Nuclear Technology ==



== Durr Pressurized Cleaning Machine ==



== Flexible Processing Line ==

Residual Heat Annealing Technology Contributed Greatly on Energy Saving and Emission Reducing

The residual heat annealing technology developed independently by Yuchai changes the traditional annealing process of annealing after the cooling iron casting to normal temperature and cleaning. Using the casting residual heat and electroheating auxiliary adjustment, and continuous annealing process, open and load the casting immediately while it is still hot and realize continuous annealing. Thermal wind should be used to stir to reduce the temperature difference within the furnace and balance the heating and cooling of the castings so as to reduce the residual stress averagely. This technology was appraised by Guangxi Science and Technology Department in 2008 as proprietary, innovative, leading domestic technology and among the advanced technologies in the world.

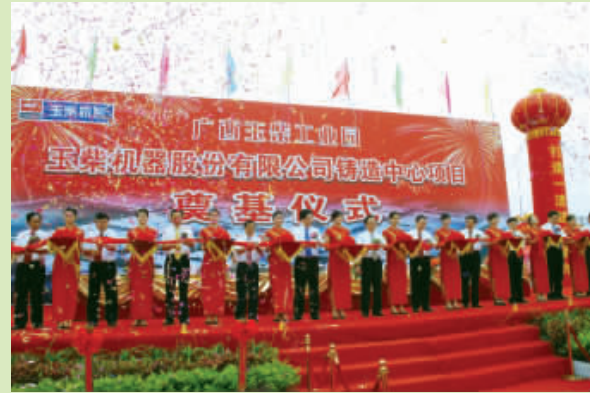
By applying residual heat annealing technology, 101.18 KWH of electricity has been saved for the production of one ton of iron castings, and that is about 3624 kilos of standard coal. January-December, 2008, by using residual heat annealing technology, the new casting shops have saved 5.8 million of electricity, which values 29 million RMB and 2077308 tons of standard coal, reduced the emission of SO₂ by 4155 tons, and the emission of CO₂ by 914016 tons. This technology was given the first prize of the Yulin City Award for Science and Technology Advancement by Yulin City Government because of its dramatic achievement on energy-saving and emission-reducing.

Currently this technology has been popularized and applied in Yuchai Foundry Center and several famous engine factories in China. Assuming that the annual capacity is 900,000 tons of castings, 32,700 tons of standard coal could be saved, the emission of SO₂ could be reduced by 652.32 tons and the emission of CO₂ could be reduced by 14,400 tons every year. In addition, the heat emission from the production fields could also be greatly reduced; it could effectively improve the working environment and guarantee smooth logistics.



Expert Review Meeting of "Residual Heat Annealing Technology"

Yuchai Foundry Center Laid Foundation



Ribbon-cutting Ceremony of Casting-Foundry Center Project

July 16th, 2008, the Foundation Ceremony for Yuchai Foundry Center was held in Yuchai Industrial Park.

Yuchai Foundry Center Project planned to cover a total area of 120 hectares, with total investment of about 2 billion RMB and six casting lines. After this project is completed, it would be one of the largest diesel engine foundry bases in Asia with an annual output of 290,000 tons for diesel engine cylinder block and cylinder cover cast blank featured by high tenacity, thin walls, high quality and high level. The production varieties cover 0.8-12 liter mini, light, medium and heavy diesel engines, not only including all current models, but also will cover all planned product models of Yuchai in future.

This project will build the first class casting line in China which is featured by high efficiency, good quality, low cost, stability, reliability and environment-friendliness. This line would adopt highly automatic production process and new technics boldly so as to save energy, lower consumption and the production cost, and reduce the pollutants emission while improving the quality of the castings.

Yuchai Foundry Center project would be carried out by two phases to build three casting lines. The first casting line plans to be put into trial use in December, 2009. After the completion of this project, Yuchai could meet the growing market demands for casting products which increases by 20% annually. Meanwhile, it also could make Yuchai products have better performance-price ratio, greater quality stability, and more energy-saving and environment-friendly so as to enhance its competitiveness in market greatly.

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Apply new energy-saving technology in a larger scale

In order to further lower energy consumption, Yuchai has exerted a lot effort to transform energy-saving technologies, and positively applied new energy-saving technologies in a larger scale.

Since 2007, it has reconstructed the overall electric supply/distribution system, eliminated over 80 sets of power distribution equipments, adjusted the structure of supply/distribution system, and added auto reactive-load compensation devices so as to reduce the reactive loss. In 2008, over 600,000 RMB was invested to maintain the heat insulation of the heating lines of the company, replace some inefficient heat insulators so that the utility rate of heat was increased from 50% to 85%.

The Group positively pushes forward the transformation

of lighting electricity-saving. From October, 2007 to June, 2008, it completed the energy-saving transformation of parts of stair lights in the living areas, changing the manual stair light switches into the touch sensors which would turn off the lights automatically after a while, saving 80% of electricity. It also completed the energy-saving transformation of 209 KWH street lamps, saving over 20% of electricity.

The Group broadly applies water-saving technology, and some of the units have completed the transformation of water cycling use system. In 2008, over 36000 tons of water was saved; the reusing rate of the industrial water was above 79.8%. The consumption of water resources was reduced.

Strengthen environment protection and reduce emission of Three Wastes

Further transforming the sewage treatment plant so as to enhance the handling ability towards sewage and treat more kinds of wastewaters. Meanwhile, the Group has further deep processing the waste water after the sewage treatment so as to recycle it for production use. At present, the application of reclaimed water has been expanded to production use from the past use for boiler film dust removing, road sprinkling in the factory, cupola slag washing, and cleaning rags, etc. The reusing amount of

reclaimed water amounted to over 30,000 cubic meters in 2008.

2 million RMB was invested for the treatment of the culpa smoke gas from the cylinder block and cylinder cover workshops of the foundry factory, and this treatment plant was put into use on June 30th, 2008. According to the monitoring and inspection of Yulin Environmental Monitoring Station, after being treated, the emission concentration of the culpa smoke gas from the cylinder block and cylinder cover shops was much lower than that of the national emission standards. The dust emission was reduced by about 1436 tons in 2008. Treat the waste sand from foundry production by grinding, gridding, dust removing and baking technics so as to reuse them in casting production. In 2008, recycled and reused sand was 10900 tons, and the solid waste discharged was reduced.

Yuchai's emission index committed to Yulin Municipal Government is to succeed in controlling the total emission of COD (chemical oxygen demand) within 80 tons/year and the emission of SO₂ within 50 tons/year by the end of "11th Five-year Plan". In 2008, with growing output, Yuchai emission₂ of COD and SO₂ were 54.1 tons/year and 35.7 tons/year respectively, much lower than the emission limit by the municipal government. It has realized green manufacturing.

Waste Oil Recycling							
Year	2003	2004	2005	2006	2007	2008	Total
Recycled volume (ton)	416.43	480.95	606.44	583.82	326.47	212.45	2626.56
disposal cost (RMB/ton)	1300	1300	1320	1450	2400	3609	
recycling Price (thousand RMB)	541.4	625.2	800.5	846.5	783.5	766.7	4363.8

Waste Water Recycling							
Year	2003	2004	2005	2006	2007	2008	Total
Reclaimed Water (cube)	13492	48476	50517	45163	51344	35962	244954
Unit Price (RMB/cube)	1.18	1.18	1.18	1.48	1.48	1.24	
Saved Water Value (thousand RMB)	15.9	57.2	59.6	66.8	76.0	44.6	320.1



== Forestation in Yuchai Factory Area ==

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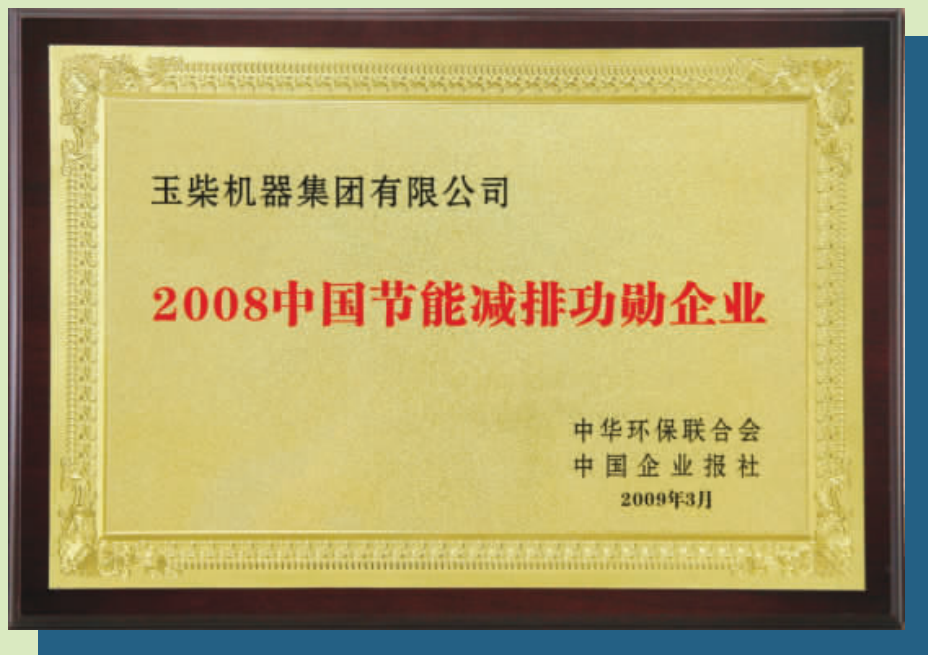
Full participation in energy saving and emission reduction

As a participant in “Guangxi Top-100 Energy Conservation Program”, Yuchai saw out the missions of energy-saving and emission-reduction directly. The subsidiaries arranged and carried out the work of energy saving and emission reduction carefully, allocating the tasks to each workshop, working group, working position and employee, segmenting management and strengthening the process supervision and control. Yuchai Co., Ltd. linked energy-saving targets with work tasks and economic responsibilities, established complete management system for production ability, strengthens tracking, supervision and evaluation, and eliminate waste. The energy consumption per product has been decreased by 8.972% and the comprehensive energy consumption for output of 10,000 RMB was decreased by 3.65% on year-on-year basis, equaling to 1876 tons

of standard coal. 100% of the Industrial Three Waste treatment has met the emission standards.

