



Green development and all win in harmony

2007 Sustainable development report



Guangxi Yuchai Machinery Group Co., Ltd.
Address: No.1, Yuchai Street, Yulin City, Guangxi
Post code: 537005

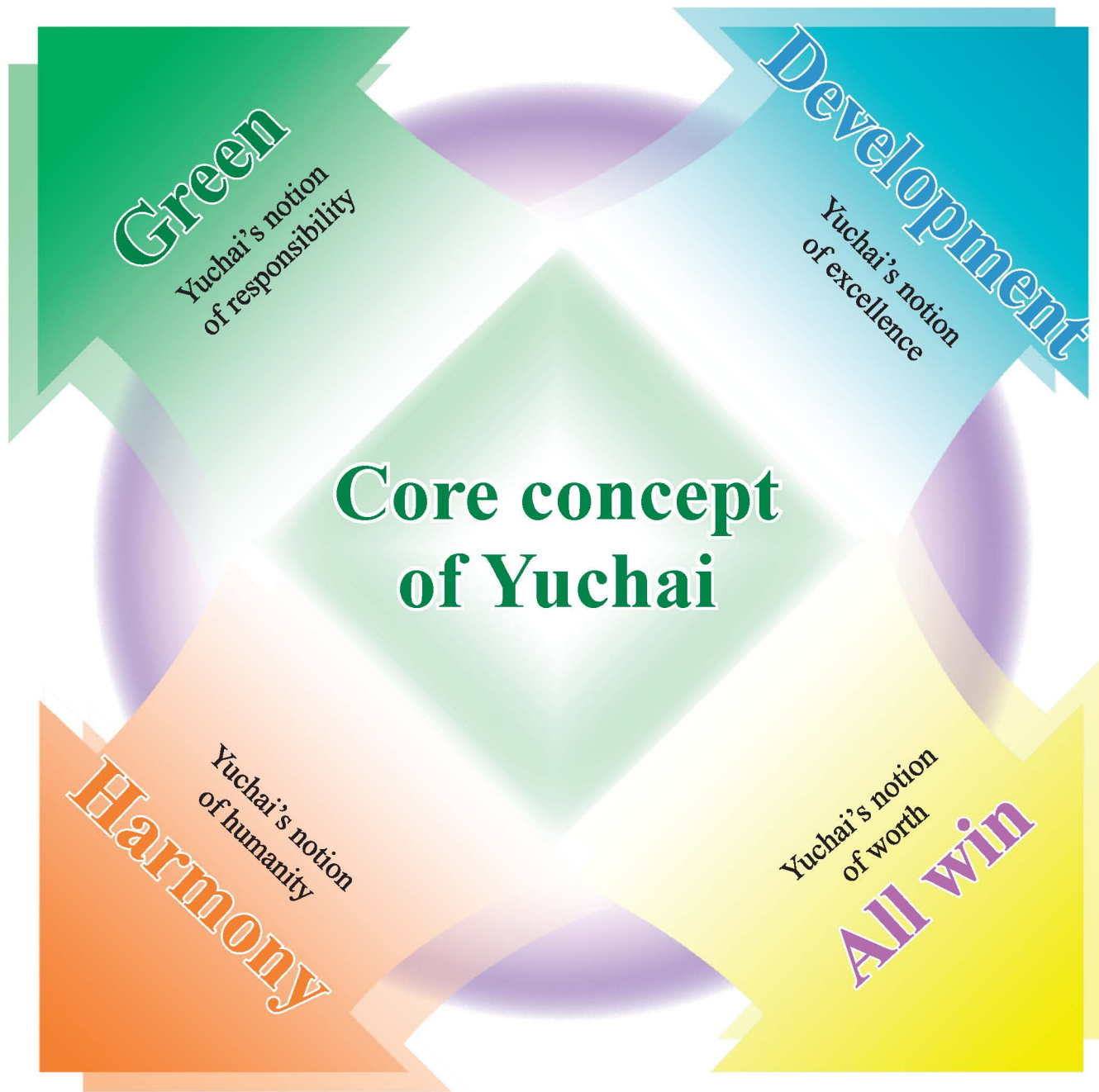
Guangxi Yuchai Machinery Group Co., Ltd
Yulin • China



Green development and all win in harmony

Yuchai's Logo is a rectangular with three parts representing "Yuchai Machine", "Yuchai" and "YC". It symbolizes the long history and sustainable development of Yuchai. The background of the LOGO consists of 3 colors. The ground blue color represents "Yuchai Machine". It is the standard color of Yuchai and means sky, broad open mind, and endless pursuit of excellence. The star-like pattern means that Yuchai is the brightest star in the industry.

The letter "Y" likes stretch-up arms standing for the vitality of "green power". The dynamic letter "C" represents the power of the products and looks like the track of earth in the universe that expresses the wish of Yuchai to "build a world famous brand and a large-scale multinational group". The letter "C" circles around "Y" perfectly presents the core idea of "green development and all win in harmony".



Core concept of Yuchai

Green

It means to take the path of green industrial development and to provide green power and green machine with high ratio of performance. It represents the healthy and environmental protection image of Yuchai. It is the guaranty of sustainable development of the enterprise.

Development

It includes the following aspects: to strengthen the core business; to increase the potential business; to expand related industrial chain; to build Yuchai into a world famous brand, and to become a large international enterprise.

Harmony

It is to construct basic elements of harmony; to raise the culture of loyalty, humanity, cooperation and healthiness of Yuchai. It brings the enterprise and employees to an optimal harmonious environment.

All win

It is the business philosophy and strategy for the survival and development of Yuchai. The idea of "all-win" directs the overall development of Yuchai. It is to share the achievements with related beneficiaries and the society to realize long-term success.



▲ Guangxi Yuchai Machinery Group Co., Ltd Yulin •China

Contents



	Speech note of Chairman of the Board	1
1	Group introduction – large-scale enterprise group with diversified products	
	Development history of Yuchai Group	5
	Management system	10
	Business achievements	16
2	Responsibility of economy – to be the leader of green power development	
	Technological innovation	25
	Expand to the international market	32
	Business performance	33
3	Responsibility of environment – to be the controller of the largest mobile pollution	
	Green production	35
	Recycling economy	38
	Environment management	40
4	Responsibility of Safety – safeguard the health of people and protect the harmony of the society	
	Safety concept	45
	Management system	46
	Regulations and methods	47
	Targets and achievements	51
5	Social responsibility –Build a harmonious and healthy society with the concept of humanity	
	Be responsible for the shareholders	53
	Guarantee clients’ rights and interests	54
	Safeguard employees’ legal rights and interests	58
	Take active role in the development of society and community	70
6	Future outlook	
	Medium- and long-term goals	75
	Target of 2008	76



○ Chairman Yanping

Speech note of Chairman of the Board

As a well-known large manufacture, Yuchai Group voluntarily takes the social responsibility and aims to be a excellent entrepreneurial citizen. During the development, we must insist the core concept of “green development and all win in harmony”; maintain sustainable and high-speed development of product quantity and profit; and contribute to the healthy and stable development of our country. We must stick to independent innovation and make contribution to the development of the industry with experience and advanced technology. We must protect environment while carrying out business activities. We must establish friendly relationship with investors, clients,

employees, suppliers, business partners, local community and government, media, and all other related parties. Yuchai is heading for the goal of national industrial brand and is widely praised and supported by the society.

Yuchai has set the core development strategy of resource conservation and environment protection. Yuchai especially takes care of the production process and the emission level of the product and provides green products with green manufactory process for the green development. During the whole production process, Yuchai makes great effort to lower the resource consumption; save energy; treat the waste gas and water; and implement recycling project. All products meet national emission standard and environment-protection requirements.

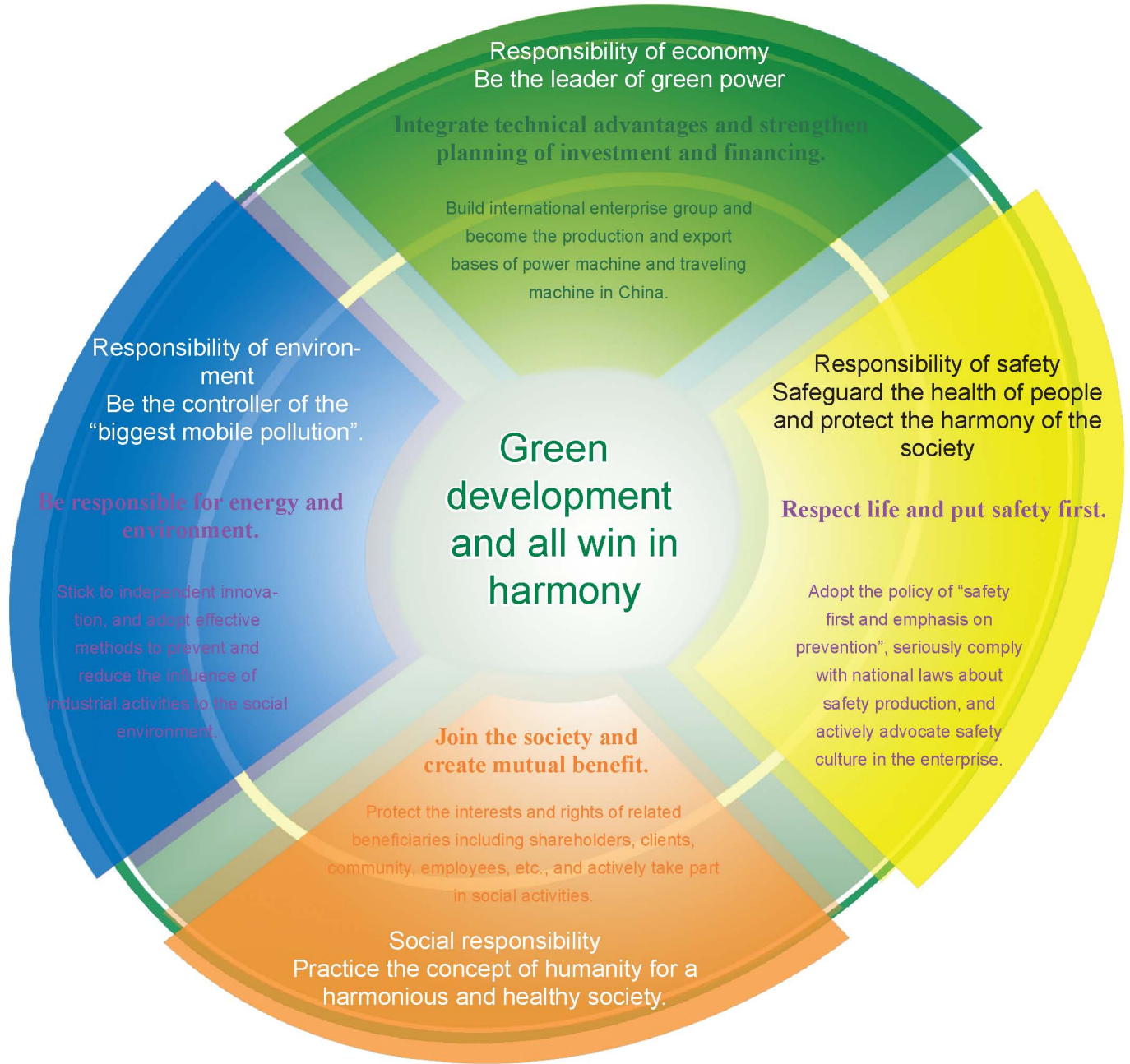
This is the first social responsibility report of Yuchai Group. It reviewed the development history of Yuchai Group and comprehensively introduced Yuchai's responsibilities and contributions to the society. The report is compiled according to the rule of "Global Compact" and other principles of reports on social responsibility. We hope this report will reveal the following: the effort that Yuchai incorporated the social responsibility concept into business activities; the effect that Yuchai's business activities on social economy, environment and related beneficiaries; the effort that Yuchai Group has made to reward investors, employees, the nature, and the society; and the work Yuchai has done for the sustainable development of national industry.

In the future, Yuchai Group will incorporate the indications of social responsibility into daily business management and continue to improve the capability of implementing social responsibility. Yuchai will publish social responsibility report periodically to have better communication with benefit-related parties and accept supervisions from the country, the society and the public. Yuchai aims to become an excellent entrepreneurial citizen and bring benefit to the society. Many thanks for your advices and support!

Chairman of the Board of Yuchai Machinery Group Co., Ltd.



Diagram of the report



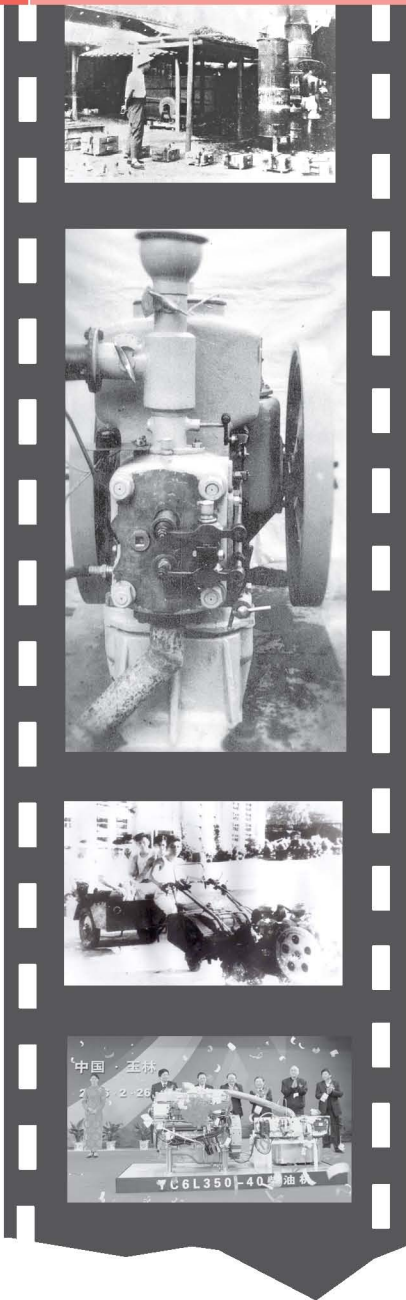


1 Large-scale enterprise group with diversified products

Group introduction Development history of Yuchai Group
Management system
Business achievements

1

Development history of Yuchai Group



Yuchai Group was developed from Yulin Diesel Engine Factory which was established in 1951 and originally named Yulin Quantang Industrial Company. Now Yuchai Group is headquartered in Yulin city of Guangxi Zhuang Autonomous Region.

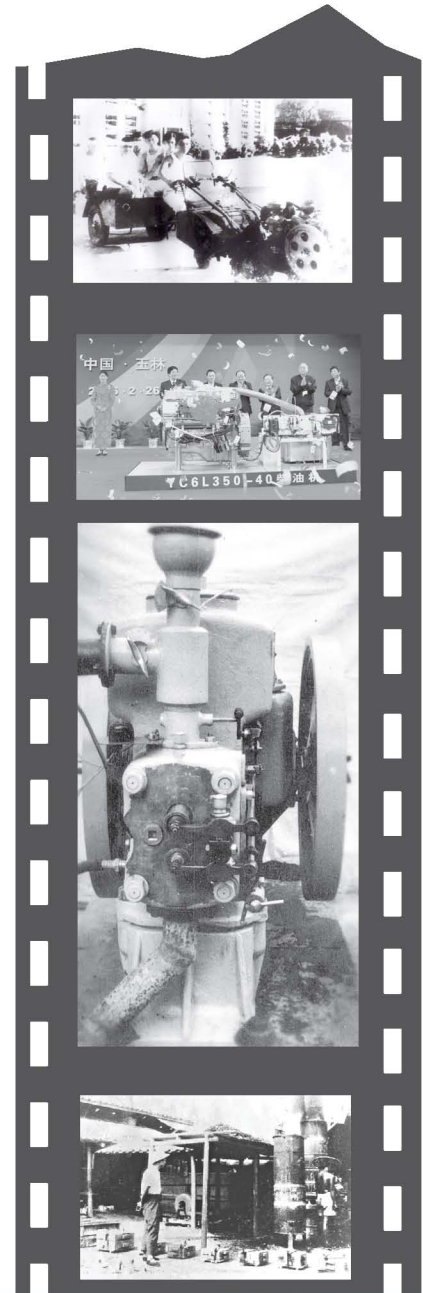
Yuchai Group is a large-scale modernized enterprise with parent-subsidary management mode. It fully and effectively makes use of the capital and resources to develop the strategy, culture and brand; and has formed a diversified ownership system. Now Yuchai has 33 subsidiary companies revolving around the core of Yuchai Machinery Co., Ltd, in forms of joint stock, stock holding and exclusive investment; and has over 18,000

Development history of Yuchai Group



employees. The core business includes six fields: diesel engine, construction machinery, automobile parts, automobile chemical industry, logistic machine, and special purpose vehicle. In 2007, the Group achieved 18.35 billion Yuan sales income.

After more than 50 years, Yuchai has turned the business mode from a single factory into an enterprise group with the combination of investment and management. By various means of financing and assets reorganization, Yuchai has changed from exclusive state ownership into diverse forms of ownership and become an enterprise group in multi-areas, across multi-industries, and with multi-series of products.



1

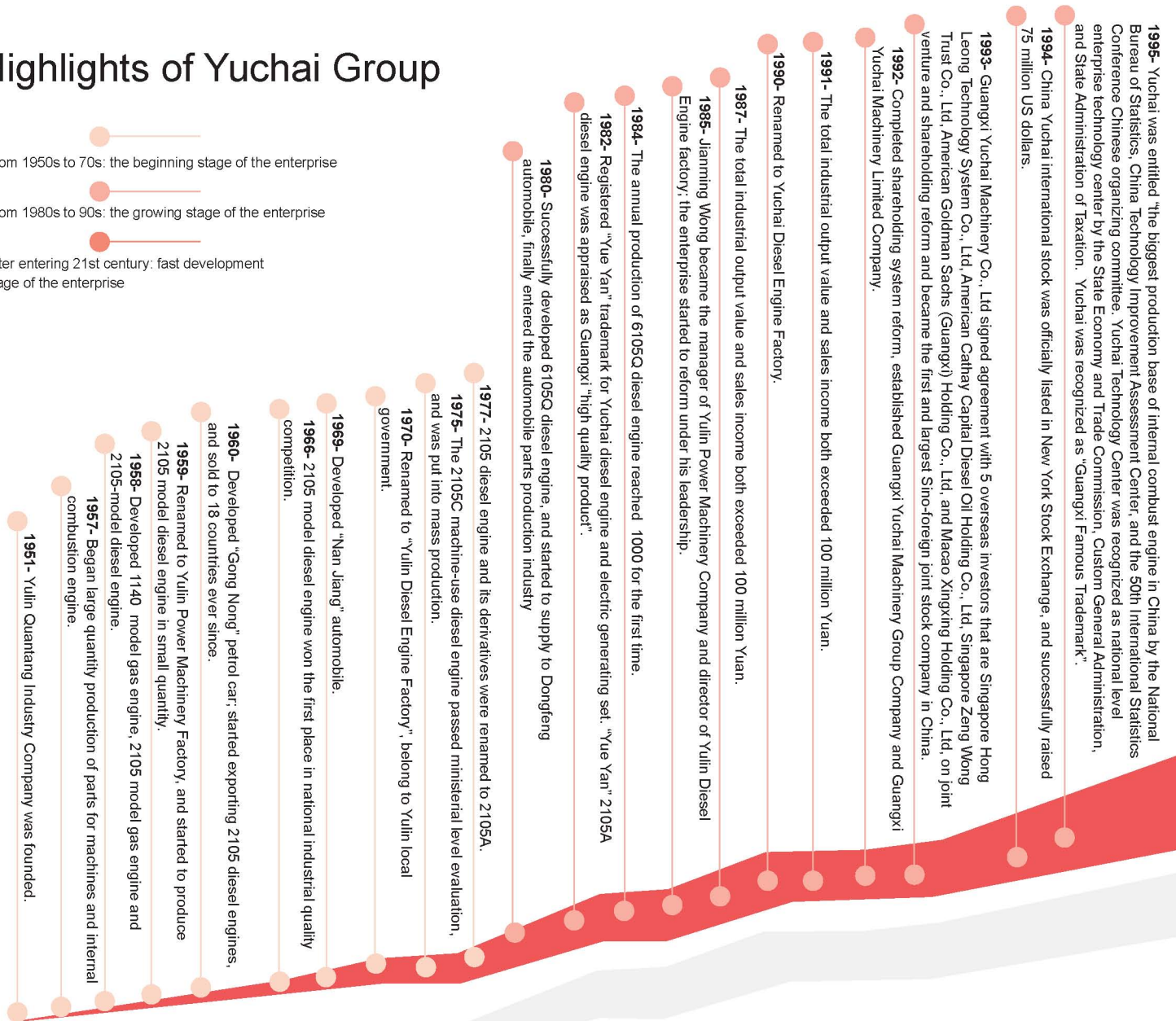
Development history of Yuchai Group

Highlights of Yuchai Group

From 1950s to 70s: the beginning stage of the enterprise

From 1980s to 90s: the growing stage of the enterprise

After entering 21st century: fast development stage of the enterprise



Development history of Yuchai Group



1

Development history of Yuchai Group

Yuchai's honors

Since 2000, Yuchai has won more than 100 national level awards and over 80 regional level awards.

