

Group Logo--YC



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

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

The shape of the Logo is mature in shape, sober mixed with dynamic, plain but passionate. It incarnates that Yuchai is a group full of passion and is pursuing "Green Development" and "All-win in Harmony" as the domestic manufacturing base with most comprehensive models of internal combustion engine and excavator products. The logo highlights Yuchai Group's global brand image of "Excellence in Quality & Global YuChai"

Yuchai Philosophy

Core concept:

Green Development & All Win in Harmony

Yuchai mission:

Leading our partners and the public's trust much more valuable

Yuchai vision:

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

Management philosophy:

Excellent Quality & Yuchai Globalization



Brand concept:

Excellence·Value·Linkage·Innovators

Excellence: excellent product quality, industrial quality and service

Value: cohering overall value of the Group to realize value maximization

Linkage: integrating resources internally to realize coordinated development of industrial clusters; sharing value externally with the partners

Innovators: Yuchai has grown to a new height of innovation from manufacturing and development; innovation is an important means of Yuchai group to fulfill the mission of enterprise.



Core values of the brand :

Sincerity·Lean·Respect

Sincerity: maintaining honesty and humility forever. ——for partners

Lean: above standards, beyond expected. ——for customers

Respect: good listening, strong supporting, reasonable sharing.
——for investment objects





Note on the Report



The Yuchai sustainable development report was firstly released in June 2008—"Sustainable Development Report 2007", and has since been running for five consecutive years. The Report is the sixth of its kind. It mainly covers Yuchai Group's sustainable development activities of various fields in 2012, while referring to the situations on its subsidiaries. Relevant information in previous years are also provided if it is necessary.

In preparation of the report, special emphasis are placed on the disclosure of matters which stakeholders highly concern with and Yuchai Group also consider to be important. The disclosure of performance on social responsibility in Yuchai Report will be according to those core subjects and the concerned requirements which is defined by ISO26000.

The Report reflects sustainable activities of Yuchai Group. Data comes from official documents and statistical reports released by the Group and its subsidiaries and affiliated companies. Financial figures come from Annual Financial Report 2012 of the Group.

Report language:

Chinese English



Report form:

Eco-friendly paper print, electronic documents

Commitment:

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

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Contents

10 About Us

08 Chairman's Message

58 Looking forward to 2013

54 Community Responsibilities

55 Increasing Local Employment by Projects Investment

55 Helping Disadvantaged Groups by Donation and Charity Action

57 Promoting Technological Development through Training Activities

46 Customer Responsibilities

47 Providing Safe and Reliable Products for Customers

49 Ensuring Customers to fully Enjoy Rights and Interests



14 Organizational Governance

- 15 Improving Corporate Governance Structure
- 17 Deepening Corporate Culture Construction
- 17 Promoting Lean Manufacturing Projects

18 Human Rights Responsibilities

- 19 Improving Employee Complaint Mechanism
- 20 Respecting for Basic Rights of Workers
- 20 Providing Employees with Perfect Service

22 Responsibility for Employees

- 23 Stabilizing Employment and Introducing Talents
- 23 Ensuring Remuneration and Inspiring Advanced Staff
- 25 Collective Negotiation and Democratic Management
- 26 Realizing Production Safety and Putting Prevention First
- 27 Promoting Training by Competition and Advancing Workers' Skill

30 Environmental Responsibilities

- 31 Leading Domestic Market in Green Power Development
- 34 Promoting Resource Recycling to Save Material and Reduce Energy Consumption
- 37 Developing Clean Energies to Save Energy and Reduce Emission

40 Operational Responsibilities

- 41 Enforcing Internal and External Supervision in Anti-corruption
- 41 Securing Fair Operation through Business Subdivision
- 42 Breaking Up Monopolies by Self-dependent Innovation
- 43 Fulfilling Responsibilities with Stakeholders Hand in Hand

Chairman's Message



Over the past years, Yuchai has insisted on the concept of " Green Development & All-Win in Harmony ", always put the interests of the society, the public and the customers in the first place, provided green and efficient products for the society and undertaken the social responsibility actively. We have adhered to obtain recognition and understanding of all stakeholders by professional attitude, effective communication and good performance, to establish positive interaction mode between external environment, internal mechanism and the way of development, and to take the road of positive and sustainable development, realized the enterprise' leap-forward development. Shouldering the sacred mission to develop the undertakings of diesel engine in China, Yuchai has made an all-out effort to promote innovation and development in this area. The Yuchai undertakings are carrying the hope and dream of all Yuchai people.