Yuchai also fully used the publicizing platforms such as local area network (LAN) within the Group, company newspaper, show window and TV stations, etc. to carry out in-depth publicizing work on energy-saving and environmental protection extensively, forming a good atmosphere of “every one tries to save energy, at every aspect, at any time” in the Group. With the further practice of the core philosophy of “Green Development and All Win in Harmony”, Yuchai will achieve more in saving energy and reducing emission and make greater contribution to building resource-economical and environment-friendly society.

Yuchai Won Award of
“2008 China’s Renowned Company for Energy-saving and Emission-reduction”



March, 2009, the “First China Green Industrial Economy Forum & 2008 China Energy-saving and Emission-reduction Promotion and Awarding Ceremony” was held by All-China Environment Federation and China Enterprise News in Beijing. As a leading practitioner working in the forefront on energy-saving & emission-reduction, Yuchai received the award of “2008 China Renowned Company for Energy-saving & Emission-reduction” for its outstanding contribution to energy-saving & emission-reduction by providing green power and green manufacturing, and becomes the benchmark, example and model in energy-saving & emission-reduction.

Yuchai is the first Chinese enterprise that mass-produces and markets the NH11 diesel engine, the first to research and successfully produce the NHV and NV diesel engine, and the first to develop capability in producing passenger car diesel engines and parts. Yuchai has received ISO14001 environmental management system certificate, and its comprehensive energy consumption per unit has been decreasing for seven consecutive years, from 0.151 ton standard coal / unit (set) in 2002 to 0.055 ton standard coal / unit (set) in 2008.

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Re-manufacturing makes breakthroughs



== Remanufactured Engine ==



Based on the concept of “innovating service model, lowering social cost, developing circular economy and building green power”, Yuchai takes remanufacturing as an important measure and channel for cleaning, protecting environment and saving energy. The Group strengthens remanufacturing research and productivity building, and becomes a pioneer and spreader of remanufacturing business in China.

Develop automobile parts remanufacturing business for obsolete and waste automobile products. This is conducive to fully exerting the added value in old and waste products and making the most of the advantages of China reproducing industry. In 2006, Yuchai established the Engine Remanufacturing Factory and officially launched the engine remanufacturing project, and effectively facilitated the progress of the project by fully availing resources of the Group. At present, it has already got the annual capability to dismantle and reproduce 10,000 engines, remanufacture 150,00 sets of parts. The group is in the leading position of its remanufactured models and overall manufacturing ability.

In March, 2008, Yuchai became one of the first enterprises getting the qualification as national automobile parts remanufacturing pilot enterprises. The success in applying for automobile parts remanufacturing pilot enterprise has accelerated the development of Yuchai engine reproducing project. It is an important embodiment of Yuchai practicing the core philosophy of “Green Development and All Win in Harmony”.

Yuchai pays much attention on human resource training. Yuchai has trained a group of management staff, technicians and skilled workers on reproduction by different ways such as sending personnel on study tours both domestic and abroad, inviting experts and scholars to Yuchai for lectures and discussions having on the job training and inner deployment in the Group.

Re-manufacturing has not only enhanced the resource efficiency, reduced pollution to the environment, and constantly increased the output with the enhancement of remanufacturing productivity. The remanufacturing industry has already become a new growth point of Yuchai.

Remanufactured equipments are as following



== The test platform for engines ==



== Cleaning machine ==



== Crankshaft Polisher ==



== Casting pellets machine ==



== Heating cleaning furnace ==



== Liquid spurting sand machine ==

Remanufactured engines have got very good appraisal from the users because of its high cost performance. Many users believe that the performance of Yuchai remanufactured engine is similar to a new diesel engine, but the price is only about 70% of a new one.

At present, Yuchai has already invested about 14 million RMB on dismantling, cleaning, repair processing, experimenting and assembling equipments, established the remanufacturing functional sectors such as dismantling workshop, parts identifying and separating sector, cleaning sector, repairing sector, parts assembling sector, machine assembling line, engine test device and spray-painting and drying line, etc. Meanwhile, it steadily pushes forward remanufacturing technics development and process

construction, it has established a development flow of engine parts remanufacturing technics; delivered the quality standards and production norms for remanufacturing products; developed technics such as parts cleaning, surface treatment and repairing technics, and fault assessment, etc; and strengthened the building of quality assurance system for remanufacturing products.

Yuchai cooperates positively with international famous remanufacturing companies on the other hand so as to strengthen the R&D on engine remanufacturing technology and improve remanufacturing technology. It is making arduous efforts to establish the largest remanufacturing base for engines and the parts, and build a model enterprise for engine remanufacturing in the country.

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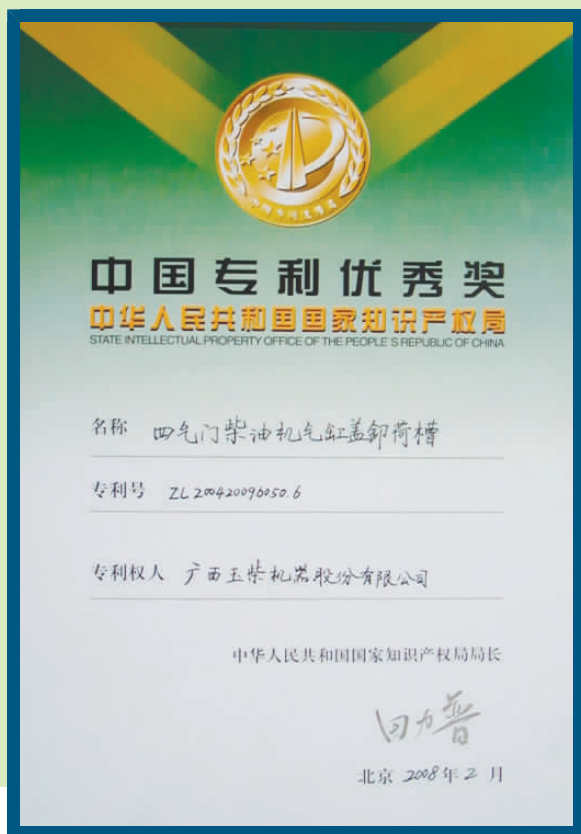
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Independent innovation continually leads to many patents

The amount of patents is an important testimony of the independent innovation ability of an enterprise. Yuchai has done a lot on independent innovation, proprietary intellectual property rights (IPR) and building national industrial brand. It keeps improving management system for IPR and boosting the platform construction for patent management system so as to get patents for independent innovation fruits and apply them in the development of

products. In recent years, Yuchai has achieved remarkable progress on patents. Before 1998, Yuchai only had 27 patents; while, Yuchai got 23 national patents in 2006 alone, ranking the first in Guangxi autonomous region. It got 95 patents in 2007 and 160 in 2008, creating remarkable social and economic benefits. Its total amount of patent applications ranked the number one among Guangxi enterprises both in 2006 and 2007.

The Patent of "Compensating Groove on Cylinder Cover of 4-valve Diesel Engine" Won the Award of "10th Chinese Excellent Patent Prize"



In 2008, in the review of "10th Chinese Excellent Patent Prize" held by State Intellectual Property Office (SIPO), the patent of "compensating groove on cylinder cover of 4-valve diesel engine" won the award of "10th Chinese Excellent Patent Prize".

The patent of "compensating groove on cylinder cover of 4-valve diesel engine" was invented by Yuchai Engineering & Research Institute. The institute has designed unique escape passage of cylinder cover after long-time experiment, which has effectively solved the cover cracking problem, making Yuchai a leader in the field of anti-crack for cylinder cover of 4-valve engines in the world. This patented technology has been applied in mass production of some models, realizing good economic and social benefits.

China Excellent Patent Prize is the only governmental award for patented inventions, and it is recognized by the World Intellectual Property Organization (WIPO). The honor shows that the technology content and quality of Yuchai patent have been further enhanced, and its ability of independent innovation has been highly appraised by the country.

In January, 2008, Yuchai Engineering Research Institute was granted the title of "National Advanced Unit in Patent System" by the Ministry of Personnel and the SIPO, becoming the only enterprise with this honor in

Guangxi. This did not only recognize the technical innovation ability of Yuchai, but also demonstrated that Yuchai products were highly innovated independently with good social and economic benefits.

2002-2008 Patent number applied and got by Yuchai

Year	2002	2003	2004	2005	2006	2007	2008
Apply number	11	28	12	32	99	164	223
Authorized number	11	5	20	12	23	95	160

Strengthen international cooperation on technology development

Establish joint R&D center with Brunel University in the UK

In March of 2008, Yan Ping, Yuchai Chairman of the Bureau, signed a cooperative agreement with Chris Jenks, the President of Brunel University, to establish "Brunel-Yuchai Research Center". The establishment of this joint R&D center was an important step for Yuchai to cooperate with world-class engine-designing units, an important measure of Yuchai Engineering & Research Institute to realize the target of becoming Top 5 in the world, and also an important approach of Yuchai to implement internationalization strategy.