Main rewards: Chinese Best 10 Creditable Enterprises, National User Satisfied Enterprise, National User Satisfied Products, China Creditability Tripod, National Quality Management Award, Chinese Famous Product, Chinese Famous Trademark, No.1 of Chinese Brand Yearly Award, Export Inspection Free Certificate, and National Inspection Free Quality



Industrial status

- The biggest production base of internal combustion engine in China
- The number one brand of power industry in China
- The production and sales of diesel engine ranks number one among independent factories in the world.
- The biggest production and export base of small construction machinery in China.
- Ranks 269th of top 500 Chinese enterprises.
- Ranks 117th of top 500 most valuable Chinese brands.
- Ranks 24th of top 500 Chinese machinery enterprises.

Management system



▲ Leaders of Yuchai Group in a meeting

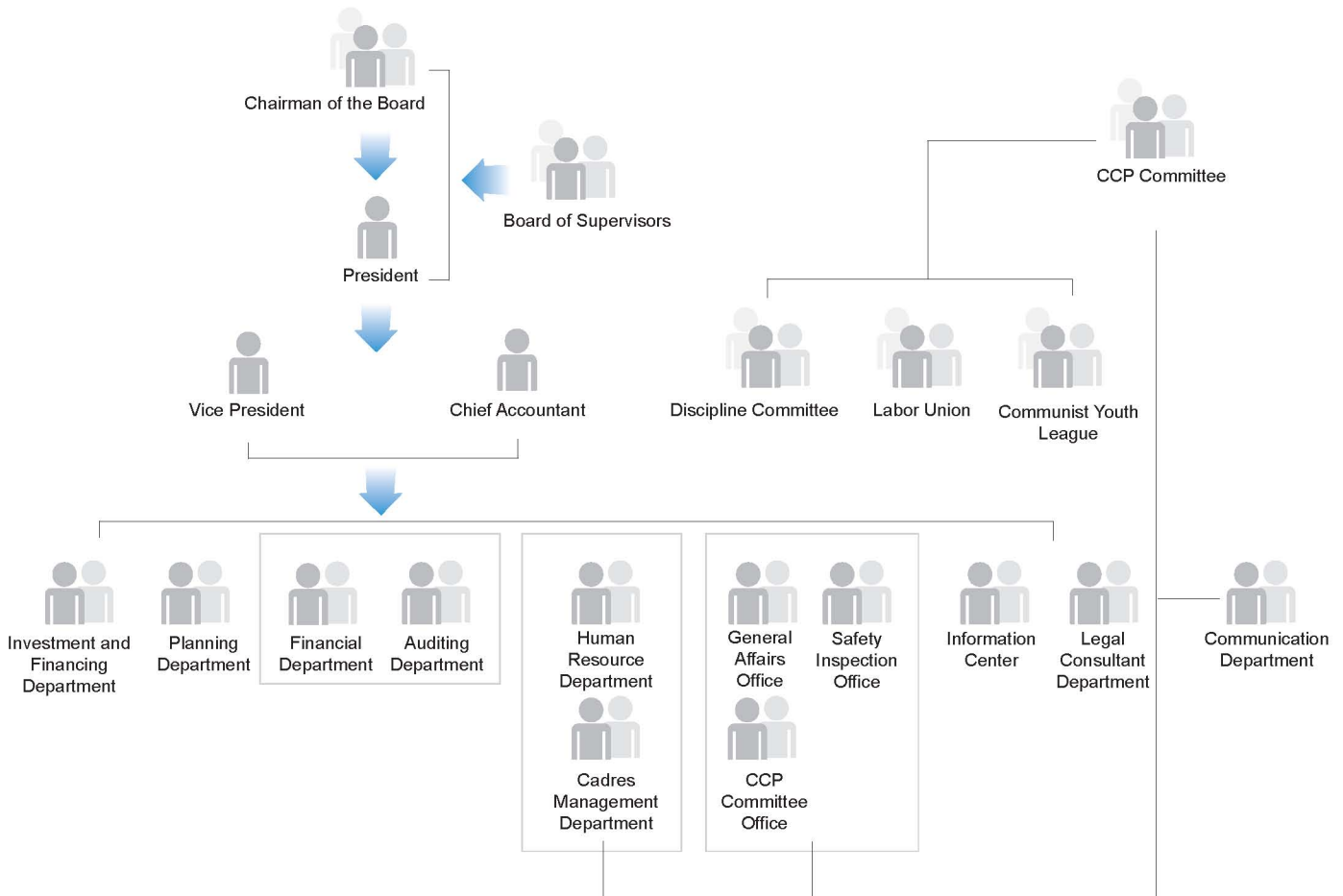
Guangxi Yuchai Machinery Group Co., Ltd is a state-owned investment and financing management company approved by government of Guangxi Zhuang Autonomous Region in China. It has no shareholders' board and has a directors' bureau and a supervisors' board. The directors' bureau is the highest and decisive institu-

tion of the company. It exercises shareholders' rights in subsidiary companies and sends property representatives or directors to participate in decision-making in the subsidiary companies. There is a chief leaders' team under the directors' bureau, which is in charge of routine works of the company.

1

Management system

Framework of the management system of the Group



Management system

1



Group Main Subsidiary Companies List

Industry	Company name
Diesel engine	Guangxi Yuchai Machinery Co., Ltd.
	Guangxi Yuchai Power Machinery Co., Ltd.
	-Guangxi Yizhou Yuchai Agricultural Equipment Co., Ltd.
	Hubei Yuchai Duoling Engine Co., Ltd.
Construction machinery	Guangxi Yulin Yuchai Engineering Machinery Co., Ltd.
	Guilin Yuchai Construction Machinery Co., Ltd.
Special purpose vehicles	Guangxi Yuchai Special Purpose Automobile Co., Ltd.
Lubricant and industrial chemical	-Guangxi Yuchai High-grade Lubricant Co., Ltd. (the subsidiary of Guangxi Yulin Yuchai Engineering Machinery Co., Ltd.)
	-Guangxi Beihai Yuchai High-grade Lubricant Co., Ltd. (the subsidiary of Guangxi Yulin Yuchai Engineering Machinery Co., Ltd.)
	Guangxi Yuchai Power and Chemical Engineering Co., Ltd.
	Guangxi Yulin Yuchai Industrial Chemicals Co., Ltd.
Automobile parts	Guangxi Yuchai Machinery Exclusive-sales & Development Co., Ltd.
	Guangxi Yulin Yuchai Parts Manufacture Co., Ltd.
	Guangxi Yulin Yuchai Daye Machinery Parts Co., Ltd.
	Yuchai Huayuan Machinery (Yulin) Co., Ltd.
	Guangxi Jinchuang Automobile Parts Manufacture Co., Ltd.
	Hainan Yuchai Machinery Co., Ltd.
	Guangxi Yuchai Bright Electric Appliances Co., Ltd.
	Yulin Chengxin Machinery Co., Ltd.
	Guangxi Yuchai Anda Transmission Co., Ltd.
	Guangxi Yulin Yuchai Isaiah Automobile Air Compressor Co., Ltd.
	Guangxi Yulin Yuchai Ruifeng Standard Parts Co., Ltd.
	Guangxi Yulin Yuchai General Machine Co., Ltd.
	Guangxi Yulin Yuchai Yinglong Plastic Technology Co., Ltd.
Logistics machine	Guangxi Yuchai Logistics Group Co., Ltd.
	Yuchai Sales Co., Ltd.
	Guangxi Yulin Yuchai Electro-mechanic Co., Ltd.

Management system



Yuchai's core enterprise- Guangxi Yuchai Machinery Co., Ltd.

Guangxi Yuchai Machinery Co., Ltd. is a Sino-foreign joint-venture company and listed in New York Stock Exchange in December 1994. It now has more than 8000 employees and a total asset of 7.6 billion Yuan. The annual production capacity is 500,000 engines. In 2007, the sales and production of diesel engine reached 380,000. It was increased 100,000 compared to 2006 and was 7 times as much as the quantity of 58,000 in 2000. The production and sales has kept a continuous high-speed growth for 7 years. The average annual growth is 37% and is much higher than the average level in the industry and has kept the leading place in China. The total sales income of engine business reached 10.6 billion Yuan (include tax). It was increased 35% over same period of last year and exceeded 10 billion for the first time. The company exported 29,000 diesel engine in 2007. The main products include 13 series of light, medium, heavy multi-cylinder diesel engines used for vehicle, marine, construction machinery, agricultural machinery, electric generator, and so on. The power ranges from 12 to 330 kilowatts. All series of products meet National-3 emission standard. It firstly developed

National-4 and National-5 products in China. With many advantaged characters such as big power, big torque, high reliability, low oil consumption, low emission, low noise, strong adaptability, and convenient service, Yuchai engine has become the first choice for major automobile, construction machinery, and agricultural machinery enterprises in China. It takes the biggest market share in fields of medium business car, 30 loader, city bus, and coach. Especially in city bus and coach fields, Yuchai engine takes over 60% market share.

The company upholds the mission of “providing excellent and advanced power products to meet public demand” and sticks to the strategy of “producing one generation, developing one generation, and planning one generation at the same time”. It insists on the principle of “quality first and good credit in business” and wins social reputation and public creditability with good products and service. It's the first company in Guangxi as well as the first company in domestic engine industry in China that won “National Quality Management Award”, “Export Inspection Free Certificate” and “Chinese Famous Products”.



Management system

Yuchai's core enterprise- Guangxi Yulin Yuchai Engineering Machinery Co., Ltd.

Guangxi Yulin Yuchai Construction Machinery Co., Ltd. is a Sino-foreign joint-venture enterprise held by Yuchai Machinery Group Co., Ltd. It's a special manufacture engaged in production and sales of construction machines. It's the earliest domestic manufacture that enters the small excavator field and has become the main export base of small excavators in China. In 2007, the company achieved sales of 1.169 billion Yuan, up 30.43% over the same period of previous year, and achieved high-speed development.

The company has 410 million Yuan registered capital, 400,000 square meters floor area, 1100 employees, and modernized steel frame factories. Now its production capacity reaches 10000 construction machines per year.

The main products include 18 series of hydraulic crawler excavators such as YC08, YC13 and YC255LC and 5 series of tailless hydraulic crawler excavators such as YC18SR and YC25SR. There are more than 80 models of multifunctional full hydraulic excavators in total. The products have delicate structure and reliable quality. All technical indexes reach international advanced level. They are suitable for constructions of traffic, municipal, gardens, landscape, agriculture, water conservation, etc.

There are more than 200 scientific researchers in the company, including 12 with masters and doctors degrees. It adopts various information technologies such as CAD, CAE, CAPP, PDM, and ERP to communicate with experts in advanced countries. Its strong research capability provides motivation for continuous innovation and guarantees sustainable development of the company.

In July 2006, the construction machinery company completed the latest capital increase by expanding shares. All newly issued shares were acquired by American Han ding YC



Investment Holdings Ltd. It built a solid foundation for the strategic development of the next 5 years.

The company has made a medium and long term development plan, which is to raise the excavator industry and extend to other related industries when time is coming. It plans to achieved annual sales income of 5 billion Yuan by the year of 2010 and achieve 10 billion of 2015. It aims to become a world famous brand in the construction machinery industry.

Management system

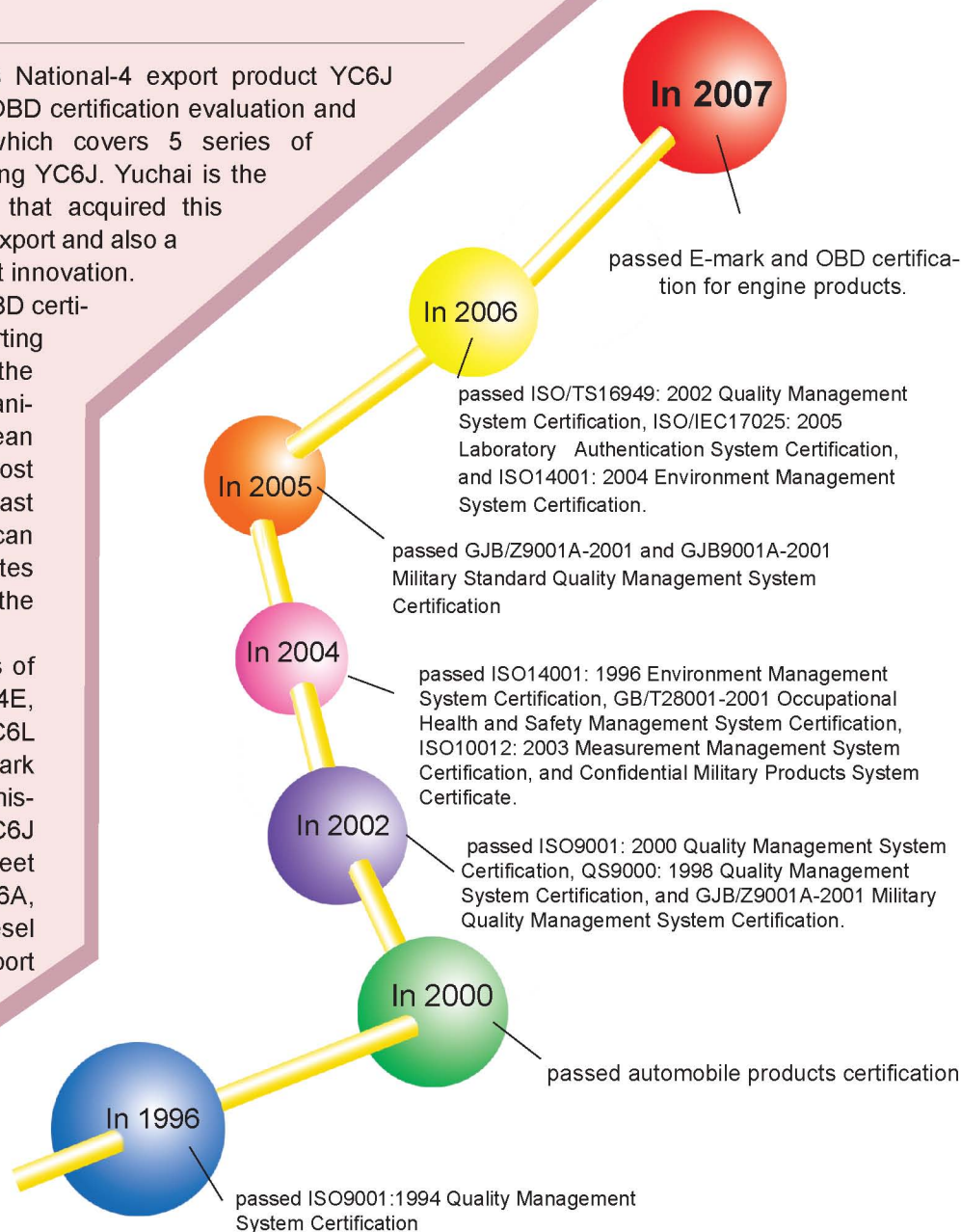
Certificates

Yuchai's National-4 products firstly passed TÜV OBD certification evaluation.

On February 1st, 2008, Yuchai's National-4 export product YC6J engine passed the German TÜV OBD certification evaluation and acquired the OBD certificate which covers 5 series of National-4 Yuchai engines including YC6J. Yuchai is the first domestic engine enterprise that acquired this certificate. It's a breakthrough for export and also a major achievement of independent innovation.

The products that have passed OBD certification meet the European importing requirement. E-mark certificate is the passport of Chinese electromechanical products to enter European market. It's also applicable in most countries in South-East Asia, East Europe, and the Middle East. It can substitute many other certificates such as Russian certificate and the Gulf certificate.

Up to date 26 models in 6 series of Yuchai products such as YC4E, YC4F, YC4G, YC6J, YC6M and YC6L have acquired the German E-mark certificate for meeting Europe-3 emission standard. Among them the YC6J and YC6L series are certified to meet Europe-4 emission standard. YC6A, YC6J and YC6G series of diesel engines have gained the "Export Inspection Free Certificate".



Business achievements

Business achievements

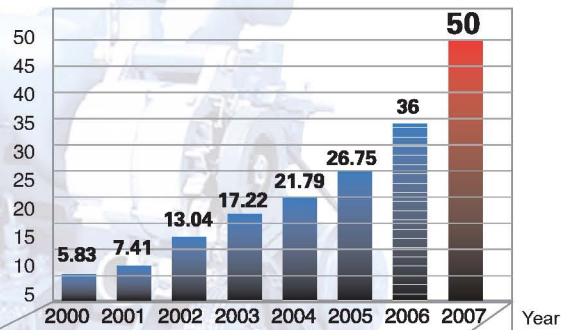
Diesel engine

The major manufactures are Yuchai Machinery Co., Ltd., Yuchai Power Machinery Co., Ltd., and Hubei Yuchai Duoling Engine Co., Ltd. Yuchai Machinery Co., Ltd is the first Sino-foreign joint venture corporation in China. Currently it has the largest scale of production and sales of diesel engine in the world and is the biggest production base of internal combustion engine in China. Yuchai mainly produce diesel engines for vehicles with 1 to 6 cylinders, marines, construc-

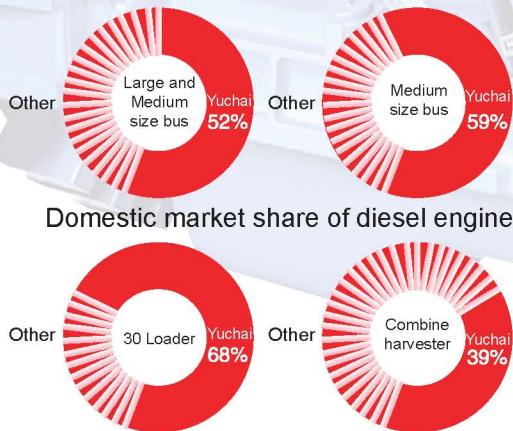
tion machines, agricultural machines and generators. They include 5 categories, 13 series, and over 1300 models. The power ranges from 12 to 330KW. All products meet National-2 standard and some of them meet National-3 and National-4 standard. The annual production and sales of diesel engine reaches 500,000 in 2007, up 42% over the same period of the previous year. Yuchai has kept the first place in the industry for consecutively 7 years.