The year 2012 was truly extraordinary. Facing severe and complicated external situation on economic market, Yuchai people struggled together to respond actively to all sorts of change

and challenge and obtained new progress. Industry layout continued to deepen and the business diversification achieved satisfactory results; new products such as low-speed diesel engine, high-power medium-speed diesel engine, etc. developed orderly and the ability of independent innovate enhanced; the plan on Yuchai brand strategy released successfully and the brand value was over 10 billion Yuan for the first time with a continued improvement of brand image; the lean manufacturing projects promoted steadily, the lean operation more popular among the employees, the operation management improved effectively and the core competitiveness

got a strong rise; the cooperation projects on lubricating oil and medium-speed ship engine signed successfully, the joint venture cooperation propelled to a new level, and so on. In 2012, we made constant innovation and achieved outstanding quality; we deepened the development to build an international Yuchai; we implemented "intelligent manufacturing " to create a new enterprise image.

Harmony continued to be the main melody of Yuchai in 2012. We attached importance to the value of Yuchai people, taking the respecting and caring for employees as the basis on building a harmonious Yuchai. The protection for rights and interests of Yuchai people was supporting the harmony development of enterprise, the individual development of Yuchai people is the core element for enhancing overall development and competitiveness of Yuchai. A harmony Yuchai is the guarantee for a brilliant tomorrow. We attached importance to protect the interests of supplier, taking positive action to help them improve their ability and achieve common development with them. We had always put customers' interest in an important position and guarantee the benefit maximization for them with a comprehensive high-quality service.

In 2012, Yuchai focused as always on protecting the green environment. With important symbols of green products, green manufacturing and active development of circular economy, Yuchai as the leader for low consumption and low emissions in engine industry continued to strengthen the green design of all engine products and the environmental impact controlling of all production process. Green is Yuchai's eternal pursuit.

The year 2013 for Yuchai is the key year to seek improvement in stability, the crucial year to implement Yuchai Twelfth Five-year Development Strategy, and also the crossing year to realize a new development.

We will work hard with more confidence, more enthusiasm and higher morale. We will deepen the corporate social responsibility management, respond actively to the concerns of stakeholders and march forward along the road of leap-forward development with a view to create a new brilliant achievement.

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

Chairman of the board



About Us



About Us

Since the new century, Yuchai group has embarked on a road of development by leaps and bounds with an average rate of annual growth more than 30% in recent years, which owed to a strong capability of independent innovation. It is now a modern corporate group covering six business areas including engines, construction machinery, energy & chemicals, logistics & automobile trade, automotive parts and special vehicles, the investment layout of it is over the country and product sales in more than 100 countries and regions. The Company has 23000 employees with the total assets of 36.561 billion Yuan in 2012, ranked No. 226 of China Top 500 Enterprises and No. 18 of China Top 500 Machinery Enterprises.