The Research Center was established to research and develop new technologies and new products of diesel engine, train excellent engineers for internal combustion engine, provide opportunities for Yuchai experts to demonstrate their fruits in the industry and academe, and provide a platform for Yuchai and graduates and



Group Photo of Chairman Yan Ping and President Chris Jenks

postdoctoral graduates in Brunel University to be involved in developing advanced engines. The Research Center would also undertake R& D projects based on YUCHA product development and planning so as to carry out forward-looking basic research for new product development.

Establish strategic partnership with Honeywell Co., Ltd.



Signing Ceremony attended by Honeywell Representatives and Yuchai Leaders

In June, 2008, Yuchai signed a new strategic cooperative agreement with Honeywell Co., Ltd. so as to

carry out more extensive cooperation with the company. Honeywell Co., Ltd. is one of the most excellent suppliers for fuel system of internal combustion engine and exhaust gas recycling system. Yuchai and Honeywell Co., Ltd. have a long history of cooperation. The company became the first supplier of turbocharging system to Yuchai as early in 1994. Since 2005, the two parties have formed a stable strategic partnership, having achieved good results in product R&D and services, etc. In future 3- 5 years, Honeywell Co., Ltd. will provide Yuchai with the latest technologies and products in turbocharging, emission, energy-consumption, inductive control. Meanwhile, the company will have comprehensive cooperation with Yuchai in aspects such as product R&D, product application, after-sale service and technical training, etc. so as to further stabilize the advantages of Yuchai products in optimizing emission, lowering fuel consumption, enhancing reliability and being more economical, etc.

Yuchai Products Passed Various International Certifications

In recent years, Yuchai Group has won ISO management and environment certification, and its products have passed certifications by international professional certification institutes, and dozens of models have got technical certifications.

Yuchai diesel engine is the first engine in China that has passed CE certification. Six series of NH III main spectrum have passed E-mark Certification by EU and got GOST-R certificate of Russia; two series of National-IV products

have passed EU E-mark and CB D1 certification; up till now, there are about 80 models of products have got international certifications in total.

June 24th, 2008, three Yuchai hydraulic excavators including YC230LC-8 passed the CE certification of Machinery Directive and EMC Directive by German TUV and CE certification of Noise Directive organized by German SNH. These had cleared up the obstacles for Yuchai to sell excavators in EU market.

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Customer Service

Focus on customers



Make quality policies and targets, and establish quality management system with the purpose of meeting the demands and expectations of the customers and enhancing the satisfaction of the customers. Carefully fulfill the commitments of "offer

all I have, do what I can, be honest to users, develop in the world with credibility" to provide customers with good service.

- Provide profound service in domestic market
- Service first in overseas market expansion

Provide profound service in domestic market

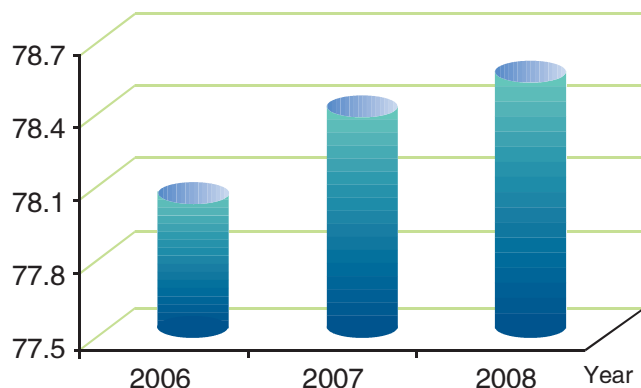


Yuchai Won Five-Star Trophy of "China Automobile Service Brand"

"Excellent quality" put forward by Yuchai does not only include excellent quality of products, but also include excellent service quality. This is the extension of Yuchai core philosophy of "Green Development and All Win in Harmony". Excellent service quality is to have customer and market research through multi-channels to understand the needs and expectations of the customers so as to improve the existing deficiencies.

Yuchai adhered the service principle of "market-directed and customer satisfaction-oriented" and carried out customer satisfaction management during the whole process of pre-sale, in-sale and after-sale. It has established the most complete and most efficient three-level service network with complex-station as the core, professional station as support and authorized service as the supplement in China. At present, it has set up 31 offices, over 1400 service stations and 1400 accessories specialty shops. The average service semi-diameter is shorter than 40 km, having increased the reaction speed for service needs. By implementing customer satisfaction service management in all round way, the satisfaction rate of Yuchai has always been in the leading position in the industry and constantly increased. According to the investigation result of China Association for Quality (CAQ), Yuchai user satisfaction rate and service quality were rather high in 2008, higher than that of 2007. Yuchai Group entrusts CFI (Shanghai) Co., Ltd. to have customer satisfaction research every year, and the results showed that Yuchai customer satisfaction increased by 4.37 percentage points in 2008.

Changes in Customer Satisfaction



During the frost disaster in Southern parts of China, Wenchuan earthquake and Beijing Olympic Games, Yuchai service system showed the professional spirit of meeting the difficulties and through thick and thin, winning the good evaluation by users and the society. Yuchai was awarded the Five-star Brand of China's Auto Service for 2008.

Customer Service

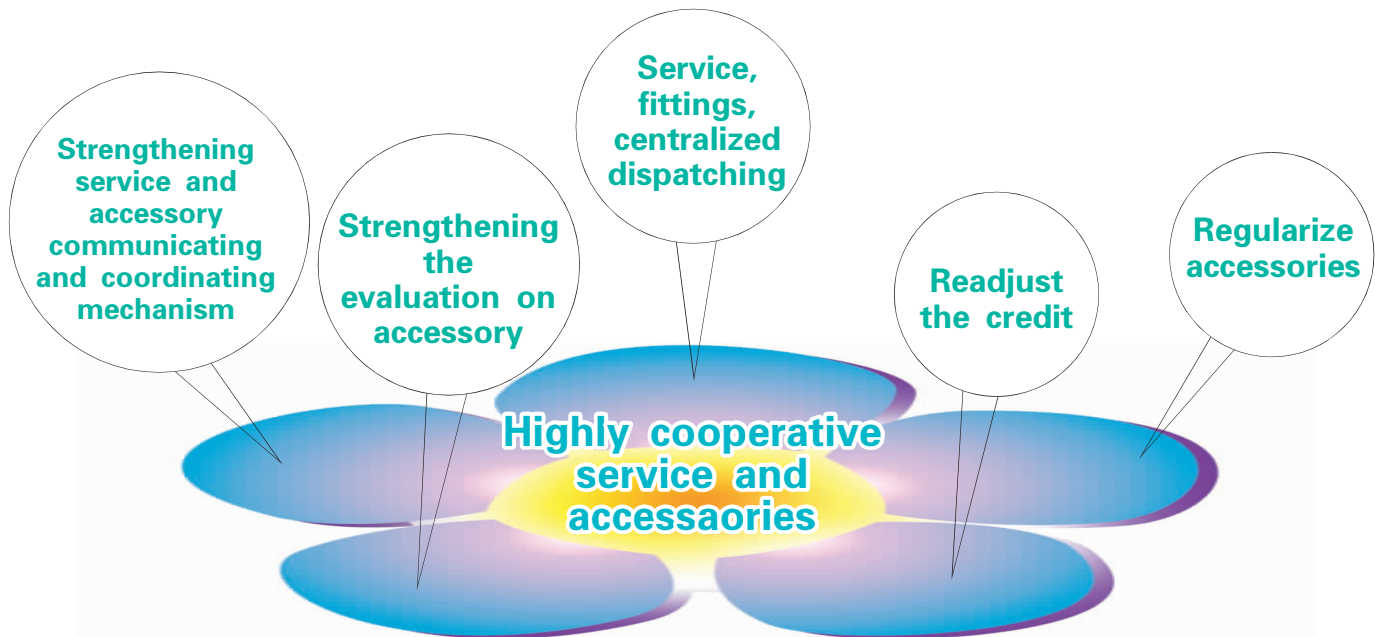
Yuchai Service Three-year Plan

In 2008, Yuchai Group delivered and began to implement new "Yuchai Service Three-year Plan". The targets are: building core competitiveness of Yuchai service in 2008, creating Yuchai service brand in 2009, forming a competitive service brand in 2010, and working towards international famous service brands. The six-word guideline of service in 2008 was "more segmented, more sturdy and stronger". It required more detailed service policies, processes and responsibilities; more sturdy service system, service management and service and accessories guarantee work; and stronger

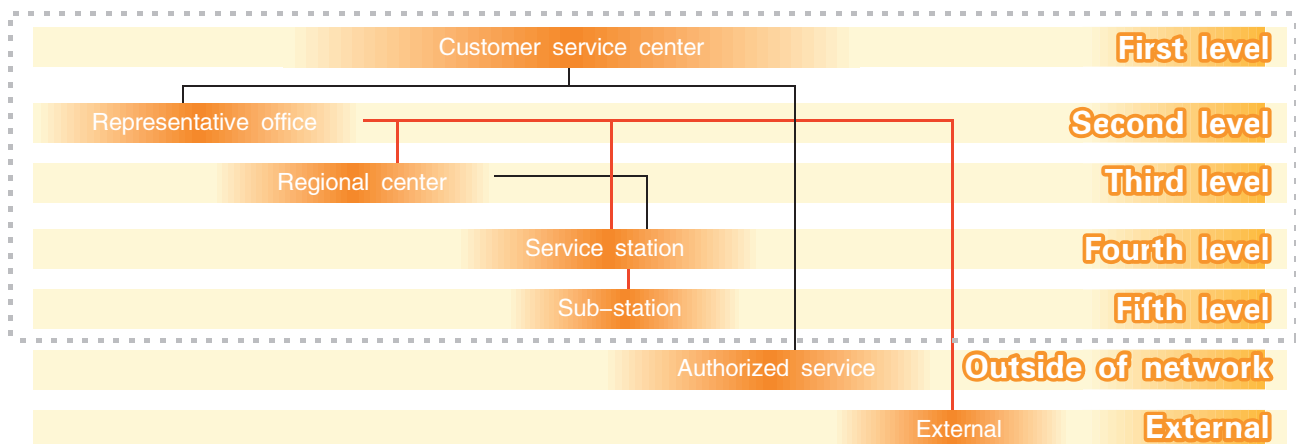
service network, service guarantee and boosting ability to market.