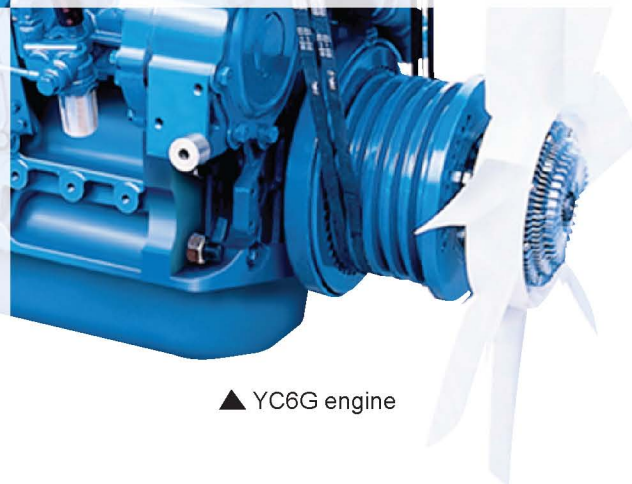
Unit: ten thousand pieces Market volume: 2 million pieces



2000-2007 Yuchai Diesel Engine Sales Chart



Domestic market share of diesel engine



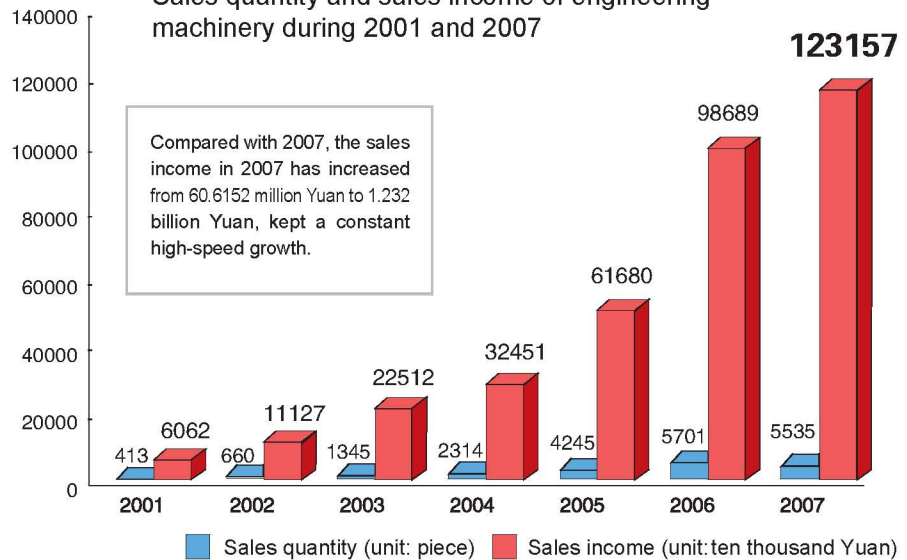
▲ YC6G engine

Business achievements

Construction machinery

The main manufactures are Yuchai Engineering Machinery Co., Ltd and Guilin Yuchai Construction Machinery Co. Ltd. They are the biggest production and export bases of small construction machinery in China. The main products include more than 60 models in 16 series of multifunctional full-hydraulic excavators, loaders, tractors, reaping machines, forklifts, etc. and are exported to more than 30 countries and regions across Asia, Europe, America, Africa, and Oceania.

Sales quantity and sales income of engineering machinery during 2001 and 2007



Assembly workshop of construction machinery company

Business achievements

Automobile parts

The automobile parts business involves 13 enterprises such as Guangxi Yuchai Machinery Exclusive Sales and Development Co., Ltd, Guangxi Yulin Yuchai Accessory Parts Manufacturing Co., Ltd, Guangxi Yulin Daye Machinery Accessory Parts Co., Ltd, Yuchai Huanyuan Machinery (Yulin) Co., Ltd, Guangxi Jinchuang Automobile Parts Manufacturing Co., Ltd, Hainan Yuchai Machinery Co., Ltd,

etc. The products include more than 100 types of automobile and engine parts such as transmissions, filters, coolers, inter-coolers, power steering pumps, crankshafts, flywheel cover, clutch housing, oil pans, electric motors, etc. The technique reaches the world advanced level. It is a very important section for the development of Yuchai and is a solid foundation for the construction of Yuchai's group.



▲ Filter Production Workshop

Business achievements

Automobile chemicals

The automobile chemical field is composed of 4 companies. They are Beihai Yuchai Hi-Grade Lubricant Co., Ltd, Yulin Yuchai Industrial Chemical Co., Ltd, etc. They mainly produce hi-grade lubricants, engine lubricants, diesel engine oil, automobile lubricating oils, dual-fuel engine oil, gear oil, anti-friction hydraulic oil, automobil maintenance supplies and foundry chemical materials. Yuchai

high-grade lubricants adopt high technology from world famous company and use high-grade imported and domestic raw materials. Their quality meets the standard of American Petrol Institute (API) and is also satisfied for many international famous engine and automobile manufactures. Yuchai Lubricants has become the most prospective brand in the industry.



▲ Production Base Of Yuchai lubricants

Business achievements

Logistic machines

The logistic machinery filed is a new growth spot for Yuchai Group. Now Yuchai has more than 500 logistic terminal stations that provide services of automobile sales, goods delivery, lease guarantee, automobile and engine maintenance, etc. Yuchai

has gained the national first-grade transportation license and has kept the top 3 in the national transportation industry for consecutively 3 year. Yuchai Logistics sets up its brand in the intensely competitive market. Yuchai will integrate the advantaged resources of the Group to build a first-class modern logistic base, a brand automobile trading center, as well as a leading information service platform. With the development of North Bay Economic Zone, Yuchai Logistic Group will continue to expand stably and will aim at the international market especially the South-east Asia market.



▲ Logistic delivery

Business achievements

Special purpose vehicles

The main products include sanitation series (such as garbage compression truck, swinging arm garbage truck, fecal suction truck, sprinkler truck, garbage compression and transfer stations) and dump truck series. The garbage compression and transfer equipments are rewarded the “national important new products”

and are recommended to users by Chinese Environment and Sanitation Association. In 2007, Yuchai got the bid of over 130 garbage transfer equipments in Beijing environment and sanitation market which take majority of the market share. Now, the products have been sold to South-East Asia in large quantity.



▲ Beijing-III garbage transfer station



▲ handing over large quantity of vehicles in the ceremony

Business achievements

Yuchai green power enter Beijing bus market in large quantity

On December 19th, 2007, Yuchai beat all foreign brands and won the entire bid of the third Beijing Bus Group's order of 866 National-4 engines.

Previously, Yuchai got an order of 450 National-4 engines in the first bidding of Beijing Bus on March 25th, 2007 and in the second bidding on September 24th, Yuchai got an order of 600 National-4 engines, 1/3 of the entire order, and was the only domestic engine enterprise that won the bid.

The ordered National-4 engines will mainly be equipped in buses that serve Beijing Olympic Games. Through 3 biddings, Yuchai has supplied nearly 2000 National-4 engines for Beijing Bus Group. Beijing Bus used to equip only imported engines. In a short period of 2 years, it has turned to use domestic engines in large quantity. Yuchai has made great contribution for the development of national engine industry.

By winning the bidding, Yuchai not only achieved the strategy of "serving Beijing bus and assisting green Olympic Games with Yuchai engines", but also achieved a victory in the competition between national brand and foreign brands. It made a great success in breaking the domination of imported machines in Chinese market. Yuchai green power also wins creditability in other big cities such as Shanghai and Hangzhou. A substantial change has been made in Chinese engine market that the domestic-made low-emission engines nearly replaced the imported ones.



▼ Beijing buses equipped with Yuchai National-4 engines

Business achievements

Financial status

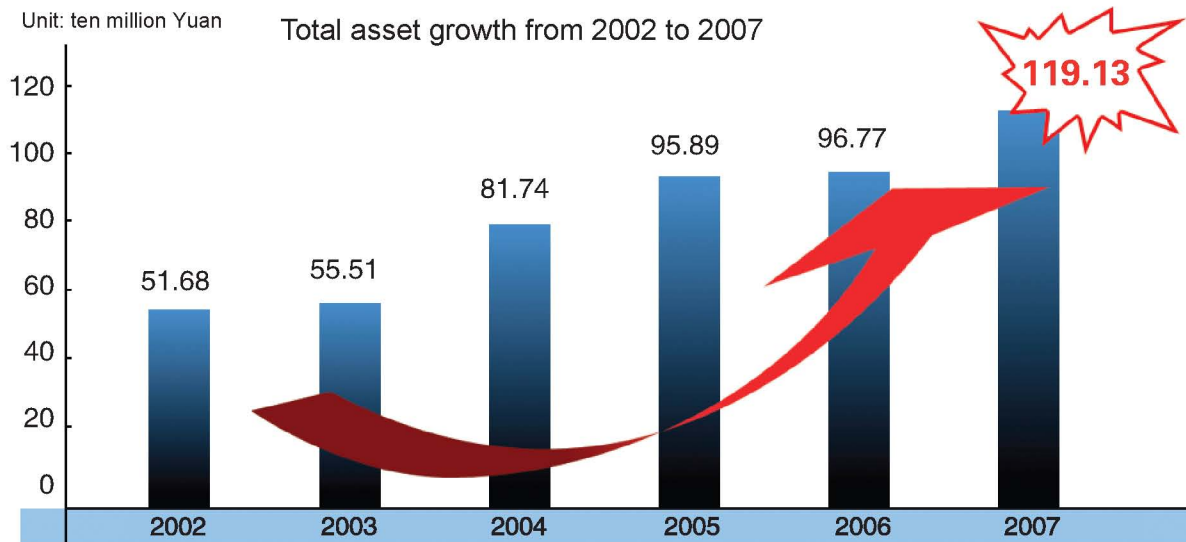
The Group Company owns, controls, or holds over 40% shares of subsidiary companies and designates financial directors to the subsidiary companies. The financial director takes charge of account checking and financial management; supervises the financial operation, business activities, and capital conditions; participates in financial decision-making; makes complete analysis on budget implementation and proposes methods for improvement. The financial director designation system is good for strengthening

financial management of the Group. It helps to maintain and increase the value of national asset and ensures the reality and integrity of financial information.

In 2007, the company's total asset reached 11.91 billion Yuan. The sales income of main business reached 14.88 billion Yuan and the total tax was 1.53 billion Yuan. The asset composition is stable. The ratio of debt is fairly small and the profitability remains strong.

Unit: ten thousand Yuan

Year:	02年	03年	04年	05年	06年	07年
Index: Sales income (including tax)	542,465.33	695,454.74	1,070,471.41	1,213,750.61	1,417,355.29	1,835,906.34
Sales income of main business (excluding tax)	453,166.09	577,382.66	897,327.54	989,826.91	1,130,733.88	1,488,378.18
Total profit and tax	73,809.33	99,268.96	106,862.96	70,668.94	91,301.67	153,197.71
Total asset	516,782.75	555,067.70	817,399.96	958,865.10	967,717.77	1,191,326.82
Total liabilities	273,270.01	291,961.91	487,343.70	605,982.17	593,835.85	713,047.44
Assets-liabilities ratio	52.88%	52.60%	59.62%	63.20%	61.36%	59.85%





2 **To be the leader of green power development**

Responsibility of economy

- Technological innovation
- Expand to the international market
- Business performance



Technological innovation

Yuchai Group has an experienced research team, world-advanced research equipments, and long-term cooperation and friendly communication with domestic and international famous engine institutes. The technical center is authorized “national level enterprise technical center” and the laboratory is the first “National Authenticated Laboratory” in

the industry. With strong design capability, advanced testing equipments, short development period, and fast marketing speed, the center strongly guarantees the research and development of products. Yuchai has built a platform to develop broad range of products and keep leading market share in China.

The only national authenticated laboratory in the industry



- The most complete and advanced laboratory in Chinese engine industry
- There are 31 testing benches, on which may carry tests for more than 3 new products at the same time.
- Six benches have emission detecting function, and can test National-5 emission level.
- There are 15 self-designed electric control tables for testing National-3 and National-4 engines.





Technological innovation

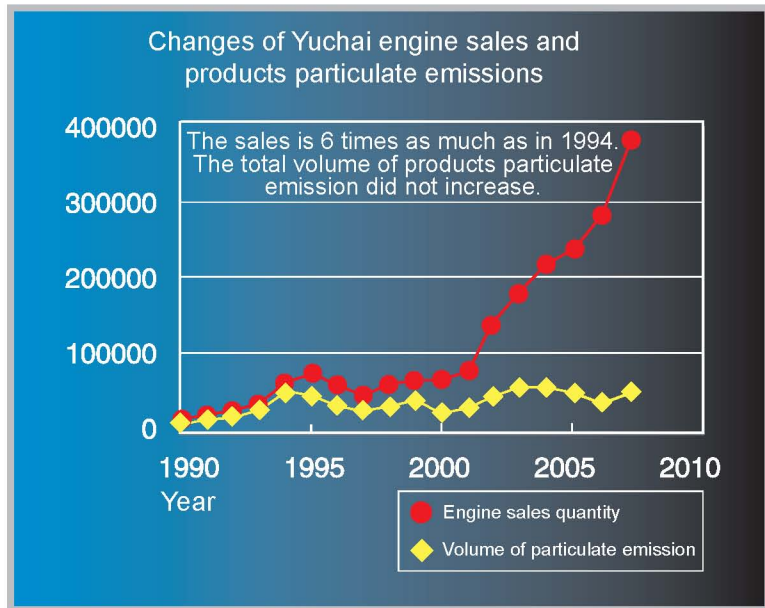
2

Main innovative achievements

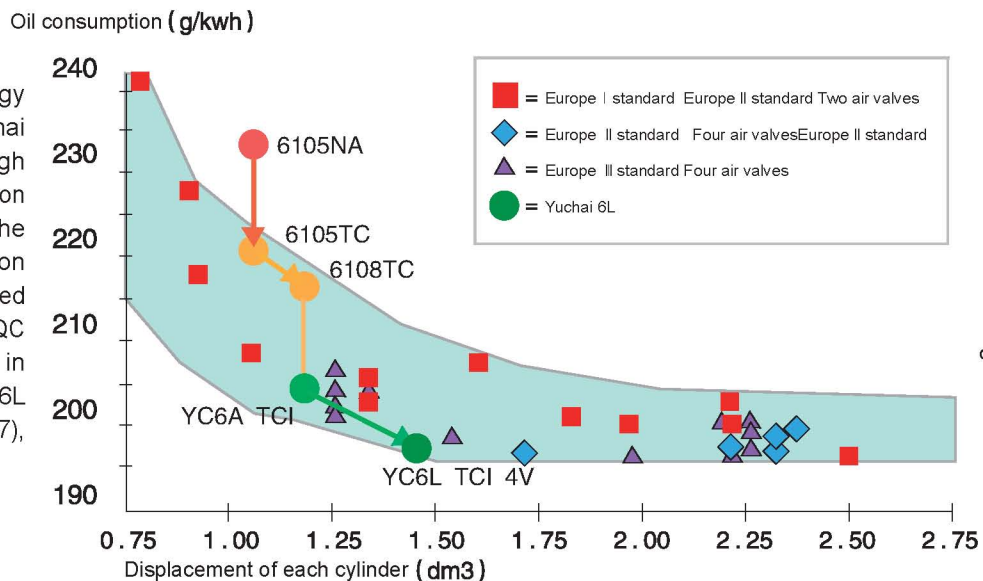
1. Advanced diesel engine emission control technology. Yuchai developed National-1 diesel engine in 1998, 2 years before we implemented National-1 emission standard in China. After that, Yuchai has kept the leading place in emission control technology, and developed National-2, National-3, National-4 and National-5 products 3 to 5 years before China started to implement the corresponding emission standard.

As the upgrading of the engine emission control technology, the volume of engine particulate matter emission per power greatly reduced. The volume of National-4 heavy-type diesel engine particulate matter emission was only 1/18 as much as National-1 one's.

Although the quantity of Yuchai engine output in 2007 was six times as much as in 1994, the volume of engine produced in 2007 particulate matter emission didn't increase. It meets the demand of sustainable development.



2. Progress in energy saving technology. Yuchai has made breakthrough in lowering oil consumption of the diesel engine. The minimum oil consumption of diesel engine decreased from 230g/Kw.h (YC6105QC engine developed in 1998) to 197g/Kw.h (YC6L engine developed in 2007), lowered 14%.



Volume change of oil consumption of Yuchai engine





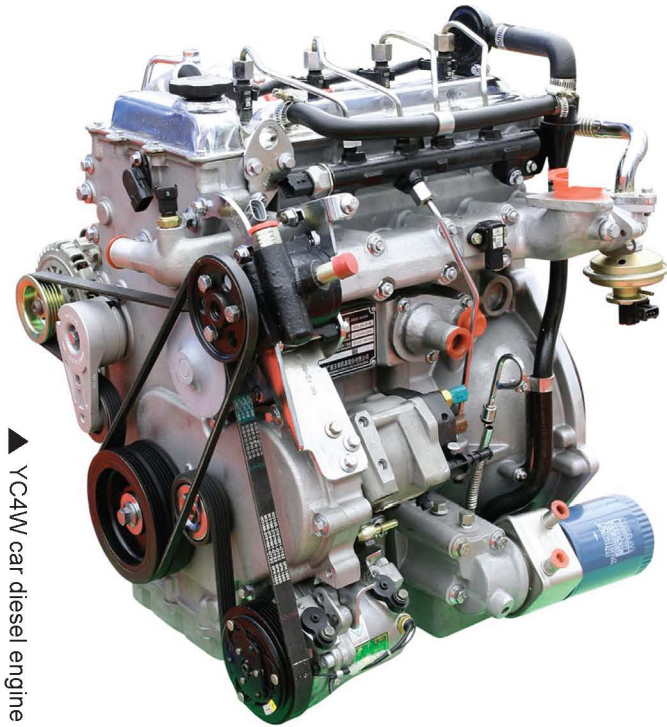
Technological innovation

3. Three milestone products in engine family:

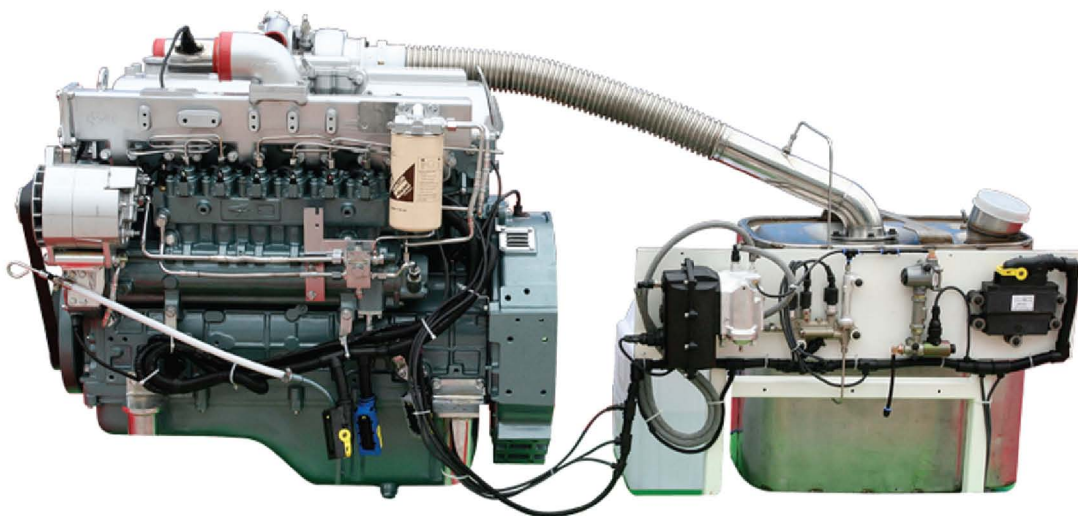
6L National-4 heavy-type diesel engine: first introduced in China, and initiated the new era of post-treatment technology and National-4 emission standard; for the first time paced up with Europe in emission standard; advanced the national schedule of implementing National-4 emission standard by 4 years.