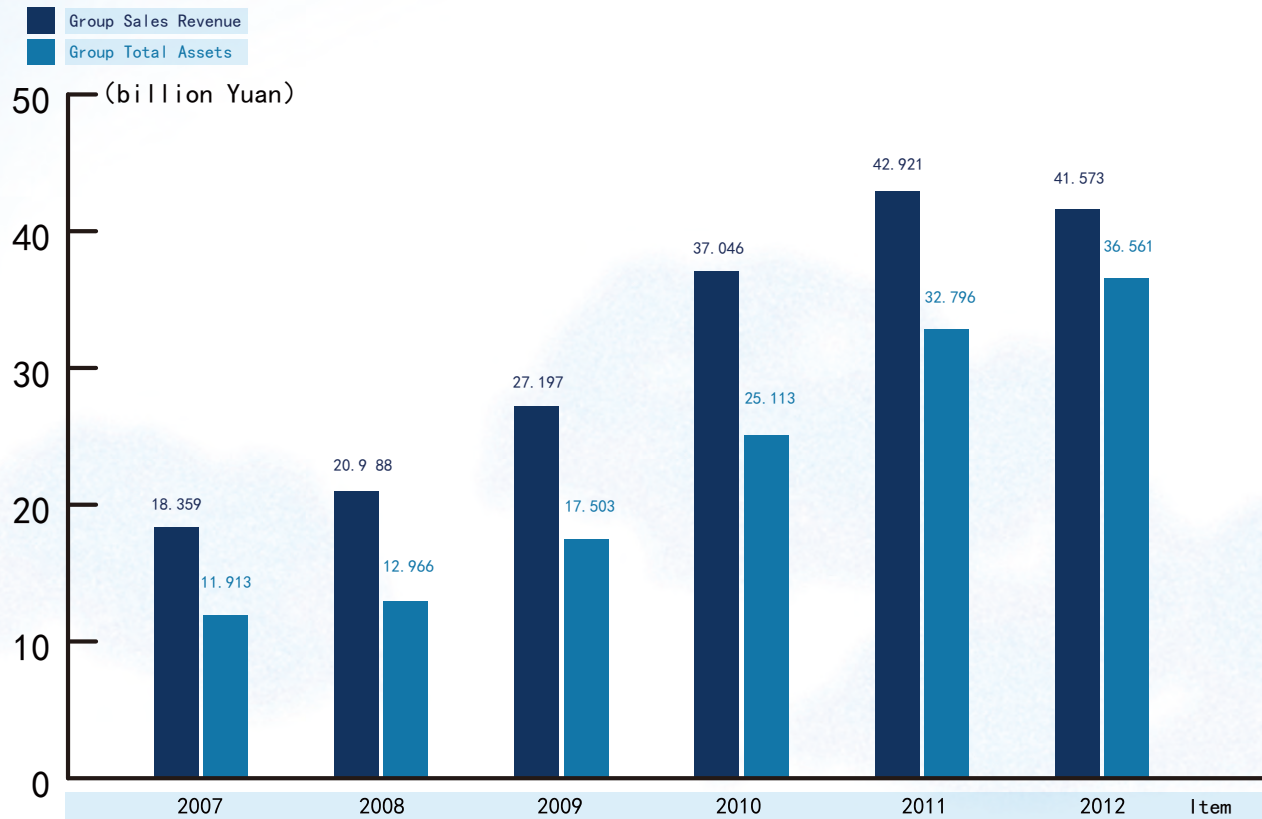
Facing the situation of 2012 in which investment and export environment worsening increasingly and the domestic market demand

inhibited severely, Yuchai has realized a contrarian development and excellence performance depending on its leading and applicable products, solid strength and a strong momentum of development. In the year of 2012, Yuchai achieved the total sales income of 41.573 billion Yuan. Among which the engine sector as the core business of Yuchai realized the sales of 674,600 sets, maintaining the first position of the industry and increased the market share by 3%. Experienced a rapid growth, the energy and chemical sector has become the second big sector with annual sales revenue over ten billion Yuan after the engine sector. The new breakthrough achieved in overseas market, with the export of 27107 sets of engines and 7055 sets of engineering machinery.