Therefore, eight measures were adopted in service work, one, strengthening service network; two, improving service ability; three, segmenting service management; four, key account management; five, innovating activities of service month; six, strengthening service guarantee; seven, fulfilling accessories guarantee responsibility; eight, establishing the service advantages of N-III engines.

Implementing accessories guarantee responsibility



Service Network Plan



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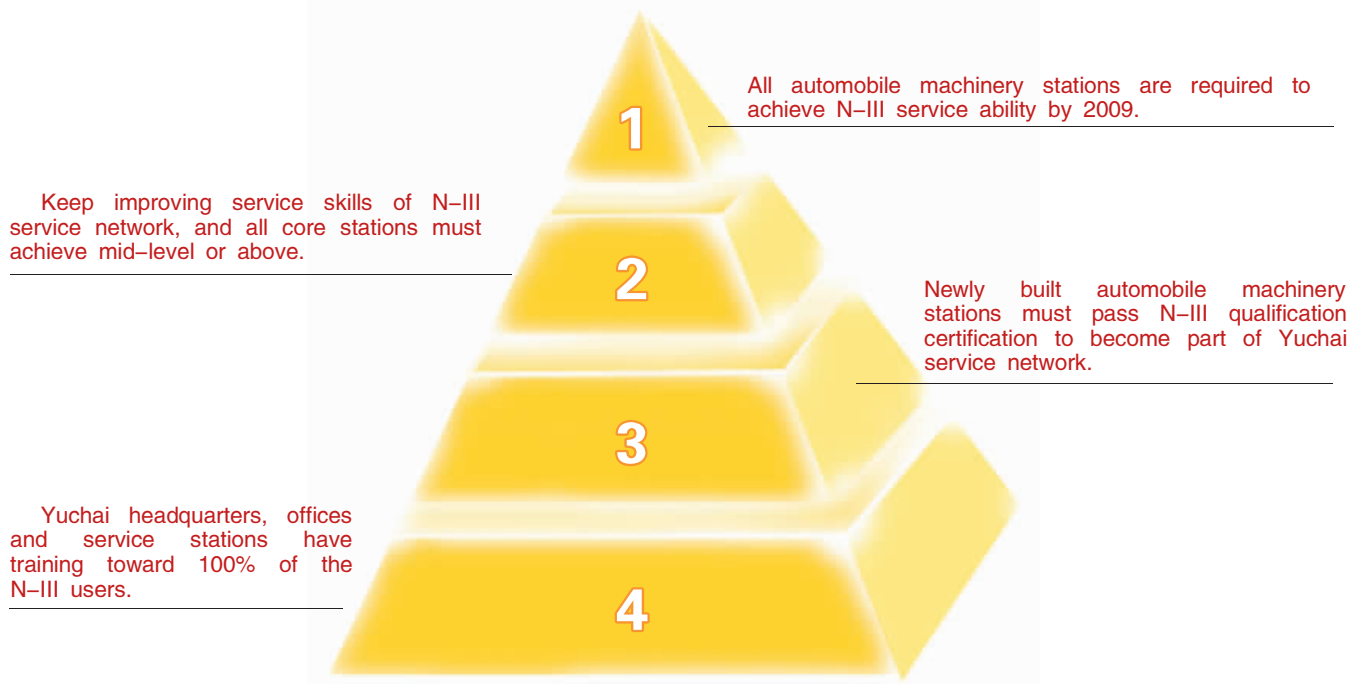
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Keeping the advantage of holistic service for N-III engines



Provide Good Service of Yuchai N-III Products



== Contestants attending skills competition at work ==

NHII Emission Standard came into force in July, 2008, and Yuchai customer service department prepared well for this. Local offices organized many NHII product training activities for technical service personnel, introduced the customers on Yuchai targeted products, and guided the product maintenance of service stations so as to make the offices become the output

bases for NHII engine technical talents. Yuchai Customer Service Center organized large-scaled second-phase enhancement training of NHII skills, held 31 regional contests, and held NHII engine Maintenance Skill Contest in Yuchai Headquarters in the end of 2008. Over 800 people took part in these activities.

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Provide Service for Wheat Harvest



Yuchai Engine User Presenting Honor Flag to Yuchai Service Station Staff

Summer wheat harvests each year are important periods for Yuchai to provide intensive service to Yuchai engine users. In 2008, in accordance with the Headquarters requirements and local service needs, service stations in

over ten major wheat harvest provinces such as Henan, Hebei, Anhui, Xizhou, Shandong, Shaansi and Sichuan, etc. established service teams to penetrate the wheat harvest areas so as to provide the users with timely and direct services.

As a large agricultural province, Henan Province occupies one quarter of the total wheat output in China. In order to ensure smooth harvests of the farmers, there are about over 20,000 harvesters serving the summer wheat harvest all over the province. During the harvest, Yuchai service team members in yellow service singlet are active in the cornfields to do their best to provide engine maintenance service and clear the faults of the engines. Their services have guaranteed the rush harvest and reserve of wheat, and therefore are well-received by the farmers. In order to provide more timely service, Yuchai has also printed the "Yuchai service contact list for summer harvest in 2008" and given them out to the harvesters working cross the regions so that they could contact relevant personnel according the telephone numbers on the list when there are some faults with the machines so as to get them repaired as early as possible.

Provide Maintenance Service for Olympic Vehicles

During the Olympic Games in Beijing in 2008, over 4000 vehicles equipped with Yuchai green engines served in bus lines, passenger transportation and freight transportation, etc. In order to ensure the sound operation of Yuchai engines during the Olympics, Yuchai started the Olympic service guarantee activity with the theme of "Green Power? Green Olympics", and sent 28 professional Olympic service engineers to Olympic co-host cities such as Beijing, Tianjin, Qingdao, Shenyang and Shanghai. A strong surrounding service network was constructed by 18 Olympic service guarantee groups and five mobile service guarantee teams, constituting an Olympic Service Guarantee Team together with the technical service engineers of the service stations and customer centers in the above mentioned Olympic co-host cities. They strictly and overall checked up and maintained NH II and NH V engines made by Yuchai according to the practical conditions. They also checked up and maintained each engine once time when each Olympic vehicle was used coordinating with public transportation companies and travel service agencies. At the time, they provided 24 hours field services, ensuring all Olympic vehicles in the best operation by fast eliminating any obstacles of them.

Thanks to the strong reliable and stable green power of



Yuchai Won Title of "Golden Service" for Beijing Olympic Games

Yuchai, the goal of providing good and highly-efficient service to Beijing 2008 Olympic Games by the Olympic vehicles was realized. While witnessing the success of Beijing Olympic Games, Yuchai green power with excellent quality and the sincere and convenient Yuchai service are also witnessed.

Service first in overseas market expansion

With the aim of “brand internationalization, market internationalization and human resource internationalization”, Yuchai prioritizes service and expands overseas markets positively. At present, Yuchai has six overseas agencies, five business representative offices, and over 100 overseas distributors, covering business in 150 countries and regions such as Asia, Europe, Africa and South America, etc. An important approach to serve overseas clients in 2008 was to positively build overseas professional marketing team and train marketing service talents with language, trade and internal combustion expertise. Integrate overseas marketing and service into one package of marketing service model; set up more overseas offices, overseas service and distributing networks, and strengthen



== Site Training of Peruvian Customers ==



== Yuchai Vietnam Office Director Discussing with Technicians of Sino-Vietnam Auto Plant ==

cooperation on export with domestic accessory factories. According to overseas market, have product adaptability development, strengthen technical support and enhance quality guarantee ability so as to nurture and stabilize a number of overseas distributors and loyal clients.

As for the advantageous on overseas service, Yuchai’s export to Vietnam increase by 23% on year-on-year basis, up to over 20000 and keeping a absolute leading market share in spite of the economic crisis and shrinking market in Vietnam. The export also increases rapidly to South and East Asia, Middle East, Middle Asia, East Europe, North Africa, Middle and South Africa, and South America, etc.

Clients from Malaysia & Philippines have Professional Trainings in Yuchai

From 21st to 30th of April, 2008, clients of four companies from Malaysia & Philippines were trained for relative knowledge and skills regarding maintenance principles of diesel and gas engines, usual trouble diagnosis and trouble-shooting, as well as commissioning and adjustments.