YC4W car diesel engine: Yuchai successfully developed the first diesel car engine with independent intellectual property right in China; filled the blank spot in national industry; and became the first and only enterprise in China that had the capability of developing, producing and matching diesel car engines after the product passed national inspection in December 2006.

6G National-4 gas engine: Yuchai developed the first gas engine in China and built its leading status in gas engine industry in China.



▼ YC4W car diesel engine



▼ 6L National-4 heavy-type diesel engine



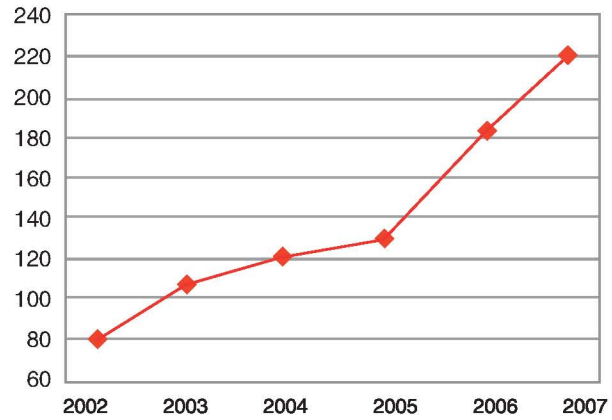


Technological innovation

4. Successfully developed the first CNG gas engine that met National-4 emission standard.

5. For the first time obtained 3 “863” national high technology research projects as an enterprise identity that include development of diesel engine for heavy-type business car, development of CNG engine for heavy-type business car, and development of car diesel engine. In 2007, the development of integrating system in the new generation of diesel engine (YCEDP) attracted intensive attention and funding support from National Development and Reform Committee and National Ministry of Science and Technology. It built Yuchai’s leading position in development of heavy-type vehicle engines and car diesel engines and was very important for improving Yuchai’s innovation capability.

Annual development and research funds for Yuchai engine (million Yuan)



6. Nine series of diesel engines reached National-3 emission standard. Recently, the “Gold Phoenix” buses equipped with Yuchai engines successfully served the “two conferences” and made a beautiful scene in Beijing streets. During the 17th CPC conference in October 2007, 80% buses that took conference representatives were equipped with Yuchai electric control environment protection engines.



“Gold Phoenix” bus equipped with Yuchai National-3 diesel engine





Technological innovation

7. Successfully developed the first National-5 diesel engine in China, which advanced the national standard schedule by 5 years and synchronized step with Europe.

8. Developed “special engines” for different conditions and environment to meet various clients’ demands on power and economical efficiency.



▲ The first National-5 diesel engine in China

9. First developed the city bus hybrid power (ISG technology) with independent intellectual property right. Now it has passed bench test and started road test.



▼ The first ISG hybrid-power city bus in China, produced by Yuchai





Technological innovation

The successful completion of YC-8 series excavator of Yuchai Engineering Machinery Co., Ltd.



In the afternoon of October 9th 2007, Yuchai Engineering Machinery Co., Ltd. held a grand ceremony to celebrate the successful completion of new products of YC-8 series excavator.

YC-8 series excavator includes six models. They are YC225-8, YC85-8, YC60-8, YC35-8, YC18-8, and YC35SR. They are the bestsellers in the market. According to the demand of market the research and development (R&D) of this series are upgraded based on the old models. Comparing with the old models, the new YC-8 series are greatly improved on reliability, quality of appearance, comfort, performance, environmental protection and energy saving and so on. The improvement mainly reflected in following: users can choose not only world-class power but also efficient, energy-saving Yuchai engines that is obvious superior to imported engine in services and accessories supply; parts of the machines' body panels are replaced by the new green DCPD resin material; equipped with intelligent dot-matrix Liquid Crystal Display (LCD) screen that can be adjusted to use Programming Control, GPS satellite positioning system is applied; pumps, valves,

motors, and other key components are matched with world-class brand; automatic refueling system makes refueling convenient and keeps the appearance of machines more clean; the additional electronic throttle and automatic idle device reduce the machine oil consumption; parallel flow condenser, vortex compressor and air-conditioning system with automatic warm water switch are good for convenient control, cooling, fast refrigeration, high efficiency, small power, energy conservation and environmental protection.

The successful development of the new products of YC-8 series represents the great victory in upgrading and updating of products of Yuchai Engineering Machinery Co., Ltd. It is significant in promoting the core competitiveness of enterprises and marks that the product R&D of Yuchai Engineering Machinery Company has reached a new level. From October 16th to October 19th, in "the 9th Beijing International Engineering Machinery Exhibition" held in Beijing Agricultural Hall, YC35-8 won "the Excellence Award of engineering machinery model and appearance quality".





Technological innovation



▲ Dynamic testing bench for heavy-type engine

Yuchai Engineering Research Institute

On July 20th 2007, Yuchai Engineering Research Institute was established in Yulin, Guangxi, the location of the headquarters of Yuchai Group. Professor Zhuo Bin a famous expert of the electric control of internal-combustion engine was appointed the chief. Yuchai Engineering Research Institute has 360 researchers including 18 PhDs, 56 masters. Among them there are 28 senior engineers. Three experts are receivers of the State Council's special allowance. It has multi-national enterprise background and rich practical experiences. It also has national technology center and post-doctoral research workstation. Its laboratory is one of the laboratories that scaled the largest. The facilities are the most advanced in the same domestic industry. It covers an ground area of nearly 60 acres and building area of 20,000 square meters. The amount of investment in fixed assets is accumulated to be over 400 million Yuan. The establishment of Yuchai Engineering Research Institute offers the solid technological assurance for the fast development of Yuchai. The Institute is made up by Business Engine Project Department, Passenger Engine Project Department, Electric Control Technology Department, Test Engineering Department,

Technical Management Department, Friction and Lubrication Technology Research Institute. It mainly provides competitive products to the sustainable development of Yuchai industry group. Some other functions of the academy are: to contributes to the promoting technical progress of national industry; to enhance the ability of independent research and development and technology innovation of the enterprises; and to develop the independent brand.

Experts committee of Yuchai Engineering Research Institution is a decision-making consulting agency and the guide and technical route checker of Yuchai industrial development. It is composed of over 30 experts and scholars who are representatives in the industry and have made outstanding contributions to the domestic and overseas internal-combustion engine and related industries.

The goals of the Engineering Research Institute are: to produce achievements and talents; to become the source of engine power of China and even the world; to become the cradle of training experts, famous experts and great experts; to achieve the goal of "leading the industry; training qualified talents".





Expand to the international market

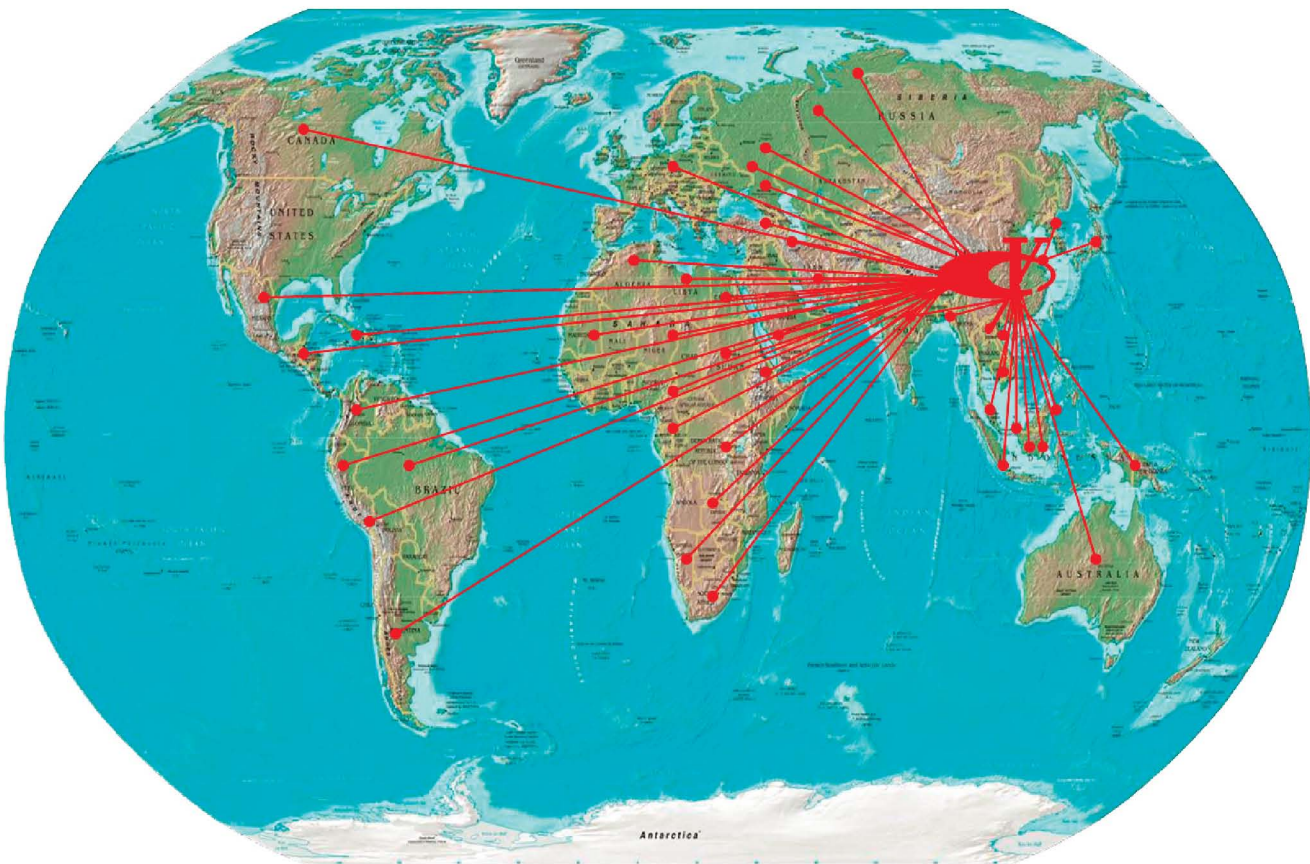
Implementing international strategy and taking the international development is the inevitable choice of Yuchai. Enterprise internationalization is for seeking wider development, utilizing global resources, optimizing disposition, improving competitiveness, realizing maximum profits, becoming international enterprise.

The international strategy of Yuchai includes the following five aspects: product market internationalization; industrial distribution internationalization; capital operation internationalization; management internationalization; and talents internationalization. In the area of product market internationalization, Yuchai will do the following: to aim at the high-end market; to carry out the business in developed country such as Japan,

European and North America; to expand the share of product in the international market. The goal of exports are: the export volume of diesel engine reaches 10-20% of the total annual sales in 2-3 years; export sales revenue reaches 30% of total annual sales in 5 years and 35% in 2015.

Recently, Yuchai has done the following: established offices in Cuba, Vietnam, Malaysia, Russia, Egypt, Thailand; established overseas dealers in over 30 countries including the U.S.A., Japan, Indonesia, Bangladesh, Saudi Arabia, Kuwait, Turkey, Algeria, Ukraine, Poland, Ecuador and so on; set up accessories supply and after-sales service center in more than 10 countries; formed close international strategic relations with many domestic manufacturers.

Market Internationalization - distribution network



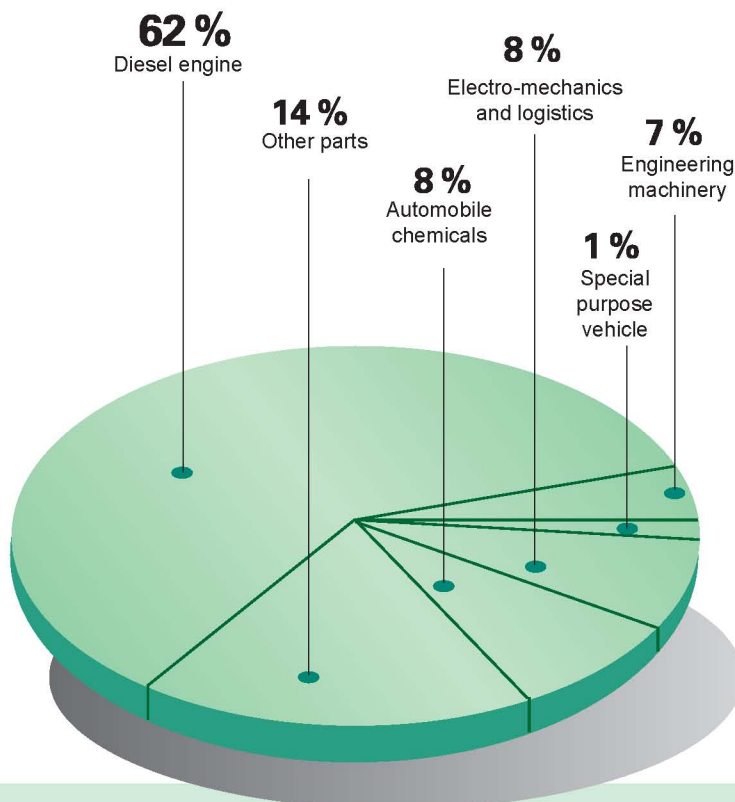
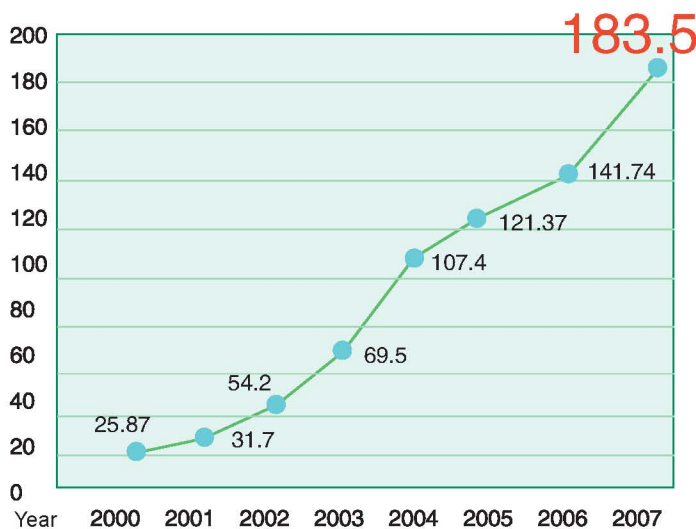


Business performance

Operation achievements of Yuchai Group

Focusing on the profitability and development, Yuchai Group positively develops the market, expands the operation scale, deepens reform, stresses on technical innovation and management mechanism to reinforce the core competitiveness comprehensively. As a result, the production and operation continue increasing. From 2000 to 2007, the annual sales revenue of Yuchai Group increased by 5 times. In 2007, Yuchai's sales income reached 18.35 billion Yuan that is 4.1 billion Yuan higher than 2006. Both diesel's productions and sales were exceeded 500,000 units. It not only became the best sale in the history but also had been the top in the industry for 7 years. Breakthroughs in international markets brought an annual amount of export engines exceeding 29,000 units, which represented an increase of 263% over last year. Engineering machinery, automotive chemicals, logistics, mechano-electronic, specialized automobile, automotive components and other aspects positional had significant achievements. Engineering machinery's sales income was 1.232 billion Yuan, increased by 24.82%; lubrication's sales income reached to 1.332 billion Yuan, increased by 6.73%; specialized automobile's sales income reached to 200 million Yuan, increased by 134.79%; automotive components' sales income reached to 1.267 billion Yuan, increased by 60.03%; logistics mechano-electronic's sales income reached to 1.602 billion Yuan representing an annual increase of 44.32%.

Sales income chart of Yuchai Group from 2000 to 2007 Unit: ten million Yuan



▲ Proportional income of each business section to the total income of the Group in 2007



3

To be the controller of the largest mobile pollution

Responsibility of environment

- Green production
- Recycling economy
- Environment management

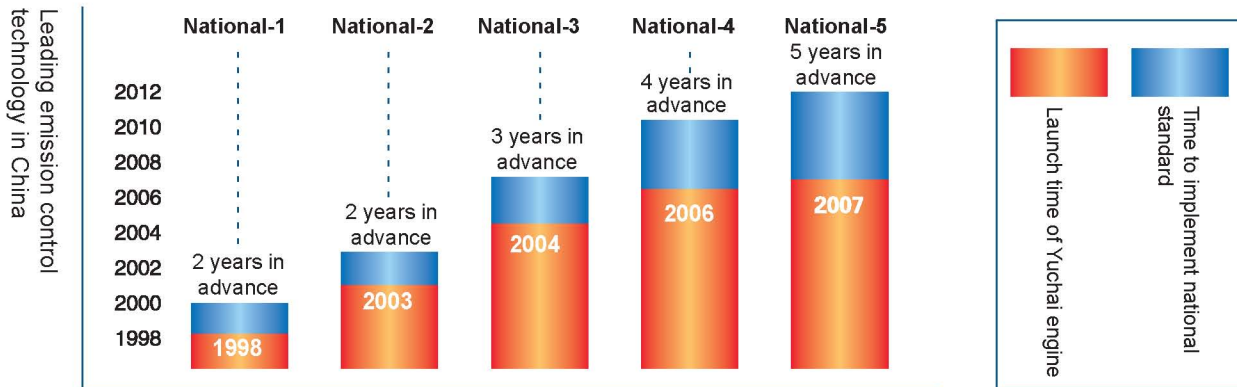
3

Green production

In the situation of growing tension of the world's energy supply, unceasing rising price of the world's fuel and increasing outstanding of environmental issues, energy saving and environmental protection have become the crucial topic of social development in nowadays. In order to adapt to the development, the central government brings forward the basic national policies of persisting in saving resource and protecting the environment and places the construction of resource-saving and environment-friendly society on the important position.

Yuchai Group takes the responsibility of "providing excellent and advanced power products to meet public demand" and profoundly recognizes that "saving resource and protecting the environment" has a great effect on national economic and sustainable healthy development

of society. Facing the strategy of saving resource and protecting the environment, Yuchai takes "green manufacture" as its responsibility and pays attention to emission issues. It determines that Yuchai should be the leader of green power and; the controller of the largest mobile pollution; the contributor of energy and materials-saving in China; makes positive contributions to change the environment. Based on this, Yuchai stays on the product designing concept of "advancing ideas and leading application" for many years and works very hard on researching the engines with dynamic, energy-saving, and environment-protecting features. All products aim to save resource and protect the environment as well as meet the national standards ahead of 2-4 years. It tries to hold the leader of the domestic industry.