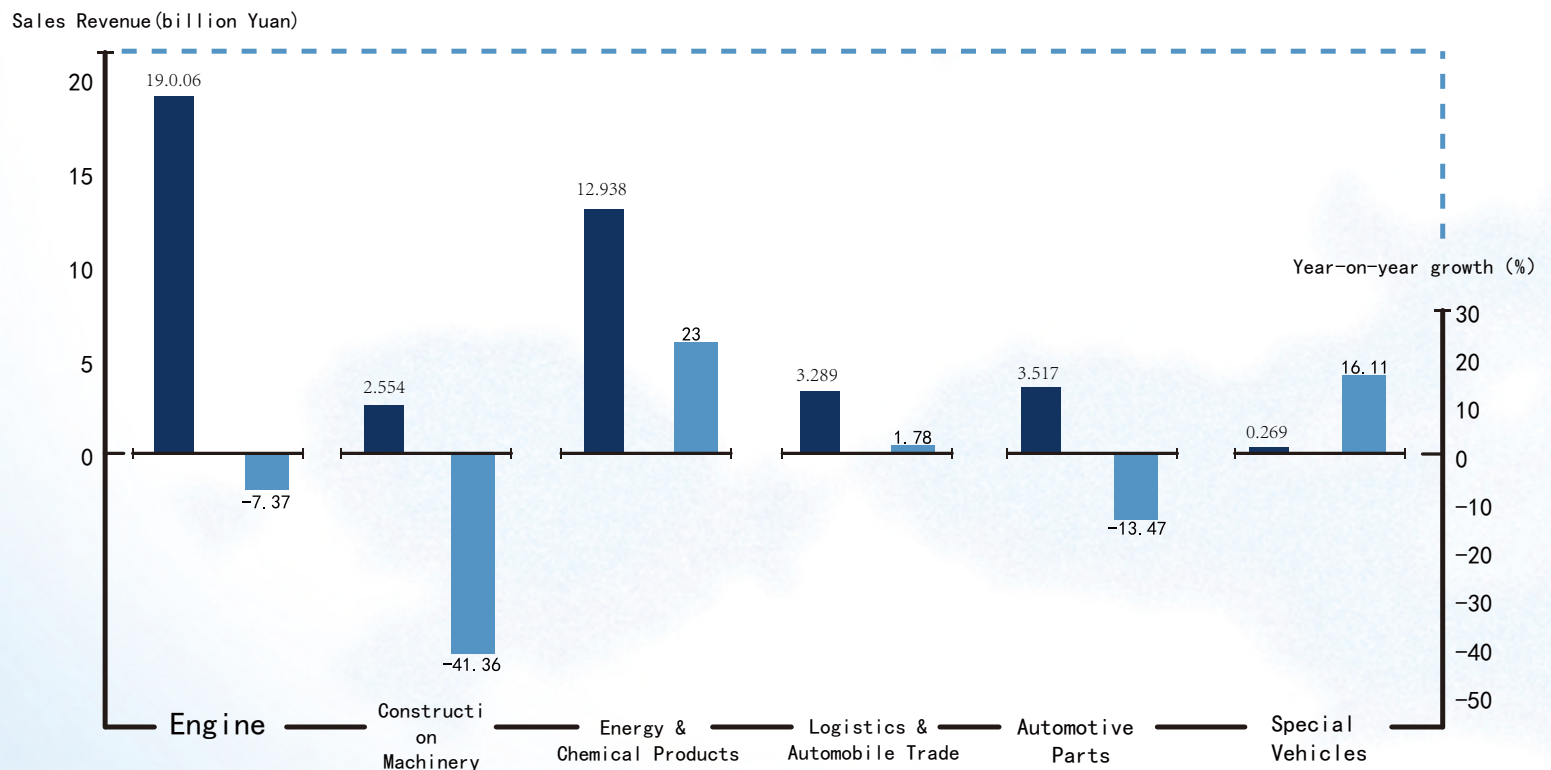


About Us

Yuchai Group Sales Revenue and Total Assets



Sales Revenue by Segments of 2012



About Us

Awards and Honorary Titles won by the Yuchai Group in 2012

Category	Award/Certificate	Award/Certificate
General Award	China Top 500 Enterprises 2012	China Enterprise Confederation, China Entrepreneurs Association
	China Top 500 Manufacturing Enterprises 2012	China Enterprise Confederation, China Entrepreneurs Association
	China Top 500 Machinery Enterprises 2012	China Machinery Enterprise Management Association
	Golden Bee Enterprise	China WTO Tribune
	Top Enterprise of Internal-combustion Engines and Accessories Manufacturing Industry 2012	China Industry News
	Guangxi Famous Trademarks	Guangxi Administration for Industry & Commerce
	Guangxi Top 10 Enterprises 2012	Guangxi Autonomous Region Government
Technology Award	Second Prize of National Award for Science and Technology Progress	Office of National Science and Technology Awards
	National Torch Plan Key High-tech Enterprise 2012	Ministry of Science and Technology
	Second Prize of Science and Technology Award for China Machinery Industry	Torch High Technology Industry Development Center, Ministry of Science and Technology
	Advanced Group Award of the Fifth China Gold Bridge Award	China Technology Market Association
	Technology of Chinese Creativity 2012	Organizing Committee of Finding Chinese Creativity, Xinhua News Agency Media
Brand Award	Excellent Supplier of Hybrid Power System 2012	China Automotive News
	Award on Quality Engine 2012	China Internal-combustion Engines Association, China Automotive News
	Ninth National Top 100 of Outstanding Auto Parts Suppliers	China Automotive News
	Famous Product of China Fishing Vessels and Fishery Machinery Association	China Fishing Vessels and Fishery Machinery Association
	Award on Best Bus Power	cnbuses.com, cv.ce.cn