In the course of training, assembly & disassembly, inspection, measurement and commissioning of the engine and BOSCH pump

were demonstrated to clients who also consulted with Yuchai engineers specially by taking into consideration their engine models. Clients highly appraised the training by saying that they got deeper understanding towards Yuchai products and services, and they were satisfied with Yuchai engines characterized by lower noise, fuel consumption & emission. They have recognized the Yuchai after-sale service system and are full of confidence for the prospective of Yuchai’s products in their own local market.

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Employee Development

Positively create expansive platform for each Yuchai employee to fully explore his/her value and potential



Every Yuchai employee is the most precious treasure of Yuchai. Yuchai upholds the harmonious humanity to safeguard the rights and interests of the employees, and nurtures the Yuchai culture of loyalty, philanthropism, coordination and healthiness. Loyalty means the wholehearted love of employees to Yuchai; philanthropy is the tradition, state and mind of Yuchai people, and the unique relaxed and harmonious atmosphere in Yuchai; coordination means the coherency of targets and actions; health means the people-oriented care, kind service to employees by the corporate, and its tireless pursuance on employ welfare.

- Sign a new round of collective contract
- People-oriented care: protect employee rights and interests, and improves employee welfare
- Promote the development of training and education

Sign a new round of collective contract

In July, 2008, Yuchai Group and Yuchai Co., Ltd. signed a new round of collective contract. The managerial representatives and employee representatives of the two companies signed on the new collective contracts respectively. Implementing the collective contract system is conducive to safeguarding the overall legal rights and interests of the employees and the enterprises and realizing more harmonious, stable, and consolidated industrial relations.



== Signing Ceremony of Collective Contract ==

In accordance with the principles and provisions of the Labor Contract Law of the PRC and other laws and regulations, new Yuchai "Collective Contract" amended the old contract, increasing from 50 articles in 11 chapters to 91 articles in 13 chapters. Two chapters with 41 articles were added into the contract: "Female Employee Protection" and "Labor Disputes Settlement". In addition, amendments were made in seven aspects such as way of employment, rest and vacation, payment, guarantee and welfare, professional health, employee training, supervision and inspection of the collective contract.



== Company Management Representatives and Staff Representatives at Collective Contract Signing Ceremony ==

People-oriented care: protect employee rights and interests and improve employee welfare

Yuchai Group has been taking employee "Satisfied or not, happy or not, agree or not and uphold or not" as the basic criteria to evaluate its work for a long time. It highlights rights-maintaining functions, establishes sense

of service and builds good image to become a model of "considering from the perspective of employee, caring for employee, seeking benefits for employee, tackling difficulties for employee and working for employee".

Protect legal rights and interests of employee; establish long-lasting mechanism to work for employee

Provisions on Yuchai Employee's Children Employment Management, Provisions on Subsidies to Yuchai Employee in Difficulties and other important regulations and systems were enacted in 2005, and as a result, the legal rights and interests of the employees were protected.

On the employment of the employees' children, Yuchai has provided jobs to over 100 children of the extremely poor employees and over 600 children of employees by positive coordination and communication, having significantly alleviated the tension that it's hard

for employees' children to find jobs.

On aiding those employees with serious diseases, since 2005, the Group started to initiate the employees to participate in "Guangxi Employee Medicare Mutual Assistance Scheme" so as to enhance the risk-resistant ability of employees to counter serious diseases. Currently, 255,000 RMB has been compensated to 17 employees with serious diseases. It began to organize the employees to take the Business Supplement Medical Insurance since 2006.

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Employee Development

Organize Employees to Participate “Workers’ Medical Mutual Aid Security Project” and “Female Employee Healthcare Mutual Assistance Scheme”

Organized by Yuchai Group, over 10,000 Yuchai employees have participated the “Workers’ Medical Mutual Aid Security Project” and “Employee Medicare Mutual Assistance Scheme” initiated by the Labor Union in Guangxi. These two schemes are supplements to the employee health insurance, and could cover part of the medical cost beyond the health insurance ceiling by some patients with serious diseases. They are protective to the employees’ life. The contribution of the “Workers’ Medical

Mutual Aid Security Project” is 40 RMB/year/person, with the union covering 20 RMB, and the employee covering 20 RMB; the contribution of the “Female Employee Mutual Health Scheme” is 25 RMB/year/person, totally taken care of by the employee. In 2008, one female employee who has attended the two schemes gets seriously ill, and she got a high ensuring fund of 27000 RMB, which had alleviated her medical burden and family financial difficulties.

Undertake “heart-winning project” to provide comfortable living environment to employees

The Group begins with the hardware equipments to finance through different channels, has constructed 25 living service facilities such as Yuchai badminton courts, indoor stadiums, cultural centers, dining halls, employee healthcare centers and water parks, etc. to serve the

employees wholeheartedly. It has also reconstructed many supporting projects such as stadium, basketball court, indoor and outdoor gyms and racing tracks, etc. and completed relevant green belt construction.

Focus on details to serve the employees dutiously

Collect funds and materials through multi-channels to provide employees with welfare facilities and services, including:

It has built over 30 crush-rooms in the factory to provide rest places to employees during the breaks;

The union allocates 100,000 RMB every year to set up medical boxes in the production areas so as to deliver treatment and medicines to working positions to treat small illness of the employees; and also allocates 10,000 RMB every year to provide drinks to the workers in the workshops and improve the labor protection conditions.

It has positively coordinated the government and relevant departments to complete the construction of water supply so as to improve the water quality for the employees’ residential use.

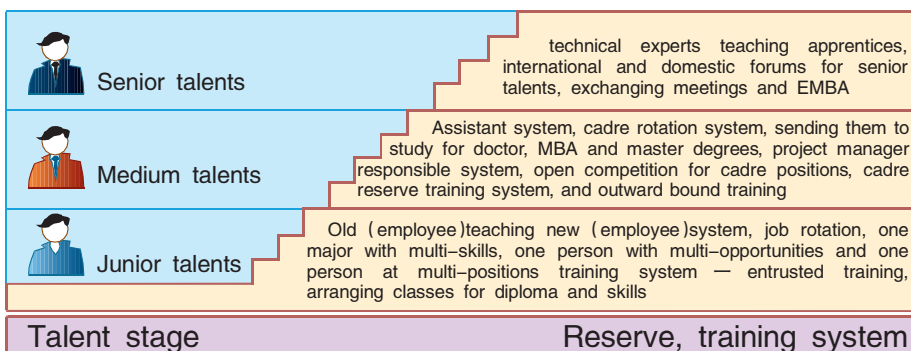


== Yuchai’s Staff Court ==

It organizes all employees to have annual regular physical examinations, and the employees who face the danger of occupational diseases relating to noise and dust to have on-the-job health examinations.

Promote the development of training and education

Staged personal training mechanism



Promotion by study

Following the teambuilding concept of “Building a high quality team of cadres and the creative laboring group”, the company establishes a staged personal training mechanism and multi-channels for development so as to provide an ample development space for the employees. In 2008, Yuchai has employed 2610 persons with bachelor degree and above of the higher educational background, 107 persons with high-level professional certificates, and 756 technicians and senior technicians.