Yuchai's green manufacturing road

1986	6105QA direct injection diesel engine	changed the history of turbo diesel engine in China, largely reduced the oil consumption, and obtained energy-saving award.
1989	6105QC diesel engine	the energy saving and emission performances were better than 6105QA, and took 50% market share in the domestic industry for a long time.
1995	New type 6018Q diesel engine	kept the advantages of energy saving and low emission, and improved the power performance by 10%.
1997	Started to use turbocharged and inter-cooled turbocharged technology	that improved power performance, lowered oil consumption and reduced emission at the same time, and met the national standard to be implemented in 1999.
2000	Widely used high-pressure injection, turbocharged and inter-cooled turbocharged technologies	all products met the national energy saving and emission standards to be implemented in 2003.
2004	Widely applied electric control injection technology, and developed National-3 standard product	achieved the target 3 years in advance
2005	Developed substitute fuel and hybrid power engine, and improved the emission level of some types of engine to National-4 and National-5 levels.	Yuchai National-3 products took 75% domestic market share.
2006	Developed YC6L-40 National-4 electric control diesel engine	firstly applied the SCR emission post-treatment technology, and developed National-4 diesel engine
2007	Developed YC6L-50 National-5 electric control diesel engine	It was the first National-5 diesel engine in China, and it consolidated Yuchai's leading status in domestic diesel engine industry.



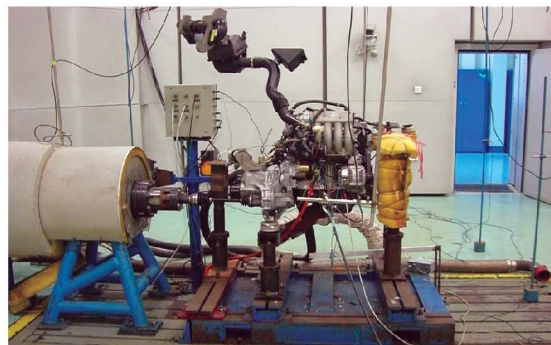
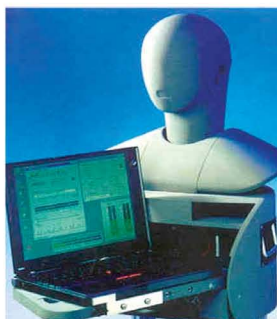
Green production

In order to achieve energy-saving, consumption and emission reduction, the research and development of Yuchai mainly concentrates on the following areas: 1. The applications of High pressure injection (including electronic control), supercharged air intake or inter-cooling technique and four air valve; 2. Reducing the machinery losses of friction pair and attachments; 3. Optimization of combustion system; 4. The lightweight of complete machines; 5. Research on unit matching of whole machine; 6. The applications of CNG、LPG fuel technology; 7. The applications of hybrid electric technology; 8. High-end and low-end torque engine; 9. Development of "specialized engine" for different working situations; 10. Emission control technology including EGR and exhaust after-treatment and so on.

Yuchai also pays attention to reducing engine noise and improving the vibration noise by the following measures: 1. In 2001, Yuchai brought in professionals to take charge of vibration noise work; 2. Invested a large amount in the establishment of a semi-anechoic laboratory and installation of two sets of vibration and noise testing equipments from German; 3. Reduced the vibration of 4-cylinder diesels by applying double balance shaft system; keep all the models in the national leading position through optimizing shock absorber to reduce torque vibration of engine; 4. All the vehicles equipped with Yuchai engines must meet the limiting requirements of GB1495-2002 "Limit and measuring methods of external noise during vehicle acceleration"; 5. Purchased specialized equipment and sent specialized employees to study reducing subjective noise.

Turbocharging and Turbocharging Inter-cooling Technology:

Enables the engine to have higher power, lower fuel consumption, less emissions according to the implementation of Turbocharging and Turbocharging air cooler.



▲ Noise test benches in technical center

Fuel Technology of CNG and LPG:

CNG (Compressed Natural Gas) and LPG (Liquefied Petroleum Gas) are used as substitute fuel for the engine, also named as Gas Engine Technology

Hybrid Technology:

To use more than one type of power in a machine. At present, there are common hybrid such as oil-electric hybrid, gas-electric

hybrid. Other sorts of hybrid including fuel engine plus hydraulic power, fuel engine plus compressed-air power are under researching.

Exhaust Gas Recycle (EGR):

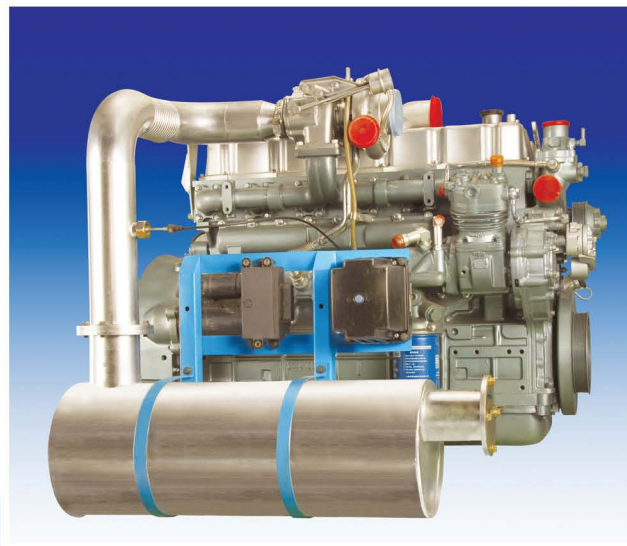
It is also called Waste Gas Recycling. It is to re-introduce part of engine exhaust into the cylinder to participate in combustion process to reduce the engine's NO_x emission. It is divided into internal exhaust gas recycle and external exhaust gas recycle according to the form of the waste gas recycled into engine cylinder. It is also divided into high-pressure and low-pressure EGR. Currently the main technology form of EGR is external EGR.

Selective Catalytic Reduction (SCR):

It is to control the treatment of NO_x emission in combustion exhaust. Nitrogenous medicament is injected into combustion remains containing NO_x, then the reduction reaction removes NO_x and produces water and nitrogen under the effect of special catalyst. This technology is applied to the industry of thermal power, boilers and engines etc. The application of this technology to vehicle is most difficult..

Green production

After successfully developed the first National-4 diesel engine in China in early 2006, Yuchai produced the first YC6L-50 National-5 diesel engine with independent intellectual property right at the end of 2007. Yuchai follows the concept of “Green development and all win in harmony” and made important contributions to the national energy conservation and environmental protection. The launch of National-5 diesel engine is 5 years ahead of the national implementation of emission standard. It marks that Yuchai Group led the domestic diesel engine industry again in responding to the nation calls of “Energy-saving, emission-reducing and providing the green environment-protecting power”.



▲ YC6L-50 National-5 diesel engine

The first National-5 standard diesel engine in China was produced in Yuchai

New types of Yuchai YC6L-50 National-5 (equal to European-5 standard) electronic controlled diesel engine is the new model of low emission developed independently by Yuchai Group. The power range of the engine is from 240 to 330 horse powers. The maximum torque scope is from 950 to 1280N/m. The minimum fuel consumption is 189g/kwh. It is a diesel engine with dynamic performance, economy energy and environment protection.

Yuchai YC6L-50 diesel engine integrated Electronic Control Fuel Injection System and Selective Catalytic Reduction (SCR) After-exhausting Controller System based on the independent research of After-exhausting Controller System (ACU). By continuous optimizing the calibrating of combustion and the post-processing, the YC6L-50 diesel engine further reduces NOx (nitrogen oxide) emission to 50% from the low fuel consumption and low emission of YC6L-40 national-4 (equal to European-4 standard) diesel engine. Some advantage of the YC6L-50 diesel engine are: increasing calibrating of city cycle; improving the efficiency of low-temperature conversion; reducing the NOx emissions produced during frequent starting of the urban public transportation and low speed of the vehicles.

YC6L-50 diesel engine not only meets the national-5

emission standard, green and environment-protecting, but also has the benefits of compact structure, strong power, fast start loading, good acceleration, high reliability, warranty of 300,000 km and low costs in use and maintenance. YC6L-50 diesel engine is the ideal power for the new generation of luxury coaches and urban public transportation vehicles. 80% of its components can be exchanged with YC6L-30 National-3 (equal to European-3 standard) engine. It also can use the same brand of engine oil with National-3 engine because of low engine oil consumption.

The introduction of new National-5 electronic controlled diesel engine independently by Yuchai pushed the Chinese industry to another great step on transformation from “Made in China” to “Created in China”. The successful development of National-5 engine has further consolidated Yuchai’s leading position in the domestic diesel engine industry. It greatly enhances the popularity and market competitiveness of Yuchai products. It promotes the international competitiveness of Chinese power industry, challenges monopoly of overseas brands and expand its market share in diesel engines’ high-end market. It lays a solid foundation for the Chinese engine products to compete in the international market.

Recycling economy

Parts name: cylinder body

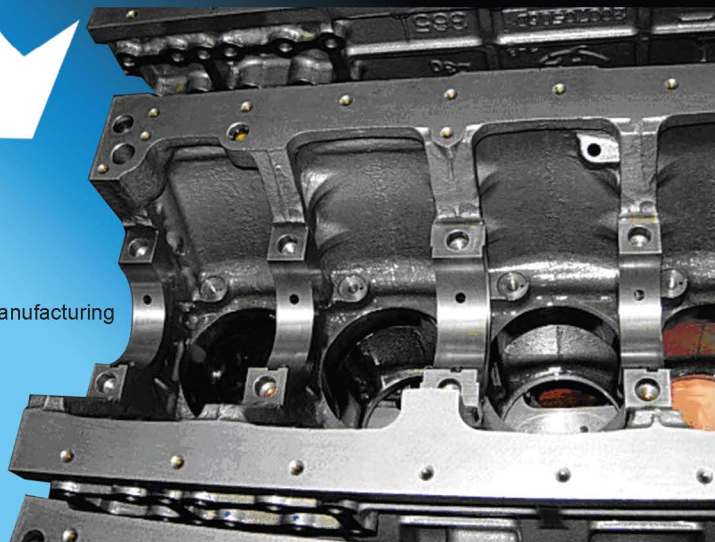


Before remanufacturing:
oil crust, scale and rust

Remanufacturing process:

Remove all types of blockage → get rid of oil crust by boiling → get rid of rust by sanding → grinding, polishing, drill tapping and unshathing pin → cleaning → testing

Effect after remanufacturing



Engine Re-manufacturing

To the call of the central government to build a resource-saving and environment-friendly society as well as the concept of scientific development, Yuchai founds a factory of engine remanufacturing (the third engine factory) to reproduce diesel engines. Remanufacturing saved the process of rough production and most of the process of producing the diesel engine components. It saves energy, materials and expense and reduces environmental pollution. Statistics show that the cost of new-produced diesel engines' materials and processing charges occupies 70% of the total value of diesel engine. Remanufacturing engines it only occupies 10%. Its energy consumption is only 20% of the new-produced diesel engine. The remanufacturing diesel engines have the same capability of new ones. Remanufacturing may save the massive social resource, thus it is the best model to develop recycling economy in diesel engine industry.

3

Recycling economy

Poisonous solvent recycling

Yuchai Engineering Machinery Co., Ltd. invested more than 60,000 Yuan to purchase solvent recycle machines. The machine refines the waste liquid from washing painting gun to produce new solvent that can be put into operation processes again. It can multiple the recycle flammable and explosive poisonous solvent with strong volatility. Environment pollution by discharging waste organic solvent has been reduced greatly. The cost of production has been decreased at the same time. In August 2007, the company started to use the solvent recycle machines. At the end of December it recycled xylene 1339 kilograms in total at a recycle rate of 70%. Total cost savings is 13,390 Yuan.

Recycling of waste water, waste oil and waste residue

In order to save energy, Yuchai Group fully recycles the waste water in sewage treatment station to achieve water reused through disinfection and deep processing. From 2003 to 2007, it reused 209,000 cubic meters water and saved 276,000 Yuan. The recycled water has been used in production cycling, flushing cinder, internal usage in sewage treatment station, and sprinkling. In order to recycle water and improve the efficiency of reusing water, Yuchai invested 200,000 Yuan in implementation of flushing cinder with recycled water system engineering project in 2007.

Yuchai also recycled the waste oil separated from waste water separately. From 2003 to 2007, Yuchai recycled 2414 tons of waste oil in total, valuing at 3.597 million Yuan.

Yuchai also reuses casting waste sand and reduces the solid waste disposal by adopting roasting technology to deal with the waste sand. From 2006 to 2007, the reused waste sand was 19,000 tons in total.



▲ Solvent recycling machine

Recycling of waste water

	2003	2004	2005	2006	2007	Total
waste water recycling (cubic meters)	13492	48476	50517	45163	51344	208992
unit price (Yuan/cubic meter)	1.18	1.18	1.18	1.48	1.48	
save water cost (Yuan)	15920.56	57201.68	59610.06	66841.24	75989.12	275562.66

Waste oil recycling

	2003	2004	2005	2006	2007	Total
recycling quantity (ton)	416.43	480.95	606.44	583.82	326.47	2414.11
disposal price (Yuan/ton)	1300	1300	1320	1450	2400	
Sum of recycling (Yuan)	541359	625235	800501	846539	783528	3597162



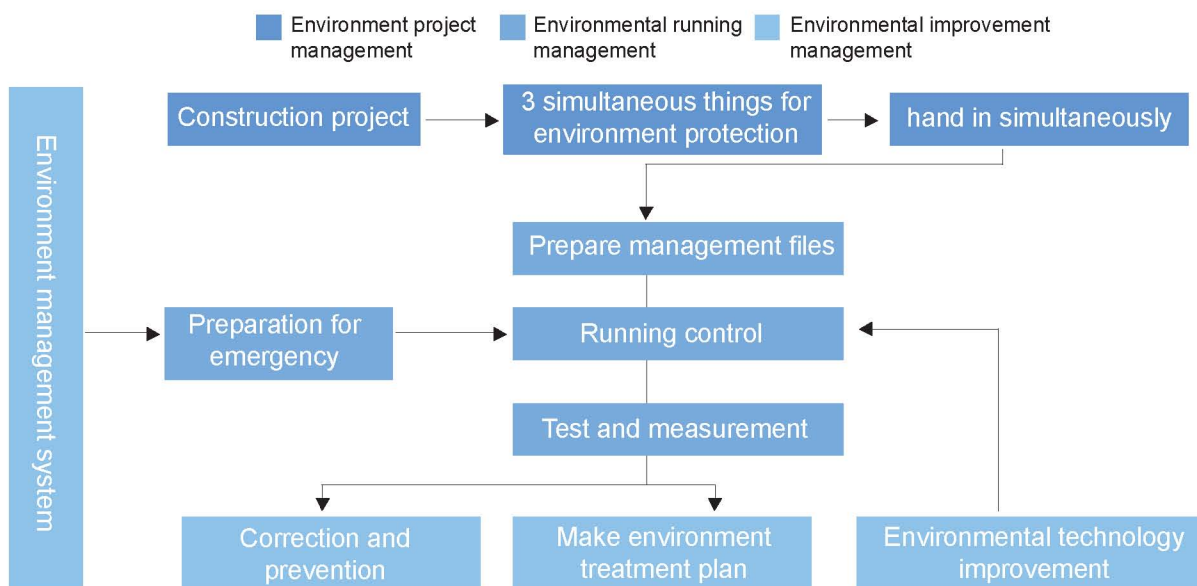
Environment management



Yuchai Group stays on the concept of “green” in the procedure of production and puts energy-saving and emission-reducing as the top issue of enterprise development. Through establishing environmental management system, increasing technical transformation,

speeding up technical innovation, Yuchai strives on the work of saving energy, reducing consumption, controlling pollution and reducing emission to achieve the sustainable development and to reduce the pollution continually as well as to improve the ecology.

Environment management process diagram



Environment management

Wastewater treatment

- Invested nearly 10 million Yuan to complete the whole company's cleaning and splitting system of sewage and rainwater to reduce the cost of treatment and tackling the waste water directly.
- Invested a huge amount to establish the first sewage treatment station in Yulin to carry on effective treatment to the waste water that is produced in the production processing of diesel engines. The investment of station is more than 21 million Yuan in the first and second phase project. Its wastewater disposal capacity is 500 tons of oily wastewater per hour. The maximum disposal capacity is 600 tons per hour. The disposal ability of waste liquid from special cutting and cooling is 5 tons per hour. The producing ability of reclaimed water is 450,000 tons per year. Currently the sewage

treatment and reclaimed water treatment are in normal operation. Through the monitoring by the environment protection authorities, recycled waste water meets the national first-level emission standard. The reclaimed water treatment meets the standard of reusing water quality.

- Adopt partial treatment to each primary pollution source, then discharge it into the sewage station. The cost of the centralized processing is reduced.
- In 2004, the company invested 1.2 million Yuan on the west exit of wastewater to build the sand -sinking and oil- separating pool. Casting wastewater is pre-recycled before sending to disposal station for re-disposal.
- In 2004, the company invested 300,000 Yuan on setting up the treatment station to dry the sludge effectively.



▲ cover of the regulating tank of the waste water disposal station

▲ air flotation pool

Residues treatment

Cinder and slag are recycled by the cement plant and brickfield. Metallic residues are recycled by Yuchai. Garbage is classified according to the requirements of environmental management system. As "ISO14000 Environmental Management System" required, waste

transfer station is established in 2004 to classify and deal with the solid waste. The un-recycled waste slag and foundry sand will be transported to appointed place and buried by Yuchai Property Management Company.



Environment management

Waste gas treatment

International and domestic advanced technical equipments have been adopted to reduce the production of dust and waste gas. Automatic static pressure modeling-production line, hermetic sound-insulated vibrating de-sanding room and hermetic core-making with cool-box technology and other advanced technologies have been used in foundry workshop. The most advanced particle thermo for dust-removing has been used in cupolas (only three domestic enterprises have used currently) to solve the contradiction between high temperature and the lifetime of dust remover's body. National advanced electrostatic dusting painting technology has been used in casting antirust. The international advanced technology of up-delivering and under-pumping water rotation has been used on spray - paint operation on 6112, F6105, heavy machines and universal engines. The efficiency rate of removing paint mist is over 98%. The implementation of imported automatic spraying system in spray - paint

operation in heavy machinery workshop made the exhaust emission meet the national standard. Over 300 million was invested in machining line to install 13 dust separate systems. The efficiency rate of removing dust is 99%. It reaches the emission standard. The processing technology of large flow automatic cooling chip-removal system is used to eliminate dust in production. The boiler uses 9KM-20 granite desulphurization dust removal technique with water curtain. Dust will be discharged to high altitude after desulphurization. The efficiency rate of dust removal is 98-99% and the rate of desulphurization is 72%. They all meet the international emission standard. In 2007, Yuchai invested 300,000 Yuan on cyclone plus cloth-bag dust removal technology to deal with the dust from woodworking machinery in wooden mold workshop in equipment factory. Therefore the dust emission rate met national standard and working environment has been improved.

Flue gas treatment of foundry



The foundry is the factory where the environmental is hard to deploy although efforts has been invested in this issue. The technical transformation project of foundry's body workshop and cylinder cover workshop was part of "the Eighth five years plan". Because of the historical reasons, only the simple cyclone dust removal applied, which has unsatisfied emission rate. In 2007, Yuchai paid 1.65 million Yuan to specialized factories of cupola gas treatment to carry out the technical reform of the two cupolas' dusting removal systems. This project will ensure a gas emission less than $50\text{mg}/\text{m}^3$ that is far below the national standard. About 280 tons dust may be reduced annually. The large investment on the environment protection of foundry workshop is 10.12 million Yuan which is about 4.69% of the total project investment. It has achieved the new start of environmental protection and passed environmental protection acceptance check monitoring of the Environmental Protection Bureau of Guangxi Autonomous Region.

Environment management

🔊 Noise reducing

The following has been adopted to reduce the noise in testing workshop: The layout of single machine testing, seal testing, using vibration-isolated material in testing platform, adopting impedance muffler, installing damping device in the equipment producing vibration. In the testing room, sound-insulation doors and windows and absorbent walls are built. The FBI acoustic treatment coating are used on the wall surface. New materials such as noise-absorbing ceiling and micro porous noise-absorbing board are used. After the treatment the factory's noise emission meets the national standards.