	Affecting China Coach Industry • Recommended Product of Coach Accessories from Readers' Survey	Organizing Committee on Affecting China Coach Industry activities
Management Awards	National Advanced Enterprise of Employment	The State Council of P.R. China
	National Advanced Local Communist Party Organization in A Good Movement	Organization Department of the CPC Central Committee
	Yardstick of Quality for Industrial Companies 2012	Ministry of Industry and Information Technology
	National Advanced Enterprise of Implementing Excellent Performance Mode 2012	China Association for Quality
	National Excellent Enterprise of Mass Quality Management Activities in Machinery Industry	China Machinery Quality Management Association, Chinese Machinery, Metallurgical and Building Materials Workers' Union, China Association of Machinery Industry Culture
	Excellent Unit on Measurement in Good Faith	Chinese Society for Measurement
	National Model Base on Enterprise Culture Construction	China Research Institute of Enterprise Culture
	First Session of Quality Award on Chairman of Guangxi Region	Guangxi Autonomous Region Government
	Harmonious Enterprise of Guangxi Autonomous Region	Guangxi Autonomous Region Government
Education Awards	Eighth National Top 100 of Advanced Unit on Enterprise Education	Organizing Committee of Top 100 of Advanced Unit on Enterprise Education

Organizational Governance



- 15 Improving Corporate Governance Structure
- 17 Deepening Corporate Culture Construction
- 17 Promoting Lean Manufacturing Projects

Organizational Governance

(1) Improve Corporate Governance Structure

Yuchai Group adopts the organizational structure of parent - subsidiary companies, takes full advantage of the realizing forms of state-owned assets, makes full use of the all social resources for development, forms a diversity of the ownership structure with friendly coexist and common development of variety of ownerships, and sets up a comparative perfect internal management system.