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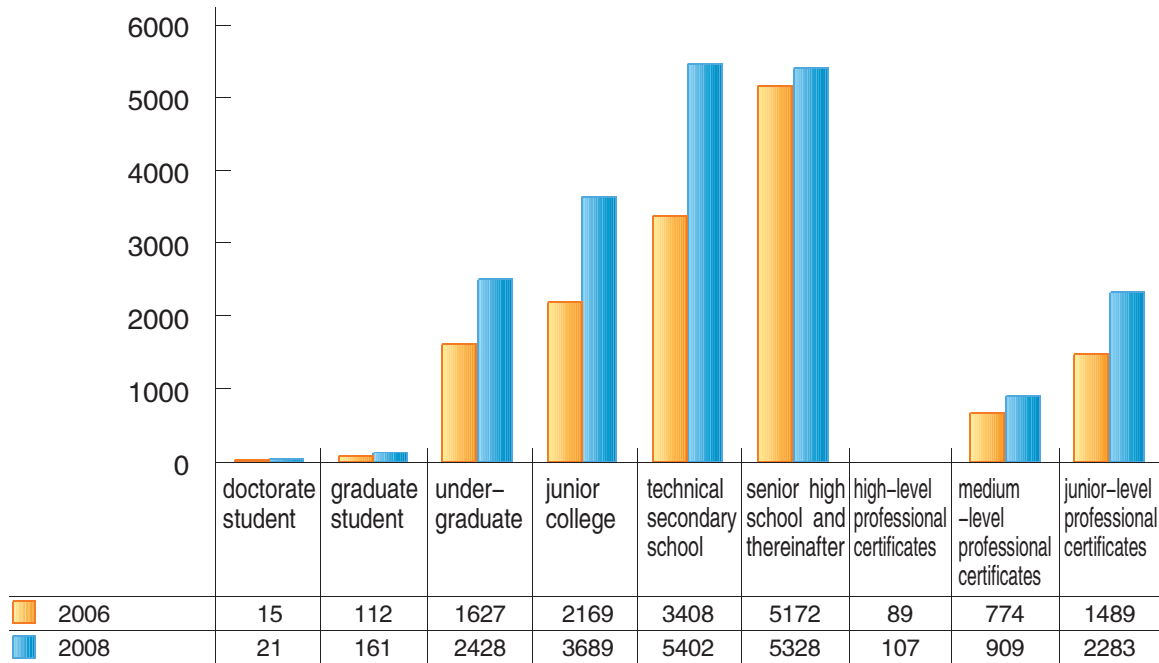
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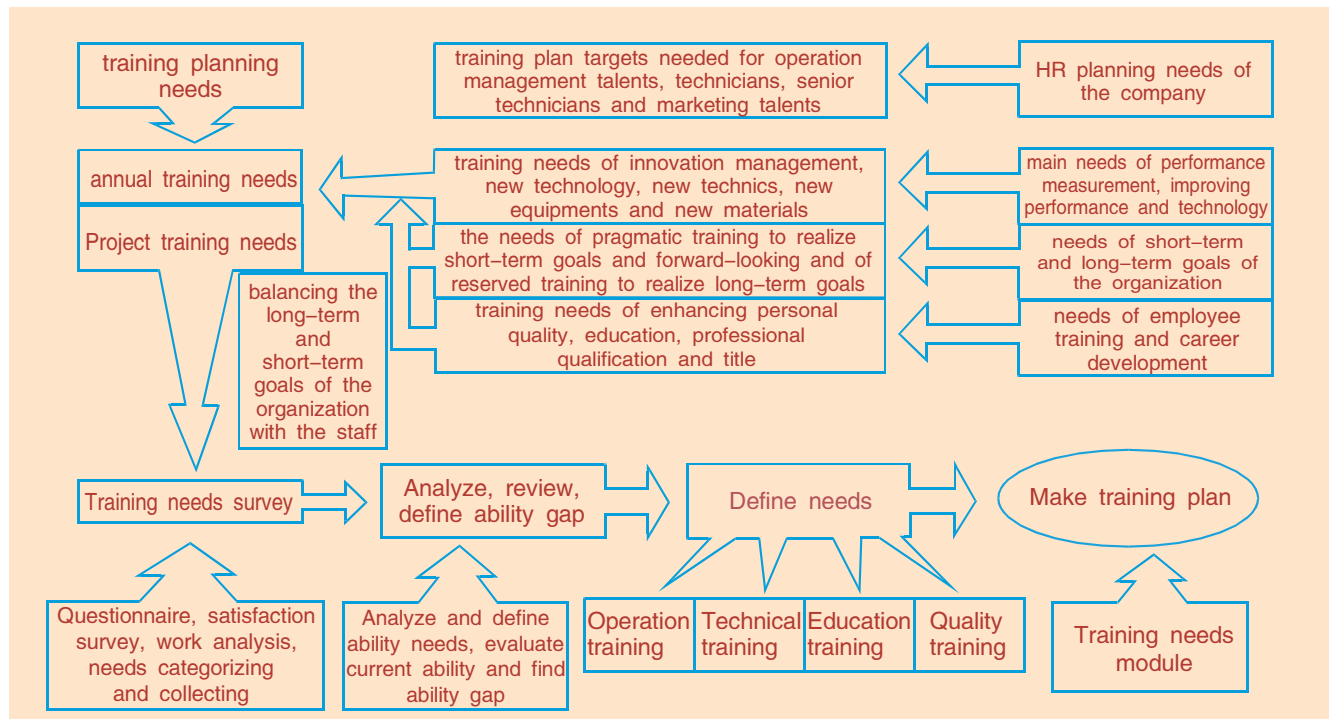
2008 Structures of Education and Technical Titles of Yuchai Group Staff



Define training needs

In order to meet the needs of strategic plan, annual operation targets, talent needs and reserve plan, market competition and core competitiveness enhancement, etc., the Group has defined the training needs in four modules such as operation, skills, quality and education

according to the demands of performance evaluation and technology changes and on the basis of balancing medium and long-term goals of the company and the career development of the employees.



Employee Development

Innovate training model

In order to ensure the realization of training goals, the company has continuous innovation on training models, including: improving training management, defining training functions accurately and enhancing execution of training plans; building knowledge communicating platform, seeking resource support and creating targeted training models; ensuring the implementation of annual training activities.

Main Innovative Activities of Training

ELN a learning platform to enhance the comprehensive quality of medium and senior management staff and functional departments' backbone staff. There are 531 courses on this platform, and it is a major supplement to enhance the comprehensive quality of management staff and professional technicians.

Distance education: Fully use modern teaching ways to organize at least eight trainings related to management knowledge, skills and operation ability every month for management staff. The purpose is to broaden the vision, upgrade the knowledge and ways of thinking of the management staff.

"Monthly Lecture" by professionals: Invite technical experts, senior technicians and masters for some types of work as the trainers to give special lectures about new products, leading technologies or analyzing actual difficult cases.

Training center: Provide resource sharing platform to transfer management information and knowledge to training teams and receive feedbacks so as to upgrade and circulate knowledge timely and provide foundation for establishing menu-form training mechanism.

Skill base: Provide professional skill training to new employees and on-job employees to improve the operation skills, develop good human resources for the company so as to meet the needs for high-quality employees.

Manage and implement training projects

salesmen and engineers training

Coverage and strengthening of sales team training: the rapid upgrading products and their functions demand for timely follow-up of the sales ability. The Group organizes the directors and service managers in the offices of the selling company to have systematic and targeted trainings by regions and sections.

Senior engineers training: Centering on R&D of new products, optimizing product structure and technical innovations and other projects, the Group has close cooperation with colleges and universities, science and research institutes and foreign enterprises to jointly tackle problems in science and technology, and uses the educational resources of colleges and universities to open schools jointly to train high-quality and high-level human resources.

Skill trainings of production-line workers

Three-level apprenticeship training modes: According to Yuchai "three-level" training management system, the Group improves the Provisions on Apprenticeship Management and contributes to expanding senior technician team via the model of master on-the-job "imparting, helping and guiding" to impart technical theories, operation skills, unique skills, advanced operation methods and experience and realize knowledge sharing.

2006-2008 apprenticeship training accomplishment

Year	company-level apprenticeship	department-level apprenticeship	group-level apprenticeship
2006	15 pairs of senior skilled workers and above	30 pairs of medium workers and above	349 pairs of multi-position technicians
2007	30 pairs of senior skilled workers and above	45 pairs of medium workers and above	389 pairs of multi-position technicians
2008	37 pairs of senior skilled workers and above	60 pairs of medium workers and above	290 pairs of multi-position technicians

Strengthening skilled workers promotion: Clarify training content, training ways, training time and specifications on evaluation for promotion junior technicians to senior technicians according to the "Measures on Technician Promotion Training Management" of the company. Ensure theoretical training time of three months a year according to annual technician grading promotion plans of the company. Technical trainings are mainly for learning cross-position and multi-position skills based on the position of each employee.

2006-2008 technician promotion training accomplishment

Year	Senior skilled worker	technician	Senior technician
2006	547	308	33
2007	639	360	29
2008	505	264	46

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Establishing skilled pace-maker system: According to the Measures on Skilled pace-makers Management, assign "Chief Workers" and "Chief Technicians" at key posts such as foundry-men, smelters, internal combustion engine fitters, maintenance fitters, maintenance electrician, welders and mechanical inspectors, etc. so as to bring the exemplary and leading role of high-skilled talents into full play.



== 2008 Yuchai Top 10 Technicians ==

Yuchai Employees Participate in the 4th Zhengxing Cup National Youth Skill Competition

In November, 2008, 4 Yuchai employees, on behalf of Guangxi, reached the final of the 4th Zhengxing Cup National Youth Skill Competition held in Shenyang, Liaoning Province. They helped Guangxi team to obtain the 6th place on total scores, 14th place in the milling contest, and 20th place in the computer programmer contest.

The theme of the Competition was "improving youth skills to promote scientific development". As one of the five national-level competitions in 2008, it had three contests for different type of work such as fitter, miller and computer programmer, with 10 collective prizes and 20 personal prizes. Those who ranked top 5 in the final could be promoted to technicians or senior technicians; those who ranked 6th-20th could be promoted to senior skilled workers or technicians directly.



== Yuchai Contestants at Competition ==

Establish "Yuchai Technicians Association"

"Yuchai Technicians Association" was founded on July 10th, 2008 to facilitate the rapid development of technical talents, and provide the technicians of the company with a platform of mutual-learning and exchanges. This is the first technicians association in internal combustion engine industry in China, and it is a stage for technicians to improve ability, show strength and contribute to corporate production and development. The current activities include: organizing technicians to make technological breakthroughs so as to tackle the quality problems in market feedbacks; facilitating the knowledge, skills and experience sharing of the excellent technicians; strengthening outside training of the technicians, serving the production and operation of the company with what they have learned.