Completed projects:

- Relocation and treatment of the generator set's testing bench (noise source);
- Sound insulation and sound absorption on the noise source of simulation testing bench in universal engines workshop;
- Technical reform of the noise-reducing facilities in 20 old laboratories in universal engines workshop;
- Noise treatment on the ventilator in universal engines testing room;
- Noise treatment on cupola roots blower room in new casting workshop of the foundry;
- Noise treatment on operation room of variable frequency generator in power factory;
- Noise treatment on air-inlet testing in Quality Control Department;
- Noise treatment on testing bench of heavy engine project;
- Noise treatment on testing bench of 4F project.

🌳 Greening Environment

Since 2000, the company has invested on greening environment within the company area and made 51171.5 square meters greening area.

Take care of community and promote social harmony

With a high consciousness of responsibility for community environment, Yuchai Group and its subsidiaries take the social responsibility beside economic development. Yuchai took effective measures to prevent and reduce the negative impacts on society and environment from industrial activities and achieved positive results such as:

1. Developed an environmental awareness. Air conditioners use refrigerants that do not affect the ozonosphere. Ozone-friendly fire extinguishers were also adopted to protect the ozone layer although the cost was increased to do so.
2. The previous boiler coal-burning steam used as refrigeration power medium in central air conditioners in some workshops has now been replaced due to its high energy consumption and severe pollution. Frequency electricity energy of low energy-consumption and non-pollution is adopted.
3. Outside of one workshop's spray-paint line still fell harmful smell although it is about 60m away from the factory boundary and met the national emission standard and was certificated by environment and sanitation authorities. Yuchai had invested 100,000 Yuan in improving air quality

for surrounding local areas and was well appreciated.

4. Quality Control Department set test frame about 50m away from staff residential area (just a few buildings). It was approved by environment and sanitation authorities and adopted anti-noise measures following national standard. However some residents were still disturbed by low frequency noises. In order to create a better residential environment for employees, Yuchai invested 200,000 Yuan and hired experts from No.8 Design Institute to reduce noise. The result is satisfied.
5. Dust pollution of cupola has been a serious problem in domestic foundry industry. After carefully inspection and research, Yuchai decided to invest 2,000,000 Yuan to introduce new technology to cut the pollution. The bidding procedure for technical transformation has been started.
6. Industrial wastewater used to be the main pollution source. Pollution accidents occurred sometimes and were complained by surrounding residents. Yuchai built wastewater disposal station to provide recycled clean water for irrigation which is welcome by farmers. The environment condition has been improved much greater than previous.



Safeguard the health of people and protect the harmony of the society

4 **Responsibility of Safety**

- Safety concept
- Management system
- Regulations and methods
- Targets and achievements

Safety concept



Life first, safety first

“Life first, safety first” is Yuchai’s concept of safety management. The policy of safe production is: life first, safety first; prevention first, comprehensive treatment; all departments work together and make Yuchai a safe and environmental green home.

Yuchai Group always emphasizes on safe production and strictly complies with national regulations such as “Law of Safety Production” and “Labor Law of the People’s Republic of China” etc. It actively advocates safety culture in the enterprise and takes health and safety of staff as priority in production. As an

important factor of building harmonious enterprise, safe production has been incorporated into the operation indexes as the standard of performance evaluation in Yuchai. Reward and punishment is processed according to annual operation of safety production. According to “Work-related Injury Insurance Regulations”, all staff are covered by work-related injury insurance and ensured timely cure. Besides, properly arrangements and financial compensation will be provided according to “Labor Law” and contract.



▲ Members of Yuchai Group Safety Production Committee were inspecting the production safety at workshop.





Management system

Organization

Yuchai established Safety Production Committee led by General Manager and leaders of each subsidiary. Its responsibilities are: to comply with policies and regulations of national safety production and labor protection; to complete regulations on safety production and implementation; to deploy safety and health responsibility system and relevant capitals; to supervise, guide and inspect safety production at all levels and make decisions on important issues of safety production, labor protection and occupational safety and health.

All subsidiaries must establish safety production management group and set safety production section with appointed person to supervise the safety production, labor protection and occupational safety and health. The company's administrative chief is the primary responsible person and is responsible the following: in charge of the occupational safety and health management system; ascertain the annual safety production index of each

unit on the basis of equipment quantity; identifying of danger source, danger classes and complexity of environmental factor; referring to the calculation method and standards of machinery manufacturer, as well as occupational safety and health management system.



▲ Members of the Safety Production Management Leader Team were inspecting the production safety at workshop.

Rules and regulations

Under the concept of "life first, safety first" to improve the safety management level and enhance enterprise's integrative ability, Yuchai Group strictly follows the relevant national laws and regulations such as "Labor Law", "Law of Safety Production", "Law of Occupational Diseases Prevention and Cure", "Fire Protection Law", "Law of the People's Republic of China on Road Traffic Safety", "Regulations of Safety Production in Guangxi Zhuang Autonomous Region" etc. Meanwhile, Yuchai Group set up approved management system of occupational health and safety and environment. Yuchai has begun to adopt the "Standard of Safety and Quality of Machinery

Manufacturer" issued by State Administration of Work Safety since 2005. "Three-year Upgrading Plan of On-site Safety Production" and "Upgrading Implementation Plan of On-site Safety Production" were drafted in 2006. In 2007, Yuchai revised and recompiled 41 documents including 2nd and 3rd program documents of occupational health and safety management system and environment management system. The establishment and improvement of system program documentation has regulated a series of behaviors of safety, occupational health and environment protection management, which make the management reach to all aspects.



4

Responsibility of Safety – safeguard the health of people and protect the harmony of the society

Regulations and methods



Safety measures

Yuchai strictly follows the rules of safety production, labor protection, occupational safety and sanitation and standard of safety management. Main measures consist of: organizing training program in safe production and occupational health; strengthening the management of dangerous work, special equipment and work staff; implementing “Four No Let-pass”; promoting the standardization of safety and quality in machinery manufacturers; well managing fire protection, traffic safety on-site production; filing for occupational safety and health and staff health conditions; following regulations of safety operation; no tolerance to “three disobediences” as well as comply with rules of labor protection, environment protection and on-site management. Yuchai established safety production risk responsibility system and signed “safety production risk responsibility agreement” with all relevant parties in order to identify the economic

and management responsibility of administrative leaders. The company leader, supervisor in charge, safety supervisor and safety personnel pay the safety funds to the company and are rewarded or punished according to the safety production index on the responsibility agreement. The company is carrying out “one-vote system” to units whose accident rate exceed limit. Any neglect of duty must be brought to account and legal responsibility must be pursued.



▲ Fire drill in Yuchai Power Building

Four No Let-pass

- Do not let pass before accident cause is clear
- Do not let pass before person in charge of accident and publics are educated
- Do not let pass before safety prevention measures are fulfilled
- Do not let pass before person in charge of accident are punished

Five “At the same time”

- Planning, arranging, inspecting, summarizing and appraising the tasks of production and safety at the same time.

Three “At the same time”

- The working safety and sanitation equipment of rebuilding, technical reform and introduced project must be designed, constructed and put into use along with the project of main body.

Four No Injury

- The following must be done during the production: no self-injury, injury to others, protecting yourself from injury by others, avoiding injury to co-workers.

Three Disobediences

- Disobedience of command, operation rules and working disciplines.





Regulations and methods

Safety management

◆ Routine management

Safety management includes daily safety check and monthly combined inspection at the scene of production line. The measures consist of daily supervision of every district, weekly cross check, monthly inspection by supervisor and on-site safety personnel. The result of inspection will be assessed and posted on the bulletin. The relevant departments are requested to adjust and reinforce their safety management and secure safety in production. Safety management and preventive measures of hidden problem have been implemented

since 1988. A mechanism of self-check and correction are also established in all company units. According to the methodology "PDCA" (Plan, Do, Check, Act), the company carries out rechecking and making. All units are required to score 850, which ensure enterprise's safety in respect of equipment, facilities, environment and staff.

Eliminating hidden problems and activities not following regulations through routine safety management can also secure safety in production

◆ Special management

As traffic accidents may happen in production area, Yuchai Group set up special management program to divide road district in factory area and forbid the travelling of non-utility vehicle.

Rules for travelling speed, direction, parking, entry and exit are also made. Accident has been effectively reduced since above methods adopted.

◆ Special activities

The company organizes special safety activities that include "Safety production month", "One hundred day non-accident competition", fire drill, safety check during holidays and safety check on flammable material. The safety activities cover the followings: taking temporary measure

and adopting a permanent method, widely check and local point check, regular check combined with spot check, daily/special/holiday/monthly cross check and monthly appraisal.



Regulations and methods



Equipment and facility

The company invests on safety of production equipment and facility as well as its adjustment and modification. Furthermore, the company also follows the rules that designing, constructing and using safe environmental-friendly facility with main project simultaneously. In addition, company comprehensively implements “Standard of Appraisal on Safety of Machinery Manufacturing Enterprise” and continuously standardizes safety management to improve the safe use of equipment and facility. The company also highlights the safety technical reform, replaces old facilities with automatic and mechanized ones to reduce working intensity; thus produce a safe and

health working environment for staff and increase productivity.

In 2007, the company conducted more than 270 examinations on safety and environmental protection of new and reconstructed engineering projects to ensure the equipments and facilities meet the safety standard. Besides, the company gave suggestions on 123 problems found during the inspections of more than 460 equipments and facilities. Meanwhile, the company continues conducting annual evaluation of equipment and facilities according to the details of safety standard and has found 346 existing problems which have been solved.

Budget for safety facility renovation project of Yuchai Machinery Co., Ltd. in 2007

Unit: thousand Yuan

No.	Section	Budget	Investment in 2007	Investment in 2008	Investment in 2009
1	foundry factory	2,730.0	1,638.0	819.0	273.0
2	cooling factory	2,610.0	1,566.0	783.0	261.0
3	first engine plant	8,650.0	4,566.7	2,595.0	1,488.3
4	second engine plant	3,105.5	1,863.3	931.7	310.6
5	third engine plant	300.0	180.0	90.0	30.0
6	power factory	260.0	156.0	78.0	26.0
7	equipment factory	50.0	30.0	15.0	5.0
8	total	17,705.5	10,000.0	5,311.7	2,393.9

Labor protection and prevention of occupational disease

To effectively protect the staff during production, the company invests a large amount annually to improve the quality and quantity of labor protection and working environment.

To improve labor protection management, the company not only does daily management, but also stresses on quality issues of labor protection put forwarded by front-line worker and sorts out the problems.

The company strictly follows the “Code of Occupational Disease Prevention” and carries out regular checking on employees who work in dusty and noise (higher than 75

decibels) environment and are posted in electric welding, spray painting, gasoline cleaning and chemical analysis. It also cooperate with Guinan Hospital to set up personal health records for each staff that collect relevant occupational health information such as position, working years, results of physical examination and treatment. Since 2004, the company has offered annual physical examination for staff. In 2005, the union established data base of employees, regular/irregular tracking to guarantee the treatment for staff who suffered from occupational disease and suspect patient.





Regulations and methods

Yuchai Group monitors the results of occupational diseases

Aiming at establishing a complete monitoring system of occupational diseases, Yuchai Group has launched annual monitoring program in workshops since 2007.

Yulin Center for Disease Control and Prevention was contracted to examine all workshops by adopting sampling checking on harmful factors such as noise, dust, benzene, toluene, dimethylbenzene, formaldehyde, gasoline, nitrogen oxide, carbon monoxide. They also checked the dust samples from 67 locations in foundry factory, first engine plant, second engine plant and equipment factory; conducted 14 sampling checking on benzene, toluene, dimethylbenzene from locations of spray painting; 7 samples of formaldehyde from foundry, and monitored the noise from 127 locations of all workshops.

By the monitoring, the company completed "Records of harmful and poisoning working place" to find out the distribution of harmful factors and set up the project to eliminate them. These have been listed in environmental protection part of 2008 capital expense report and will be implemented after the approval of the Board of Directors to aim at improving working environment through technical reform, reinforcing personal protection and minimize harmful factors.



▲ Experts were monitoring the workshop environment.

Safety education

Safety education is a constant task of safety management. All the new employees must be trained by headquarter, factory and work team (three-level training). They must have the knowledge of national safety production rules, enterprise's regulation on safety in production and safety operation specification for different positions and pass the safety examination before taking up the job. Mid-level management team must receive training in safety management and obtain the certificate. Employees who take special task must receive specialized training and obtain the certificate. Currently new employees, enterprise's person in charge of special task are 100% trained.

In 2007, Yuchai Group implemented "Safety Education Management Measures" according to "Proposal of Management of Occupational Health and Safety, On-site,

Environmental Protection". It trained 1688 new employees (inc. temporary transferred staff and trainee), more than 1000 group leaders, 588 external construction workers with strictly following national safety regulations and carrying out innovative three-level training, group leader education and daily safety education, and actively promoting "Safety Production Month". The company organized the specialized show of accident with theme of "Safety, Traffic, Fire-fighting, Labor protection", hung slogan for safety production month and hand out relevant material. In addition, the company also held on-site random checking on employees and sent employees to safety education course held by Yulin Safety Production Committee. As a result, the awareness of safety production among staff has been greatly improved and accident rate has been controlled.



4

Targets and achievements



Achievement of safety in production

Yuchai Group stays on the concept of safety management and adopted safety engineering methodology to deploy the system of production responsibility at all levels. It continues improving on safety checking on equipments and facilities, safety control of production and occupational safety and health management system, as well as staff's awareness of safety issue. Furthermore, working conditions and software and hardware of

safety production are also improved. Yuchai Machinery Co., Ltd. updated the records for the past six years of safety production with no serious accident and has only 1‰ rate of minor accident that is significantly lower than company safety production index of 3‰ and Industrial safety production index of 6‰. The safety index has met the standard of national safety enterprise for over ten years. It is a record best level.

Statistics of safety production and accident control in year 2007

- ◆ Zero fatal accidents, severe injuries and serious fire accident;
- ◆ Minor accident rated at 0.31‰;
- ◆ Eliminated more than 82.5% of harmful factors
- ◆ 100% complete staff training in safety standards
- ◆ Eliminated 98% of hidden problems
- ◆ Met 90% standards of safety quality in machinery enterprises
- ◆ 100% prevention rate of occupational disease; zero contamination accident, occupational disease and poisoning accident.
- ◆ Keep on promoting "Occupational Health and Safety Management System" and "Environment Management System" and further improvement.

Target of safety production

Yuchai group set the index for safety production

- ◆ Zero fatal accidents, severe injuries and serious fire accident
- ◆ Less than (or equal to) three fire hazards
- ◆ Rate of mini accident is less than (or equal to) 3‰.
- ◆ Zero percentage of severe accident of equipment
- ◆ Emission of "three wastes" (waste gas, waste water and waste residues) meets standard
- ◆ Reaching 2nd class of safety standard for machinery manufacturer
- ◆ 100% preventing staff from working related diseases
- ◆ Constantly making progress in management and supervision of production property.
- ◆ 100% passing rate of three-level training
- ◆ Passing environmental/safety and health management system audited by third party





5 **Build a harmonious and healthy society with the concept of humanity**

Social responsibility

- Be responsible for the shareholders
- Guarantee clients' rights and interests
- Safeguard employees' legal rights and interests
- Take active role in the development of society and community

Be responsible for the shareholders

Information disclosure

Yuchai Group provides comprehensive, legal, fair, correct and understandable information to shareholders and investors in order to enhance the communication. Yuchai Machinery Co., Ltd. implements the information transparency policy.

Regular meeting of shareholders is held annually. Furthermore, according to practical situation, Shareholders Meeting is held to report the financial management and detailed dividend plan.

Rights and benefits of shareholders

Yuchai Group stresses on protecting the rights and benefits of shareholders through the following: internal controlling of sales, financing and procurement; checking company accounting policy, account status and financial reporting procedure through establishing supervision

system; predicting potential risk and monitoring internal control through third party auditing body; supervising company's finance; deploying open bidding and bid system for procurement of material, office supplies and technical reform project of certain amount.



▲ The Board of Directors of Yuchai Machinery Co., Ltd.

Guarantee clients' rights and interests

Developing with clients in all win

Yuchai has established long-term strategic cooperative partnership and formed the value concept of all win in market with leading enterprises in the field of automobile and engineering machinery. Some of the examples are Dongfeng Commercial Vehicle Company, Dongfeng Liuzhou Motor Co., Ltd., Hubei Tri-ring Group Corporation, Beiqi Foton Motor Co., Ltd., Chongqing Hongyan company, China National Heavy Duty Truck Group Corp., Ltd., Anhui Jianghuai Automobile Co., Ltd., Zhengzhou Yutong Group Co., Ltd., Xiamen KLM Motor Group Co., Ltd., Xiamen Golden Dragon Bus Co., Ltd., Suzhou King Long, Dandong Huanghai Bus Fittings Manufacturing Co., Ltd., Guangxi Liugong Machinery Co., Ltd., Xuzhou Construction Machinery Group, Xiamen XGMA Machinery Co., Ltd. Yuchai closely cooperates with these enterprises to satisfy a wide range of clients with excellent products that promotes economic development.

Yuchai developed all series of National-3 and National - 4 environment protection engines through cooperation with major bus manufacturers such as Zhengzhou Yutong Group Co., Ltd., Xiamen KLM Motor Group Co., Ltd., Xiamen Golden Dragon Bus Co., Ltd., Suzhou King Long. Currently there are more than 20,000 of National-3 engines on the domestic market. Among them Yuchai National-3 engine installed in buses produced by Yutong, Ankai, Xiamen KLM and Xiamen Golden Dragon showed zero failure rate during the 17th CPC National Congress and Chinese People's Political Consultative Conference. There will be more than 3,000 Yuchai National-4 Engine equipped in buses produced by Dandong Huanghai, Zhengzhou Yutong, Suzhou King Long, Xiamen Golden Dragon, Xiamen KLM, Beijing Jinhua, Anhui Ankai and Yangzhou Yaxing to serve the Beijing Olympic Games.



▼ Dongfeng self-discharging heavy truck equipped with Yuchai engine

Guarantee clients' rights and interests

玉柴呼叫中心



Optimize the service

Yuchai Group has established a comprehensive, three-dimensional integrative service system and its service management model holds a leading place in the same industry in China. With 30 offices in different provinces, 29 shops of specified for parts and over 1350 after-sales service network all over the country, Yuchai has set up the largest service network. The service of the network is the smallest service radius and the longest maintenance time with the "Three Guarantees" system. The response is the shortest time since there are 36 operators seating in calling center among which 12 are experts and the service number of 95098 opens all day which can provide 24 hours no-obstacle service for clients.

In order to look for direction to improve the products and services, Yuchai Group contracts the third party institution to conduct survey on Degree of Clients' Satisfaction annually. With the upgrade of the vehicle emission standard, Yuchai group has first grasped the advanced electric control service technology of National-3 and National-4 and has established over 300 electric control service stations. The service level has held a leading place in the industry. As the products of Yuchai are sold to the international market, the service technology is also expanding abroad. 10 international offices guarantee the exploring and development of international market. Yuchai wins the general customers' trust with its "professional, high-quality, leading" service.



Guarantee clients' rights and interests

Share benefits with suppliers

According to the core concept of "green development and all win in harmony" and the requirements of social responsibility criteria, through the relationship of product and capital linkages, Yuchai has gradually improved its responsibility performance to society, optimized the social responsibility management of supply chain and built a long-term cooperation strategic partnership with suppliers to realize harmony in all win situation and lead a healthy development.