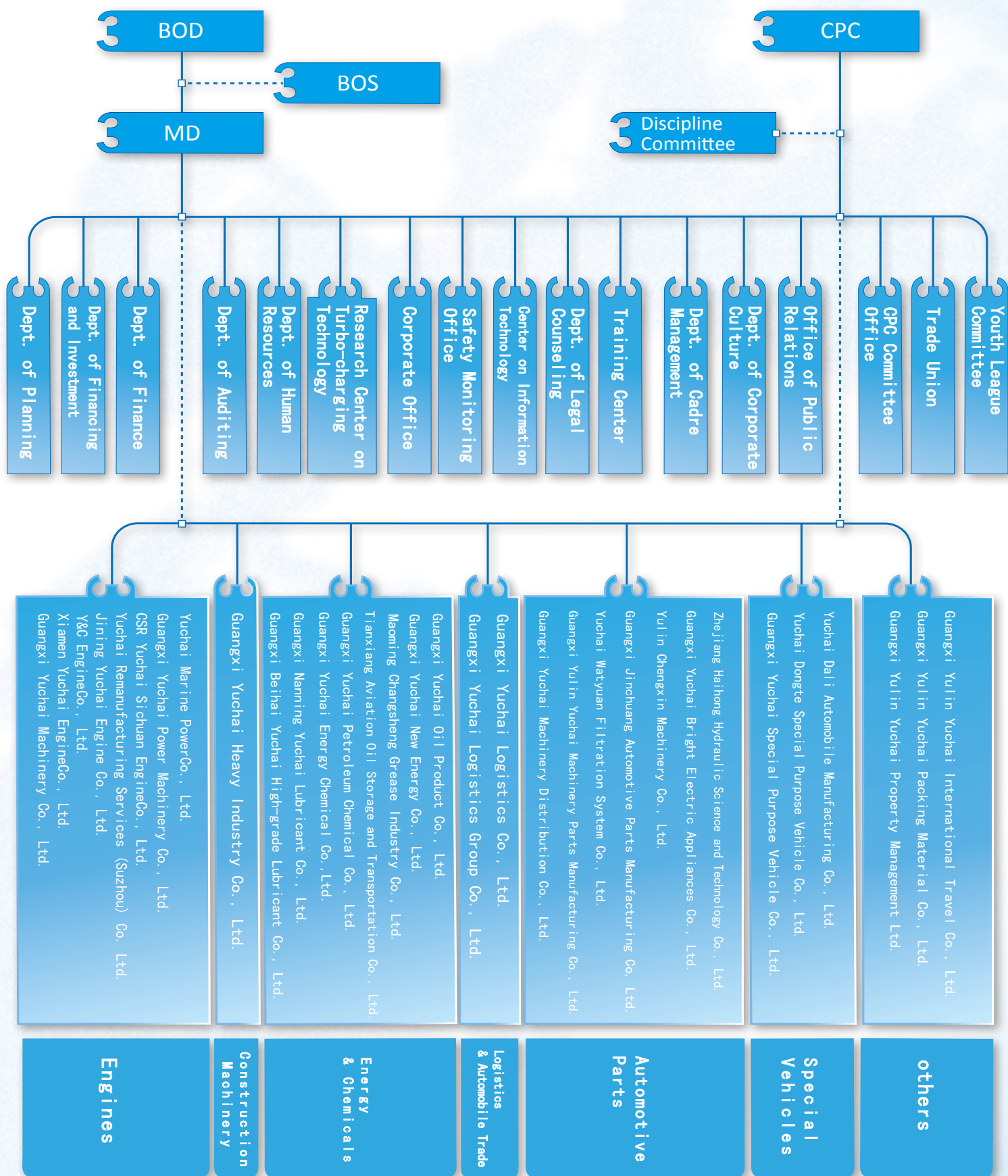
The Group is positioned as a investment and financing management company. The important foundation for achieving the goals of the Group is to built a management and control system which adapts to the needs of its development, with characteristics such as "oriented" as the core, distinct levels,

clear rights and responsibilities, powerful regulation and control, high efficient, pragmatic and standardized. At present, the Company implements a mixed mode of control and management consisted of strategic and financial control and management, establishing five core functions including strategic planning, investment management, financial management, audit inspection, human resources management, and five basic functions as information, education, training and so on. The subsidiary companies are mainly under the indirect management of Yuchai Group, the later performs the duties as contributor through assigned property representatives and persons in charge of finance according to law.



Organizational Governance

Yuchai Group Organizational Structure and Industrial Distribution Chart 2012



Organizational Governance

(2) Deepening Corporate Culture Construction

Yuchai has formed a set of unique enterprise culture system, which is consisted of four aspects including concept culture, system culture, behavior culture and material culture. In 2012, Yuchai group organized the research on enterprise culture orientation to promote culture construction and business operation of enterprise, established and improved culture related management mechanism especially the appraisal management on enterprise culture, implemented fully

the work of culture construction and guided correctly the development of corporate culture to promote gradually the culture management of Yuchai toward to standardization and scientification.