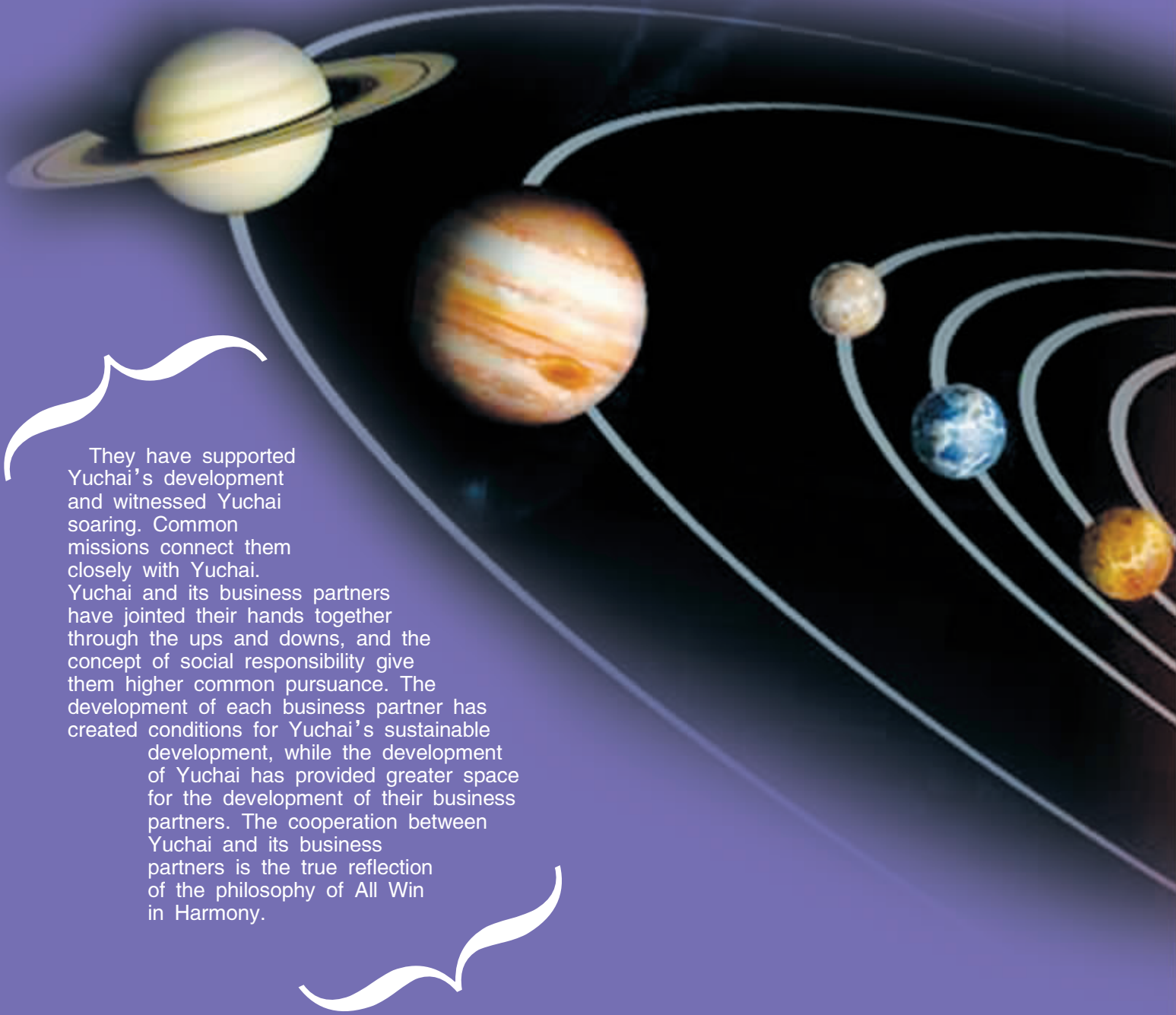


== Inauguration Meeting of Yuchai Technician Association ==



Business Cooperation

The suppliers and service system of Yuchai are crucial interested parties and business partners for Yuchai



They have supported Yuchai's development and witnessed Yuchai soaring. Common missions connect them closely with Yuchai. Yuchai and its business partners have joined their hands together through the ups and downs, and the concept of social responsibility give them higher common pursuance. The development of each business partner has created conditions for Yuchai's sustainable development, while the development of Yuchai has provided greater space for the development of their business partners. The cooperation between Yuchai and its business partners is the true reflection of the philosophy of All Win in Harmony.

- Closely cooperate with providers for mutual benefits and win-win situation
- Signed Social Responsibility Commitment with cooperative partners

Closely cooperate with providers for mutual benefits and win-win situation

The corporate culture and philosophy of some suppliers have not followed the development of Yuchai, and they are slow in enhancing technical and management levels. These have constrained the healthy and rapid development of supply chains. Facing this situation, Yuchai tries to infuse Yuchai culture to suppliers through joint meetings, mutual visits, business communications, conferences and learning so as to change the conceptions of the suppliers to adapt to the development demands of Yuchai.



== 2008 Yuchai Suppliers Meeting ==

It has monthly and annual comprehensive evaluation of the suppliers on quality, cost, technology and strategy, etc., and decides the supply share of the suppliers according to the result of annual evaluation, giving bigger share to those who have better quality. It establishes long-term strategic partnerships with core suppliers and supports them to develop and get stronger together with Yuchai.

Facing the promulgation of labor laws, labour cost and price of raw materials increasing, which cause the higher cost of the suppliers, the Group keeps using joint technology to lower the cost. Meanwhile, it ensures to purchase sufficient parts with good quality timely at reasonable prices by effective means such as monitoring and checking the price of raw materials at different times, and improving producing efficiency by re-checking the value of man-hour, etc.

With constant development and technology and quality upgrading, Yuchai has higher and higher requirements for the suppliers on supply ability, technologies, product quality and cost control, etc. In order to ensure that suppliers could meet the development demands of Yuchai, Yuchai does not only send engineering technicians to guide and support the suppliers so as to enhance their comprehensive strength, but also organizes suppliers to design and develop jointly, and offers suppliers with preferential commercial policies on the basis of clarifying the requirements of IPR, product quality and capability building so as to make sure that suppliers could share the according share and long-term benefits after successful joint R&D.

Carry out themed activities of "being nice to suppliers is being nice to yourself", enhance the employee awareness of respecting, supporting and being nice to suppliers and implement it into real work by learning, discussing and advocating the corporate management philosophy of being nice to suppliers.

Signed Social Responsibility Commitment with cooperative partners

As a representative of national engine enterprises, Yuchai has been working hard to shoulder the responsibility of rejuvenating national industries and creating harmony among human, society and nature. Since 2006, Yuchai has signed Letter of Commitment on Social Responsibility with its suppliers so as to ensure all suppliers to fulfill the social responsibility in protecting employees' rights and interests and environment. In January, 2009, at Yuchai Machinery Press Conference & Marketing Service Conference, the representatives from Yuchai, main machinery factories to support Yuchai engines, Yuchai Supplier League and Yuchai service systems released a "Common Commitment on Social Responsibility".



== Yuchai and Partners Signing "Common Commitment of Social Responsibility" ==

Eight social responsibility commitments are made to the society:

1. Abide by laws and regulations, advocate social-recognized commercial morals and codes of conduct;
2. Protect natural resources and ecological environment, develop environment-friendly technologies and product green products spontaneously;
3. Push forward technological innovation, actualize recycling economy, and be a pioneer in saving energy and reducing emission;
4. Be responsible for product and service quality, be honest and credible, and no regret for the society;
5. Enhance core competitiveness of the service, optimize the service value for users;
6. Respect and care for employees, maintain legal rights and interests of employees, and safeguard the production safety of employees;
7. Positively support charity projects, participate in public benefit activities and community constructions;
8. Help and support each other, and cooperate to seek common development, establish harmonious industry chain, and achieve win-win situation.

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Be an Excellent Corporate Citizen

Be an excellent corporate citizen; make positive contribution to community and social development



Yuchai Group inherits the philosophy of social responsibility, takes being an excellent corporate citizen as its goal, keeps its relations with the society and communities harmony and close, positively inputs human, material and capital resource into public benefit causes, carries out activities such as poverty assistance, financing schools, disaster relieving and supporting culture and sport causes, and builds good corporate image.

- **Build harmonious community**
- **Support Sichuan earthquake disaster areas**
- **Energy saving and emission reducing enter into the families of Yuchai employees**
- **Establish Yuchai Young Volunteer Service General Team**



Build harmonious community

Yuchai Group positively supports and participates in community construction, implements community policies of “co-inhabiting and co-building, resource sharing, mutual help and win-win situation”, demonstrating the

core philosophy of “Green Development and All Win in Harmony” and the humanism sentiment of “Caritas and Good Health”.

Care for disadvantaged groups; positively arrange the employment of the disabled

The Group carefully implements national provisions related to the disabled employment and rights and interests guarantee, fulfills its social responsibilities consciously, positively providing employment opportunities to the disabled and arrange them to do jobs according

to their ability, and guarantee them to have equal pay for equal work, equal rights and interests and welfares accordingly. Up to now, it has offered jobs to 110 disabled people.

Care for returned overseas Chinese and their families; positively support the education of overseas Chinese laws in the community

There are about 500 returned overseas Chinese and their families in Yuchai community. Most of them are on-the-job or retired employees who have made contribution to the development of Yuchai and Yulin City. Yuchai Group has always been caring about their working and living conditions. The trade union and the community positively safeguards the legal rights and interests of the returned overseas Chinese and their

families, guarantee their employment, pension and medical insurance benefits and help them to get over difficulties. In 2008, Yuchai community was entitled by Overseas Chinese Affairs Office of the State Council as the “overseas Chinese laws propaganda corner”, becoming one of the three national-level “overseas Chinese laws propaganda corner” in Guangxi.