Yuchai and all of the suppliers set up a Suppliers Federation. Through the federation meeting, Yuchai can consult the development of supply chain strategy with their suppliers; transmit Yuchai's enterprise culture; implement policies and listen to the suppliers' opinions and suggestions. It closes the relationship between Yuchai and the suppliers.

Yuchai has established a supplier information platform that consists of ERP system, IBM enterprise's information and cooperative system, QAS quality control system and YCSS service system. Sharing of the information with suppliers ensures Yuchai's quick reaction ability to the changes of market.

The establishment of a complete supplier's management system and the implementation of a strict supplier's access system make it possible to comprehensively evaluate the suppliers in the aspects of quality, technology, cost and strategy so as to choose the good ones. On the other hand, Yuchai helps and supports the suppliers positively in respect of capital, technology and management to build a fair competition environment, which promotes the suppliers' sustainable and rapid development.



Guarantee clients' rights and interests

Push forward the social responsibility of supply chain

Under the guidance of the core concept of "green development and all win in harmony" of Yuchai Group, with the goal of common development and progress together with the suppliers, both the suppliers and their products are brought into safety and environmental protection management category of Yuchai's standard. At the same time, under the requirements of the occupational health and safety management system and environmental management system, the suppliers are required to make a contract of Environmental and Occupational Safe and Health Management Proto-

col with Yuchai Group and fulfill their responsibilities on environment and safety from product design, production manufacturing and initiation into service. It keeps the company and suppliers in the same level on safety and environmental management and reduces occurrence of accident and environmental pollution.

Since the measures were taken in 2004, no hidden problem of environment and security has happened in the process of the product and service supply, which guarantees Yuchai develops with the supply chain harmoniously.



▲ Yuchai signed the contract of Environmental and Occupational Safe and Health Management Protocol with relevant enterprises.

Safeguard employees' legal rights and interests

Democratic management

● Representatives of employees play an effective role

Every year Yuchai Group holds conference of representatives of employee. Any issues involving the enterprise development goals and important production and management decisions are reported to the representatives of employee for suggestions. The general manager's work report and the reports of the company's financial budget and financial accounts are submitted to the representatives of

employee for their approval. Other issues summated to the representatives of employee are the distribution plan, employment system, occupational safety and health, labor protection, insurance and benefits, employee training system, factory affairs, employee in special need statute, mutual aid supplement insurance fund for employees, scholarship and grant for employees' children.



▲ The 15th conference of representatives of employees of the Group

Safeguard employees' legal rights and interests



▲ Employees learn information about the enterprise from the factory affairs bulletin board.

● Factory affairs transparency

Yuchai Group has set up an organization to make factory affairs transparency. Chairman of the Board of Yuchai is appointed as the leader and the general manager is appointed as the assistant leader. Another discipline group was also set up with the chairperson of CCP Discipline Committee is appointed as the leader and the chairman of Federation of Labor Unions is appointed as the assistant leader. The issues that the leaders responsible are: company development plan, medium-and long-term plan, annual policy and target, etc, salaries and benefit of employee, anti-corruption

campaign. The Labor Union and the relevant departments are responsible for guidance, supervision, inspection and evaluation. The main forms for transparency are conference of representatives of employee, factory affairs bulletin board, broadcasting and television, internal journals and office network. Any issues involving employees' interests are reported to all employees. Implementation of factory affairs transparency is supported by the employees and the management team. It established procedure of systematization, informationization and standardization.



Safeguard employees' legal rights and interests

The main channels for employees to put their suggestions

Directly listen to the employees' opinions is a major way to implement and fulfill the transparency. Some measures of listening to the employees are as follows.

1.General manager's mailbox

"General Manager's Mailbox" has been set up. In office automation network, "Rationalization Proposal" and "Express to General Manager" were also set up. A hotline has been opened in departments and factories to the workers who want to communicate with their leaders directly through hotline talking program like "face to face, meet on Saturday", factory manager hotline etc.

2.Communication meetings between leaders and workers

Leaders in all levels hold communication meetings in workshops with employees to listen and respond to questions.

3.General manager's open day

Open day is set up quarterly for the representatives selected by each department to communicate with the General Manager.

4.Special column of "Employees' Aspirations" running on office network

Any problems employees have can be put on this special column and the related departments are required to reply.

5.Initiative service visual board

"Initiative service visual board" is set in the working field. Any troubles and problems the staff have can be posted on the board so that the relevant departments can respond to.

6.Rationalization proposal

The working procedure for handling the rationalization proposals has been established. Employees can put forward their proposals at any time and they will get praise and reward if their proposals are excellent.

7.The proposal of representatives of employee

The representatives of employee widely collects employees' proposals and leaders reply in the conference. The labor union will report the follow-up to the representatives in the next year's conference.

8.Employee satisfaction survey

Yuchai Group contracts the third-party institution to conduct a survey on employees' satisfaction annually to look for a way of improvement.

Safeguard employees' legal rights and interests

Labor standard

● Equal consultation and collective contract

From 1996 to 2000, Yuchai Group implemented the system of signing Collective Contract annually. Since 2001, both the representatives of employee and the Board of Directors sign the Collective Contract every three years. The consultation includes the labor payment, working hours, vacation and leave, occupational safety and health, and insurance benefit, etc. The aim of equal consultation is to establish harmonious labor relationship and protect the legal rights and interests of both the enterprise and employees. The result of consultation is protected in the form of collective contract. Both parties share the responsibility of ensuring the effective implementation of the collective contract. The collective contract supervision group is made up of equivalent members from both parties. The implementation is inspected by both parties at regular

intervals, which is currently semiannually. The inspection report is submitted to the consultant representatives of both parties for approval. The union support the enterprise to strengthen the labor protection management; cooperate with the departments to inspect and supervise the factories' occupational safety and health quarterly and put forward some suggestions for improvement. The enterprise' leaders and the departments adopt countermeasures based on the suggestions within 3-6 months. The union has the right to ask the enterprise to take correspondent actions if the employees' health or safety is threatened or damaged because of lake of improvement. In practice, the trade union insists on bringing all kinds of issues concerning about employees' interests into the collective contract inspection and to handle them timely.



▲ The Yuchai Group's ceremony of signing Collective Contract



Safeguard employees' legal rights and interests

● Protect the employees' basic rights



▲ Praise advanced female workers in 2007

The enterprise prevents discrimination against employment and occupation and eliminates forced labor and pays attention to protect the employees' basic rights including investments and purchase decisions. As to the issues of employee recruitment, payment, promotion, demission and retirement, the enterprise will not discriminate against employees on the grounds of nation, race, social status, religious belief, disability, sex, age, etc. When it needs to vary the working hours, including working overtime and canceling or shortening the rest or leave, the enterprise will inform the union and employees in advance and consult with them to avoid any forced labor and give equal pay for equal work.

Forbid using child labor and give special protection to minor workers. The enterprise will comply with the regulations of Labor Law, Law on the Protection of Minors, and Regulations about Forbidding from the Use of Child Laborers, not recruiting child labor in labor employment. As to the employed under-age workers who are over 16 but less than 18 years old, the enterprise

will adopt special labor protection measures according to Special Protection Regulations of the Minor Workers to protect their physical and mental health as well as their legal rights.

Give special protections to female workers. The enterprise implements related laws and regulations of protecting female workers' rights and establishes female workers committee. Following the principles of equal employment, the enterprise will not use sex as an excuse for refusing recruitment or raising standards of employing women, except that this type of work or post is unsuitable for women. It pays close attention to promote female administrator, female specialized technical personnel and female skilled workers. During the period of wedding, maternity leave female workers' salaries are guaranteed. The enterprise establishes data base of female employees. The enterprise also builds up women clinics, pregnant women rest rooms, lactation room, nursery and kindergartens and provides good working and living conditions for female workers.

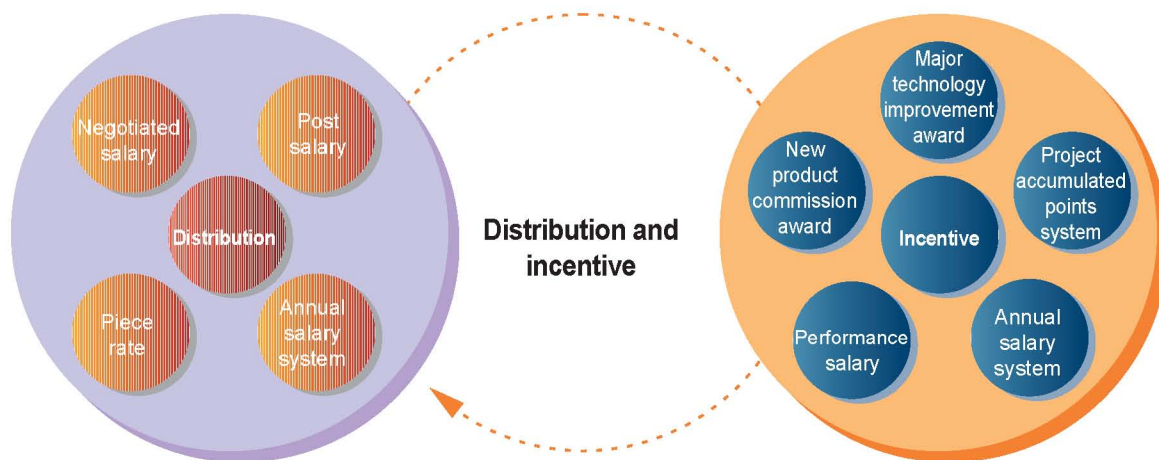


Safeguard employees' legal rights and interests

● Salary system

The company forms a salary system depends on employees' achievements and the market, guided by the rules that "enterprise distributes independently; employees participate democratically; the government gives supervision and instructions". It assures the employees share the benefits of development to make the employees' income increase yearly. The methods are: the employees' payment has a close connection with the enterprise benefit, that is, the payment increases simultaneously with the enterprise benefit; each year based on the divisional performance, the

company will adjust the increasing percentage of salary; give rewards such as project integrals reward, new product commission reward, buying house according to the agreement, and incentive annual pay. As to some employees in key technical posts, the enterprise will use funds as an incentive (which is similar to occupational pension) to stimulate their working enthusiasm and initiatives. With the substantial increase of the company's operating performance, the employees' salary greatly increases accordingly. Since 2003, the increasing range has kept a scale of 10-15%.



Year	Project accumulated points award	New product commission award	Major technology improvement award	Stock option incentive	Total
2005 (ten thousand Yuan)	1200	480	300	500	2480
2006 (ten thousand Yuan)	1257	560	228	500	2563



Safeguard employees' legal rights and interests

● The system of working hours and working overtime

According to the national standards, the working hours in Yuchai is to work 5 days a week and 8 hours a day with average 172 working hours in a month. Besides, the enterprise establishes and carries out an overtime work management system based on Labor Law to give rest replacement and overtime pay to the employees working overtime. The methods are: for those who are asked to extend working hours, they can get paid no less than 150% of the normal wages; for those who have to work on their days off but cannot get rest replacement, they will be paid no less than 200% of the normal wages; for those who work on official holidays, they get paid no less than 300% of the normal wages; for those who get piece wages, after finishing the assigned task, if they have to work when the legal standard time of work is up, they get paid that is 150%, 200% and 300% more than the normal piece rate respectively.

In the competitive market, Yuchai's production faces

some situations like the imbalance of production and sales' peak and slack season. The enterprise has taken some positive measures to protect the employees' rights and has obtained good results. On one hand, when the enterprise has to extend the working hours, it has to ask for approval and be implemented after making a consensus with the same level union. The overtime pay will be delivered according to the collective contract. On the other hand, when the slack season comes, the enterprise will arrange rest replacements for the employees. In 2006, the front-line staff took 26 days more than that of 2005 off, which is equal to the number in 2007. By making reasonable arrangements, the enterprise makes sure that each year the monthly average overworking time is in line with the regulations. It tries hard to form a good situation by strengthening the ability of predicting orders and enlarging production capacity so that the production is gradually increasing while the overwork time is decreasing year by year.

● Social insurance

The enterprise strictly follows the related national standards in social security system to undertake the full insurance premium on time. The social security network includes the employees' basic endowment insurance, medical insurance, unemployment insurance, occupational injury insurance, maternity insurance and housing fund. All regular employees were covered by social insurance. The premium will be based on the state regulations. It ensures that the retired workers' basic pension and outside-plan allowance will be paid on time in full amount. In 2007 the percentage of housing funds undertaken by the employees is adjusted from 7% to 12%, which raises the employees' ability to purchase house. In order to reduce the sick employees' hospitalized medical charges burden, the enterprise plans to set up medical supplement insurance. Within the enterprise,

"Statute of Yuchai's Employee Special Aid Fund", "Employees' Benefit and Allowance Regulation", "Statute of Mutual Aid Supplement Insurance Fund" are implemented to ensure the employees can get treatment and financial support when they are sick or have (traffic) accidents.

Since 2005, the union of Yuchai Group has organized its employees to join the Workers' Medical Mutual Aid Security Project carried out by the general employee union in Guangxi. Each person is charged 40 Yuan per year if he or she wants to be in this project. The union and the employees each pay half of the charges respectively. After joining the project, the employee get 15,000 Yuan for compensation if the employee suffers serious illness. It helps the employee to reduce the burden of medical expense.

● Leaves and holidays

The enterprise has a leaves management system, which stipulates the salary and benefits in all kinds of holidays, home leave, annual leave, maternity leave,

lactation leave, nursing leave, planned birth vacation, marriage leave, funeral leave, sick leave and personal leave.



Safeguard employees' legal rights and interests

Education and training

Yuchai Group has firmly built up the concept that talent is the primary resource of the enterprise and dedicated in training high-skilled team.

- Strengthen the recruitment and training of high-skilled people of technology and management.

Yuchai currently has 5 professors, 29 staff with doctoral degree, 210 staff with master degree, 2060 university graduates and 4270 with college diploma. Four of them are receivers of the national specialized funding. Eleven of them are national technical experts. Those high-educated staff construct a powerful team of technical research and development as well as scientific management of Yuchai.



▲ Chairman of the Board Yan Ping gave appointment letters of Yuchai Engineering Research Institute to experts.



Yuchai Group – Guangxi Small Highland of Diesel Power Talented People (Highland)

The talented people of the small Highland has become the breakthrough of strategy “Developing Yuchai through talented people” proposed by the

government of Guangxi Zhuang Autonomous Region. In 2004, Guangxi Yuchai Machinery Co., Ltd. was named the base for constructing Guangxi Small Highland of Diesel Power Talented People.

This small Highland has gathered a group of leading edge talents on technical and management skills in regard to the research and development of diesel engine. They greatly contributed to making Yuchai the large-scale national first grade enterprise and the largest production base of internal-combustion engine as well as a specialized engine supplier. The remarkable achievements of Yuchai are benefited from its talent strategy. Yuchai recruits its staff through various methods and fully utilizes the strengths of all members of enterprise to continuously improve the capability and quality of its products and meet the requirements of growing market. Yuchai currently has a great expert team, led by professor Bin Zhuo the head of Yuchai Engineering Research Institute, who is also a well-known Chinese technical expert in the electric control of internal combustion engines and Dr. Qin Li the chairman of the Senior Technical

Advisor of the Board of Yuchai who is also the first pioneer of SCR emission disposal technology of Chinese heavy-duty diesel engine and the expert in emission control. These national leading experts of academic science and technology in the field of engine research and development provide Yuchai a well-structured technical team in expertise and age structure and ensure Yuchai's leading advantage of technology. Gathering all kinds of talents is for Yuchai's brilliant achievements. Since the establishment of small Highland of talented people, Yuchai has introduced a new recruitment system participated by all staff. It emphasis the recruitment of international talents to bring in the world's senior technical professionals of internal-combustion engine through international cooperation and international recruitment to build up an international level research and development team. It further strengthened the company's core competitiveness. Yuchai Group is the only manufacturer in China with the ability to integrate and calibrate of vehicle electronic control units (ECUs). It is also the first enterprise that challenges the famous international engine manufacturers. Yuchai will continuously promote the small Highland of talented people from a new point by offering a platform for talents to make contributions and achievements, creating better environment for talent's growth; therefore attracting more outstanding talents to power the prosperous development of the company.



Safeguard employees' legal rights and interests

Main measures.

Ensure the investment on training

Yuchai takes 1.5% of the total salary as training funds and keeps high investment on training.

Enhance the cooperation of production, study and research.

Yuchai has sent 4 PhDs, 5 EMBA, 173 postgraduates and 104 undergraduates to domestic universities for continue training. Those universities include Tientsin University, Wuhan University of Technology, Shanghai Jiao Tong University. One PhD was sent to outside of China for training. Thirty staff were sent to German, Japan, etc for studying. Yuchai also cooperated with

several universities to run postgraduate programs, such as master programs of engineering in Guangxi University, Shanghai Jiao Tong University, Wuhai University of Technology, Central China University of Science and Technology, etc.

Lectures delivered by international experts

Yuchai has also invited experts from other countries such as Japan, Germany, The U.S.A to give lectures..

Promote sharing of information

To accelerate the improvement of technicians, lectures were organized by technical experts on special subjects on a semiannually basis. Up to now, more than 80 lectures have been held with attendance of more than 4,000 staff..

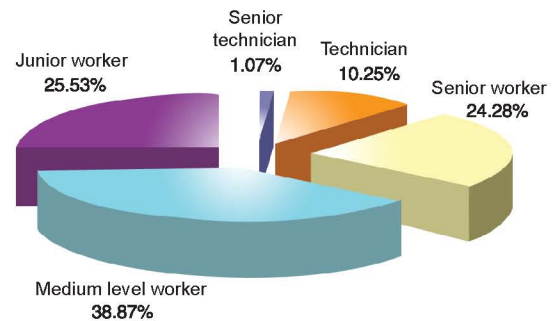
Talent recruitment and education

Year	2004	2005	2006	2007	Total
Company investment	289	313	652	405	1659
Special fund for "Small Highland of Talented People"	25	100	60	5	190

Unit: ten thousand Yuan

● Strength the training on technicians

Yuchai has emphasized on training for skilled workers and aimed to improve their technical skills. During the past five years, 25,000 of frontline workers were trained. At present, 35.6% of operation workers are technicians with senior professional title 61 are senior technicians and 583 are technicians, which represented an increase of 144% and 156% respectively over 2006.



Training methods:

- Training in three-tier model
- Professional qualification and skills upgrading
- Enhancing professional skills on different machine models, training staff as specialist plus generalist
- Providing training for academic degree upgrading
- Professional knowledge learning
- Vocational skills competition

Structure of technical workers in 2006 and 2007

Technical level	Senior technician	Technician	Senior worker	Medium level worker	Total
No. of people in 2006	25	228	944	2368	3565
No. of people in 2007	61	583	1381	2211	4236

Safeguard employees' legal rights and interests

Staff welfare

Yuchai concerns the staff benefit. Yuchai drafted "Regulation of constructing Yuchai fully depending on the employees" to safeguard staff health and their

legal rights. The document guarantees the coverage of all benefit treatments including facility construction and welfare expenses.

● Establish data base of special financial needs employee

In order to collect the timely information about employees in special financial needs and provide proper aid, Yuchai established data base of employees with special financial needs. The enterprise is carrying out the system that "connecting one family and visiting 10 families". It means each leader of enterprise must connect at least one family with financial difficult and visit more than 10 families with financial needs. The company will have a good picture of employees with financial needs and their children. Yuchai set up benefit standards for different financial needs families and for natural disaster and provides financial supports on a monthly, bimonthly, quarterly, semiannual and temporary basis. Special financial needs family gets 200 Yuan monthly or seasonally. Sick employee will receive a certain amount of compensation from staff benefit fund or union fund beside social medical insurance.