Yuchai was awarded in July the title of "national demonstration base of enterprise culture construction" by China Research Institute of Enterprise Culture, become a benchmark on enterprise culture construction nationwide.

(3) Promoting Lean Manufacturing Projects

In early 1990s, Yuchai group had tried to promote the pilot of lean manufacturing within enterprise. In recent years, the Group realized that the top priority for sustainable development of enterprise is to increase production capacity, quality and efficiency while reducing the cost, therefore , it started the lean manufacturing project on October 18, 2011.

In April 2012, after a promotion over six months, the first phase of lean projects was completed and significant improvements achieved. There were eight projects in the phase including the lean team construction, the efficiency promotion on melting cleaning/core making/modeling in the foundry's new casting workshop, etc. with 23 relevant indicators, among which 21 were fulfilled, representing a success

rate of 91.3%. In promotion of the first period, the lean thinking had been widely recognized and the lean tools and methods applied effectively.

The second phase of lean project launched comprehensively in May 2012. At present, the 16 projects of second phase are going smoothly and entering into the stage of review and acceptance; fundamental projects such as building the system of lean management and continual promotion, total productive maintenance(TPM) and team construction are being promoted steadily; projects on efficiency improvement has entered into the stage of third round of improving and implementation; projects on quality has been fully entered into the stage of control; the projects on cost have also achieved preliminary results.

Column: The First Engine Factory Improved Efficiency on Heavy-duty Engine Assembly

The heavy engine assembly line of the first engine factory is an imported production line , in the use for years the problems are found as process imbalance, production line layout unreasonable, material accumulation overmuch aside the line and so on. To solve these problems, three reform targets are put forward to the assembly section: the first is to enhance process balance rate; the second is to reduce line material accumulation and optimize production line layout; and the third is to control the production loss and increase production efficiency. The factory accordingly established a lean improvement team by which activities carried out as analyzing the main factors influencing efficiency of production by a variety of tools, finding strategy to improve according to analysis results, making improvement plan and putting relevant measures into practice, and finally achieving the institutionalization and routinization of the results improved. After several months of lean improvement, the two indicators of productivity and efficiency were over fulfilled. The improvement of process balance is remarkable with the rate of line balancing reached from 51.73% to 78.28%.

Indicator	Target	Before Improvement	After Improvement	Rate of Improvement (%)
Capacity(set/h)	10.9	9.1	12.1	33.0
Output per capita hours	0.0511	0.0393	0.0522	32.8

Human Rights Responsibilities



- 19 Improving Employee Complaint Mechanism
- 20 Respecting for Basic Rights of Workers
- 20 Providing Employees with Perfect Service

Human Rights Responsibilities

(1) Improving Employee Complaint Mechanism

Yuchai has always respected opinions of workers, adopting such measures as holding dialogue meeting with employee representatives etc. to broaden channels for opinion delivering. In 2012, the company leadership exchanged views and opinions with more than forty workers' representatives from grassroots level for problems of universal concern in respect of current production and operation, product quality, talent incentive, and humanistic care and livelihood guarantee for workers. Also the meetings had put forward constructive suggestions around enterprise development and concerned issues to the management department of the Group.

In 2012, Yuchai had further deepened

and promoted the system of managerial affairs opening, improved the open network at the company as the Group level, subordinate companies and factories as the second level, workshops and sections as the third level and teams as the fourth level, and taken remuneration concerned by workers most as the core content of opening, with a view to build the close connection between decision-making, democratic management and supervision. The Group trade union and branch trade unions had published more than 30 columns on managerial affairs opening in the year to realize the workers' full participation and full supervision to Company's management on daily basis.