“Overseas Chinese Laws Publicity Corner” Kick-off Ceremony by Yuchai Community

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Yuchai Staff Donating for Sichuan Earthquake



Rescue worker driving Yuchai Excavator to clear ruins

Looking at the destroyed schools in Wenchuan earthquake, any people with a sense of social responsibility will not stand by unmoved. The whole country mourns for and the whole world is shocked at the big earthquake in Wenchuan. The disaster suffered by the fellow citizens shocked Yuchai Group, and deeply touched the hearts of 17000 employees of Yuchai. Yuchai believed: helping the quake-afflicted compatriots to overcome the difficulties, any enterprise with a sense of social responsibility will not stand by unmoved." After the earthquake took place, the Group delivered a "Yuchai Group earthquake disaster relief and rescue plan" immediately, demanding emergency actions from offices in Sichuan, Gansu and Shaanxi to organize manpower and materials for earthquake relief work. 36 sales and service personals in Chengdu offices of Yuchai limited companies, engineering companies, power companies and logistic companies, and over 600 service personals in first-level service stations of Yuchai system constituted rescue groups and service teams to heavy-afflicted areas such as Mianzhu, Beichuan and Guangyuan, etc. Within the "Golden 72 hours" for rescue, they assisted the Rescue Force to rescue 16 people and repaired over 100 machine-times of rescue

vehicles. Meanwhile, the Group decided to provide gratis assistance to the earthquake-relief and post-disaster reconstruction in afflicted areas in Sichuan, and organize working groups to carry out condolence activities and assistance handovers in the afflicted areas.

Yuchai Group donated over 15 million RMB both in cash and beneficence to the disaster areas, among which 2.3 million RMB in cash donated by employees, and the rest donated by the Group in equipments that include 100 sets of electric generator, 10 small excavators, and 1 garbage treatment truck, totally worth over 12 million RMB. These equipments were delivered to Sichuan Charity Federation directly, and were allocated to the afflicted areas by the Department of Civil Affairs of Sichuan Province. At the same time, Yuchai built a Songtao Hope Primary School in Ziyang, Sichuan Province with its own fund. The Group's committee of female employees decided to make May of every year the "Spring Bud Girl Donation Month", and also called on employees to sponsor and donate to spring bud girls. Besides sponsoring local spring bud girls, the donated money collected would also be used to provide financial aid to spring bud girls in Songtao Hope Primary School.



Yuchai fleet transporting disaster-relief materials on the road



Inauguration Ceremony for Sichuan Ziyang Hope Primary School sponsored by Yuchai

Energy saving and emission reducing enter into the families of Yuchai employees

In 2008, Yuchai Group launched energy saving and emission reducing family activities to propose to the employee families: begin with myself, begin with my family and take active part in energy saving and emission reducing family activities. The contents of the activities are: building “Energy-saving and Emission-reducing Volunteer Team” to voluntarily publicize the significance, knowledge and skills of energy saving and emission reducing voluntarily; nurturing propaganda backbones to educate common knowledge on energy saving and emission reducing extensively in each living area; distributing green shopping bags to reduce white pollution; establishing family energy-saving, emission-reducing and consumption-lowering files; organizing family article soliciting contests and knowledge competitions on energy saving and emission reducing; set up “energy saving and emission reducing” propaganda column; and entitle “Model Family of Energy-saving and Environmental-protection”. There are over 1300 families participating in this activity in Yuchai Group.



Yuchai Women’s Federation presenting flag to Yuchai Group

Establish Yuchai Young Volunteer Service General Team



March 16th, 2008, Yuchai Young Volunteer Service Team of Yuchai Group was established and over 170 young volunteers participated in the team. The goal of the service team is to serve the community and the public, and enhance one’s own quality when involving in public affairs to become civilized new youth meeting the demands of Yuchai development. Voluntary service activities for the first time include the finishing of community parking lots, building protective fences around water pools and cleaning the factory regions, etc. Young volunteers greatly promote the spirit of “dedication, affection, mutual-help and progress”, build civilized image of Yuchai youth, practice the core philosophy of “Green Development and All Win in Harmony”, and make new contribution to Yuchai development.



Group Photo of Yuchai Young Volunteer Service General Team

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2009 goals and missions



The following years would be key periods for Yuchai development. For next 3–5 years, the sales goal of Yuchai Group is 35–55 billion RMB, and the sales goal for 2015 is 80 billion RMB; the goal of human resource development is team-working, three-dimension, professionalization and internationalization; R&D innovation goal is building independent innovation ability, and establishing world-class engineering and research institute; cultural enhancement goal is inclusiveness, openness and advance; the brand building goal is to build a world famous brand.

- Business Guidelines
- Business Goals
- Work Priorities

Business Guidelines

The operation guideline for Yuchai in 2009 is “strengthening internal work and external building, storing up energy to start out”. Its connotation is: working hard to enhance its internal strength, building external market, fostering growth points and integrating synergy to develop. Unite and initiate all employees to work together to ensure growth, make contribution, facilitate development, and work tirelessly to “building world famous brand and becoming a transnational enterprise”.

i. Internal work—working hard to enhance strength

- **Practice strategy—exerting overall efficiency:** adjusting the 11th Five-year Development plan and segmenting the 12th Five-year Development plan of the Group; establishing strategy management system to guarantee the implementation of the strategies.
- **Regularized control—supporting the development of the Group:** establishing highly-efficient, pragmatic and regularized ranking management and control system so as to optimize the overall value of the Group, and make it stronger and bigger.
- **Structural adjustment—strengthening the competitive advantages:**
 - (1) Keeping deepening internal industry restructuring to gradually withdraw from small subsidiaries which are not so relevant to core businesses, and center on main businesses to strengthen the core businesses.
 - (2) Synergizing automobile parts industry to enhance the core competitiveness of the parts enterprises of the Group; seizing the important development opportunity of building new countryside to enter into agricultural machinery industry.
 - (3) Optimizing product structures, upgrading the performance and quality of existing products, strengthening product planning and R&D, and creating more new products competitive advantages.
- **Quality control enhancement—enhancing brand value:** Carrying out education on quality sense and enhancing the sense of manufacturing quality; advancing quality control and increasing the stability of product quality; strengthening manufacturing technology to ensure the adaptability of the technics; innovating quality evaluation methods and fulfilling quality responsibility.
- **HR training—reserving development stamina:** Making human resource inventory, delivering HR plans, optimizing HR structure, and preparing HR reserve.
- **Risk control—ensuring continuous operation:**
 - (1) establishing Group fund-monitoring system to control the fund flows of the subsidiaries;
 - (2) strictly controlling stocks and receivable account to reduce the risk of capital depreciation and lower the proportion of bad debts;
 - (3) playing the monitoring role of finance principals and internal auditing, and establishing healthy operation mechanism of dual-monitoring.
- **Lowering the cost—increasing operation benefits:**
 - (1) deepening overall budget management;
 - (2) applying technologies to lower the cost;
 - (3) innovating financing ways to lower the finance expenditure;
 - (4) strictly controlling management and operation expenses.
- **Strengthening responsibility—enhancing execution ability:** Studying responsibility mechanism of the Group to make good construction plans for responsibility mechanism; promoting the construction of responsibility mechanism by stages and steps with strengthening functions and optimizing processes as important contents.
- **Enrooting culture—promoting harmonious development:** Strengthen corporate culture disclosure, enroot corporate culture philosophy, build team culture constantly, build creative labor group and excellent management team so as to facilitate the realization of strategic goal by “culture strength”.

ii. External building—building market, developing growth points

- **Developing external product markets:**
 - (1) the modules of diesel engine and heavy industry enter into new fields;
 - (2) products of parts expand towards the outside of the Group.
- **Exploring external financing channels:** Carry out profound multi-variety cooperation with financial institutes through multi-channels so as to fulfill the financing needs of the Group operation and expansion.
- **Prudent outward investment:** Selectively seek investment opportunities, positively explore new projects, strengthen the Group industry chain, and foster new economic growth points of the Group.

iii. Storing up energy—integrating synergy to start out

- **Cohesion:** Have crisis education on situation and responsibility, strengthen employees’ sense of responsibility, and enhance cohesion; strengthen employees’ spirit of ownership and implement projects for people’s livelihood; strengthen party construction work to exert the core role of politics; Promote harmonious Yuchai construction and the stability of the enterprise.
- **Core competitiveness:** Innovate incentive mechanism; research and develop advanced products; nurture core human resources; implement technological marketing, optimize and expand the service network.
- **Execution ability:**
 - (1) establish and regularize the management and control system of the Group;
 - (2) optimize systems and reengineer processes;
 - (3) have internal supervision to guarantee the execution.

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The business goal of Yuchai for 2009 is ensuring a sale of 21.5 billion RMB, and trying to achieve 23 billion RMB.

Work Priorities

The work priorities of Yuchai for 2009 are positively coping with the international financial crisis, establishing strategy management system of the Group, deepening internal restructuring, expanding external financing channels, initiatively seizing market opportunities, accelerating technologic transformation, innovating incentive mechanism, researching and developing advanced products, fostering innovation culture, introducing and nurturing innovation talents, improving the ability of independent innovation, and enhancing market competitiveness. Therefore, Yuchai main working tasks in 2009 are:

i. External

1. Further expand strategic partnerships with major machinery factories so as to overcome difficulties together and achieve win-win situation in the market.
2. Establish the relationship of "honesty, trust, fairness and justice" with the suppliers to commonly fight against the market crisis.
3. Oriented from clients' satisfaction, strengthen the brand relationship between clients and the company.
4. Expand to the world based on local development, pursue a path of internationalization.
5. Make good preparation on capital operation so as to seek opportunities of listing and financing.

ii. Internal

1. Strengthen the leadership building, enhance the quality of the cadres team.
2. Push forward professional talents training so as to build creative labor group.
3. Strengthen internal work and continuously enhance the overall management of the Corporate.
4. Reinforce product development restructuring and new technology reserve, and release advantageous products which are "advanced and applicable".
5. Uphold energy-saving and emission-reduction, and scientific and technological progress, continue cost-lowering projects.
6. Improve risk-control ability and crisis-handling ability.
7. Strength safety management, maintain corporate stability and create harmonious development environment.
8. Innovate working mechanisms and systems.