▲ Leaders of enterprises visited employees with financial difficulties.

● Drafted regulations on staff benefit

Regulations such as "Rules of Employment and Management of Yuchai Group Employees' Children", "Standards of Yuchai Group's Support for Employee with financial Difficulty", "Standard of Yuchai Group's Scholarship and Grant", "Standard of Financial Support Program" were implemented to ensure employees get financial support under the

In the case of staff reduction and termination of contract, the special financial needs employee gets special and proper consideration. Union plays a key role in making such decision. Within recent years, more than 100 employees in financial difficulties were exempted from the termination of contracts.

circumstances of natural disaster, long-term sickness, traffic accident, and having financial problem to support their children for education. Within recent three years, about 1.16 million Yuan was granted to employees with financial difficulty. About 400 children or relatives of families with financial difficult were employed.

● Improving employees' working and living conditions

Yuchai emphasizes on the improvement of employee's working and living conditions and benefit. Since 2000, Yuchai has set up staff benefit programs each year. For example, providing healthy tea to front-line worker during the peak-season in summer; buying bedding and cloths for overtime workers; offering school bus services to employee's children; building employees'

laundry and bathroom; installing fitness equipment in employees' residence; providing medical support to front-line workers; offering caring services to sales staff who working outside of the city. The implementation of these projects aim at protecting employees and inspiring employees' working enthusiasm and creativeness.



Safeguard employees' legal rights and interests

Establishing health care center for front-line employees

Yuchai employees' health care center was established on April 2005. The purpose of the center is to prevent employees from common occupational diseases such as strain of lumbar muscles and cervical hyperplasia to help get rid of fatigue and keep employee in good physical condition. The health care center has a nice environment and full facilities. It is also equipped with television, stereo, air conditioner, sauna facilities. It has 31 beds and 28 massagers who are graduated from specialized school and fully trained by massage experts. Yuchai employee can enjoy a massage service of 40-45 minutes and bathing & sauna service of 30 minutes. Each year, more than 4000 front-line employees who suffered from strain of lumbar muscles, lumbar hyperosteo-geny and cervical hyperplasia treated in the health care center.



▲ Employee health care center



▲ Employees are enjoying massage in health care center

Safeguard employees' legal rights and interests

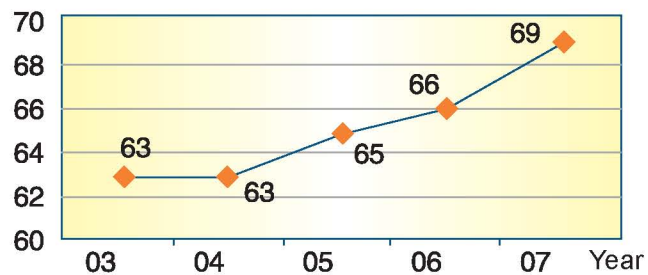
Carrying out satisfaction survey of employees

Since 2003, Yuchai has contracted CFI Group (Shanghai) to conduct the satisfaction survey of employees by adopting the method called American Customer Satisfaction Index (ACSI). CFI Group designed an employee satisfaction assessment system to monitor the core requirement of employees through quantitative study and qualitative survey. The survey will find out the satisfaction degree of employee. Enterprise can also stress on the rational use of resources to improve employee satisfaction through priority analysis. Meanwhile, CFI also developed management assessment model in order to bring employee satisfaction into management staff evaluation system. In year 2006, overall satisfaction of employee and management group achieved 62 points and 66 points. Those score of 2007 were increased by 2 points and 3 points respectively.

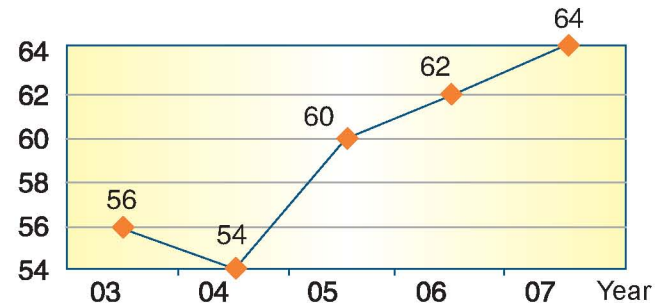
Since 2002, Yuchai has hired the advisory company to conduct evaluation services. The satisfaction of Yuchai's customer reached 78 points and that was increased to 78.4 in 2007, showing a steady growth.

Yuchai has conducted the survey of customer satisfaction. The customer satisfaction closely linked with employee satisfaction because employee satisfaction is the basis. Good clients' satisfaction shows the high quality of Yuchai's products and services of as well as the social responsibility.

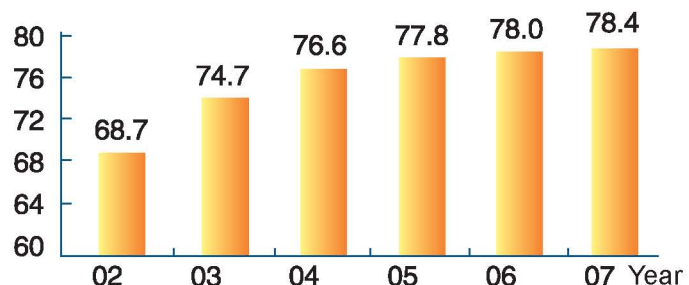
General satisfaction degree of management team



Overall satisfaction degree of common employees



Client satisfaction degree



Take active role in the development of society and community

Yuchai Group takes the responsibility of the development of society and community and actively participating in public activities to foster a good and healthy company image. Yuchai has donated a total of 0.47 billion Yuan into the educational, medical care and health,

environment construction, charity, culture and sports obtained honors such as "Star Unit of Charity", "Advanced Unit of the Warmth Project", and "National Advanced Unit for Spiritual Civilization Construction".

Educations

● Project Hope

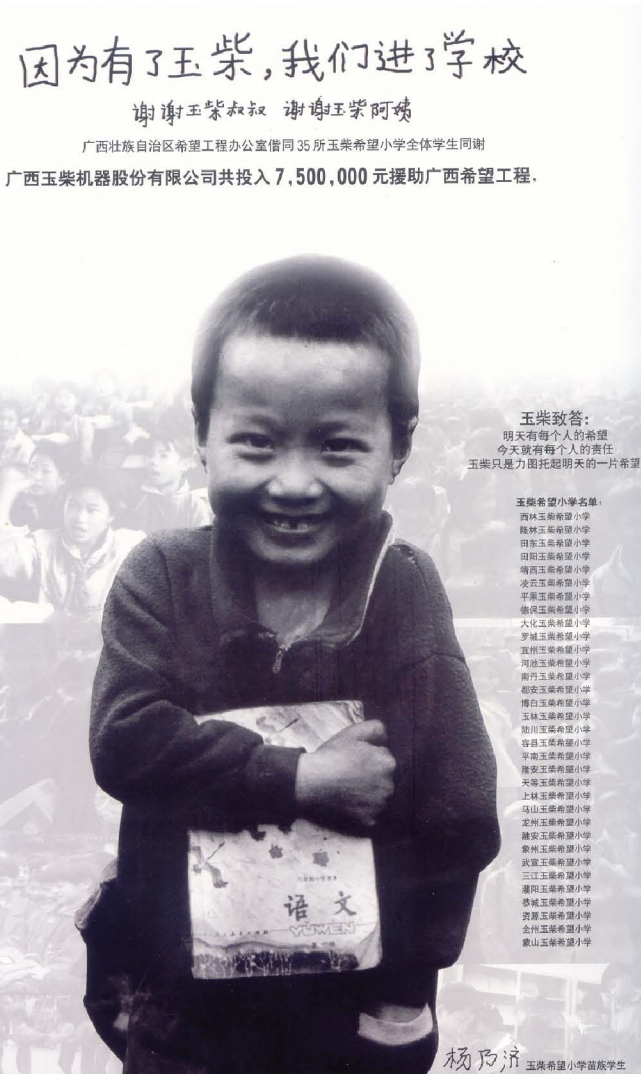
Yuchai donated 7.5 million Yuan to Project Hope and established 35 Hope elementary Schools.

● The Spring Bud Project

Yuchai took an active role in "The Spring Bud Project" proposed by All-China Women's Federation for putting girls in poverty-stricken areas, who have dropped out of school for financial reasons, back in school. Yuchai formed Yuchai Group's implementation plan of "The Spring Bud Project" and made donation every year to help financial needed female students to back to school. Yuchai has donated to "The Spring Bud Project" total 520,000 Yuan within the year 2006 and 2007, and supported 500 financial needed female students each year.

● Education funds to key colleges

Yuchai sponsored education funds and scholarship to colleges and outstanding students. Donation to Tsing Hua University was over 1.2 million Yuan.



Take active role in the development of society and community

● Yuchai Group's scholarship and study grant

Yuchai set up scholarship and grant to reward and help children who excel in moral and academic performances to help its employees' children to finish study, encouraging them with self-reliance, self-dependant and self-improvement, and inspiring them to grow and contribute to the society. Yuchai sponsored all the funds constantly, and use it

cumulatively from a special account of the Yuchai Union. Since the year 2006, Chairman of the Board Yan Ping established "Yan Ping Love Care Study Grant", and donates 100,000 Yuan each year. Within the recent two years, there are nearly one hundred employees' children benefited from the scholarship and grant of the total 300,000 Yuan.



▲ Yuchai Group's Scholarship and Study Grant Subsidizing

● The "One to one, and several to one" love-giving education support activity

Since August 2007, Yuchai's Communist Youth League has carried out the education support activities with the theme of "hands on hands, heart to heart". All the league members in the name of "Youth Civilization Unit" or Communist League responded to the call and supported 21 students who excel in moral and academic performances in Yulin.



▲ "One to one, and several to one" love-giving education support activity

Take active role in the development of society and community

▲ Yuchai organized blood-donation activity



Medical care and health

● Medical donation

Yuchai donated 58.7 million Yuan to medical institutions at all levels and medical centers since 1990s.

● Blood donation

Yuchai organized its employees to make blood donation twice or three times per year since the year 1998, and was awarded "Voluntary Blood Donation Promoting Prize".

Environment improvement

● Street construction

Yuchai invested 54 million Yuan on the street construction of Yulin City.

● Community construction

During the implementation of "Urban and Rural Areas Cleaning Project", Yuchai invested over 18 million Yuan per year on constructing green parking lots, green ecological path, planting trees, built green garbage-disposal sites. Yuchai Ying Hua District was voted as "the Advanced Unit for Creating National Green Community".



▲ Yuchai Yinghua district

Take active role in the development of society and community

Charity donation

- Yuchai donated more than 3.7 million Yuan to disaster areas since the year 1994.
- Yuchai donated more than 2 million Yuan to charity organizations including Chinese Bravery Funds, Disabled Persons' Foundation and homes for the elderly.



▼ Disaster relief activity



▼ Volunteers are visiting seniors in the old folks' home.

Culture and sports

Yuchai Group supports culture events and sports on all levels, establishing its figures of contributing to the society and public welfare while showing Yuchai Group's achievements of development. In the year 2005-2007, Yuchai sponsored about 50 million Yuan to Chinese Table Tennis Team, Chinese Gymnastics Team, ASEAN International Auto Rally and The Same Song etc.

- Yuchai Group sponsored the 1st to 4th “Small and Medium Enterprises-Expo (Yulin, China)”, inviting CCTV program - “The Same Song” to host a large evening party during the 3rd Small and Medium Enterprises-Expo (Yulin, China).
- Yuchai signed agreement with Chinese Table Tennis Team as a main sponsor on November 2005, supporting Chinese Table Tennis Team to devote their efforts to international competitions, with the aim of creating brilliance in Olympic 2008 in Beijing.
- Yuchai sponsored the two consecutive “CHINA-ASEAN International Auto Rally” since the year 2006.
- In the year 2007, Yuchai sponsored the 11th Sports Meeting in Guangxi Zhuang Autonomous Region.



▲ ASEAN International Auto Rally





6

Future outlook

Medium- and long-term goals
Target of 2008

Medium- and long-term goals

◆ Development plan of 2010

Planning objective

With the internationalization of products and market, technical standards of products should reach the world's first class level, as well as the diversification of capital and operation, enhancing the core competitiveness of the enterprise, keeping the first place in China.

Operational target

To achieve sales income of 30 billion Yuan in the year of 2010.

Development strategy

With the core objective of growing big and strong, Yuchai should concentrate on two main lines of promoting the core competitiveness and capital operation to realize the target of Yuchai Group's "Eleventh Five Year Plan" (2006-2010).



◆ Future development strategy

Development strategy

To establish national and international joint venture or cooperation; to speed up introduction and application of new high technology; to extend 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; to rectify 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 international enterprise group.

◆ Internationalization strategy

Strategic target

Target for a 30 percent increase in the volume of exports; build the internalization of Yuchai brand, products and production base.

Development strategy

Make major breakthrough, continue to be bigger and stronger. Yuchai targets markets in Asia, Africa, Latin America and East Europe, and focuses on South-east Asia area; meanwhile, progressively enters the market in developed countries of North America and West Europe in a planned way.





Target of 2008

◆ Operation policy

Operation policy of Yuchai Group in 2008 is: Form the foundation of stimulus mechanism and cultivation; form the foundation of innovation and optimization; find new resources and reduce expenses; extend the business scale.



Form the foundation of stimulus mechanism and cultivation

—Form common reorganization among all staff, respect team spirit and cultivation of talents;

Find new resources and reduce expenses

—Fine management, find new resources and reduce expenses, explore new economic growth point;

Form the foundation of innovation and optimization

—innovation, optimization of structure, strengthened basis

Extend the business scale

—Combining the sources of international operation and capital operation into leaping-forward development.

Target of 2008

◆ Implementation measures

- ★ Stimulation: Team spirit stimulates the power of all staff

Refining and sublimating of enterprises culture; management team should be the good examples of carrying forward team spirit.

- ★ Cultivation: Cultivation of talents develops human resource with creativeness.

Enhancing the exploitation and planning of human resource; planning annual training courses with emphasis on professional training; building Yuchai Group's database of talents and relevant management mechanism; improving the incentive mechanism in according with performance management, sounding the incentive system.

- ★ Innovation: the system innovation guarantees sustainable development

Various parties should reach a consensus by communication; Yuchai intensify the reforms of company system and introduce strategic partners. Yuchai Engineering Research Institute should establish various specialized research organizations, gradually transmit itself into a company of science and technology and establish long effect incentive mechanism.

- ★ Optimization: Structural optimization increases economic benefits

Integrating Yuchai Group's resource of parts business, cultivating leading enterprise of parts, planning parts industrial group; promoting the strategy of "Strengthen Yuchai, Revitalize Yulin", introducing and exploiting core parts business; optimizing products structure of diesel engines in order to increase economic benefits; planning Yuchai Group's domestic industrial layout.

- ★ Precision: Implementing responsibility mechanism through fine management.

◆ Target task

Guaranteeing the sales income of 23 billion Yuan and target for 24.3 billion Yuan; production and sales of diesel engine reach 640 thousand units, production and sales incomes of excavator reach 58 million

Standardizing and perfecting enterprise institution, process and standard; strengthening executive ability; innovating responsibility mechanism; carrying out accountability system in mid-level and senior management group.

- ★ Reducing expenses: Overall budget management reduces operation cost

Reinforcing and implementing the overall budget management; deepening full staff operation and administration of enterprise; strengthening "The Cost Reduction Project"; reducing cost through technology innovation.

- ★ Increasing resources: Project development results in the new economic growth point.

Intensifying the technical reform, enlarging the productivity scale; investing in new projects which bring up new economic growth point.

- ★ Development and expansion: internationalized operation expands the business development

Completing international marketing planning; focusing on exports with own import and export right and gradually forming international production base, reinforcing the international brand building of Yuchai; innovating services modes in international markets; building up company's talent pool of international marketing and services.

- ★ Operation: Capital operation offers a financing platform.

Fixing capital operation modes, constructing and integrating financial platform of Yuchai Group; completing management system of investment and financing; improving ability of investment and financing management; lifting capital projects' value-added service quality; adopting project management system to capital operation.

Yuan; total profit attains 1.8 billion Yuan. Investment expands to 1.2 billion Yuan with 15 investment projects. Staff income grows appropriately according to the growth rate of sales income and total profit.



Comments on 2007 Sustainable development report

Authorized by Yuchai Machinery Group Co., Ltd., following is my comments on its 2007 Sustainable development report (the report for short):

1. Contents

Yuchai Group's report consists of 6 sections, which accurately and comprehensively expounds the commission, culture, core values, developing strategy of enterprise according to its concept of social responsibility, and objectively and factually introduces Yuchai's development of social responsibility and successful practices.

Through this Report, interested parties from international and domestics can obtain a thorough understanding that, during the development of the past several decades, Yuchai Group has held on the concept of scientific development, merging the social responsibilities into its development planning, production operation and all kinds of practical work. Facing the fierce competition in machinery production industry, Yuchai has introduced the core concept of "green development and all win in harmony". The mission of the enterprise "providing excellent and advanced power products to meet public demand", continuously improving management and operational efficiency, insisting technology innovation, constantly realizing the grand goal of "Being the Chinese pioneer of green power". Meanwhile, Yuchai has actively responded to state's demand on enterprises' undertaking for social responsibility, and made outstanding achievements with regards to safety production, environmental protection, protecting the rights of interested parties, taking part in social welfare, which promoting the sustainable economic and social development.

It is the first time for enterprises of Chinese machinery production industry to publish annual sustainable development reports. It is also an important sign that Yuchai Group fulfills its social responsibilities and is supervised openly by public.

2. Report features

Leaders took part in the report compiling personally. Led by Chairman of the Board Mr. Yan Ping, Yuchai Group's management team highly emphasized the importance of social responsibility, and took compiling and publishing of the report as a vital measure to enhance the concept of social responsibility. Senior management group and staff of administration departments from Yuchai Group and its subsidiaries and representative offices participated in the lecture on social responsibility. Company's leaders team also listen to suggestions from evaluation experts.

Rationalized structure, comprehensive contents. The report incorporates the core concept and principle of social responsibility into enterprise's practical situation, putting forward the road to develop social responsibility with Yuchai's characteristics from different angles through the facts and data support.

Paying attention to the communication with the interested parties. Yuchai expressed deep concerns on interested parties through soliciting their opinions and suggestion. Meanwhile, the report reflects the requirements from all parties through the methods of investigation, visit and experts consultation so as to communicate with parties concerned.

3. Report evaluation

The report was compiled under the guidance of "green development and all win in harmony" as a key concept to take its social responsibility, while carrying out and implementing the scientific concept of development, following the rule of "Global Compact". The report objectively displayed that, Yuchai, as a state-owned key enterprise, has made contributions on national economic development and social progress with a deep sense of mission and responsibility.

The report delivers comprehensive information with highlighted key issues of excellent readability, thus it is a sophisticated report on social responsibility.

4. Suggestions

Firstly we would suggest to add the content of index system of social responsibility management, offer more comprehensively comparable data, and therefore provide a better basis for readers to make decisions.

Secondly we would suggest to emphasize the research on relevant issues of machinery production enterprise's social responsibility, explore a road to effectively improve social responsibility management and enhance competitiveness in domestic and international markets.

Lastly we would suggest to increase communications, fully communicate with interested parties with regards to the concept of social responsibility and its practice, grow enterprise's social influence, foster a good and healthy company image.

Deputy Director-General, Chinese Enterprise Confederation
Members of the United Nations Global Compact Board **Ying Chen**

Date: April 22nd, 2008