Column: Opening "Green" Feedback Channels

The Company began to implement the system of collecting public opinion regularly to broaden the channels of democratic management and clear up the difficult and concerned problems in working and life of workers. Taking Yuchai Remanufacturing Services (Suzhou) Co. Ltd. as an example, under the system implemented since January 2012, workers' representatives from each unit collected and sorted relevant problems and input them into the Opinion Form regularly, then the Company arranged persons responsible to answer and solve the problems according to corresponding requests as well as improvement measures suggested. In addition, panels on continuous improvement are set up at production line to make the problems and the progress of settlement more openness and transparent by visual management tools, and make the way of problem processing unobstructed through mutual coordination and supervision.

So far, the Yuchai Remanufacturing Services (Suzhou) Co. Ltd. has collected 327 opinions and replied 327, among them 325 completed close loop and 2 being rectified and reformed. Along with the problems from workers getting enough attention and settlement timely, the rate of satisfaction of workers to the factory has been continued to increase.



Human Rights Responsibilities

(2) Respecting for Basic Rights of Workers

Yuchai respects employees' basic labour rights, eliminates all forms of forced labour, bans child labour strictly and eliminates employment and vocational discrimination. In respect of employment policy, remuneration, working terms and conditions, vocational

training and promotion, there are no discriminatory treatment based on religion, ethnic, social origin, age and disability, etc. The proportion of female employees is around 25% and the minority workers accounts for 6%.

(3) Serving Workers Sincerely

Yuchai respects for the economic, social and cultural rights of workers to maintain individual dignity and realize personal development, provides sick, old and other vulnerable workers with help of medical care and necessary social

protection. Programs on employee assistance have been implemented to help workers relieve psychological pressure, and a variety of recreational activities carried out to enrich their cultural life.

(i) Implementing Employee Assistance Program

Yuchai EAP (employee assistance program) is a new scientific tool and carrier designed to help employees solve the physical and mental problems comprehensively in the whole process, which is based on the theory of modern psychology, sociology and management science, with fully focusing on employees' mental health and improving their psychological capital as the entry point, and the general care service as supplementary means.

In 2012, Yuchai held 2 workshops on EAP knowledge and related skills, 15 EAP lectures and conducted a questionnaire survey on psychology among 800 employees. EAP columns were established in the News Center against the severe situation on production and operation and the state of mind of workers to prevent them from psychological problems and relieve their mental pressure, with the positive results achieved.



(ii) Taking Care of Workers with Practical Action

The Company continues to organize workers to attend the scheme of Guangxi region on mutual medical assistance for major disease, that is a protection parclose for workers.

In 2012, 13399 person-times of workers participated in the mutual assistance and protection system of Guangxi Region for specified diseases and female workers' health, among them 18 workers went through the compensation

procedure and received payments of 282000 Yuan. Also, 142 workers who needs help because of major diseases, natural disasters, etc. were provided with assistance payments amounted to 1,464,985.04 Yuan; 483 production line workers suffering from industrial injury or lumbar protrusion were reimbursed the medical treatment payment amounted to 865,365.79 Yuan.

Human Rights Responsibilities

(iii) Enlivening Workers' Cultural Life

A series of recreational and sports activities were carried out including cultural story telling competition, new year party, dragon-lion dance performance, evening party,

youth culture & art festival, "7.1" singing contest, games of volleyball, balloon-volleyball, basketball, badminton and track and field to enrich the cultural life of workers.



The Performance Contest of Cultural Stories in Yuchai



The Workers Games of Volleyball



The Signature on the Declaration of Yuchai Ideas



The Family Talent Show on Family Art Festival



The Yuchai Young Workers Art Festival

Responsibility for Employees



- 23 Stabilizing Employment and Introducing Talents
- 23 Ensuring Remuneration and Inspiring Advanced Staff
- 25 Collective Negotiation and Democratic Management
- 26 Realizing Production Safety and Putting Prevention First
- 27 Promoting Training by Competition and Advancing Workers' Skill

Responsibility for Employees

(1) Stabilizing Employment and Introducing Talents

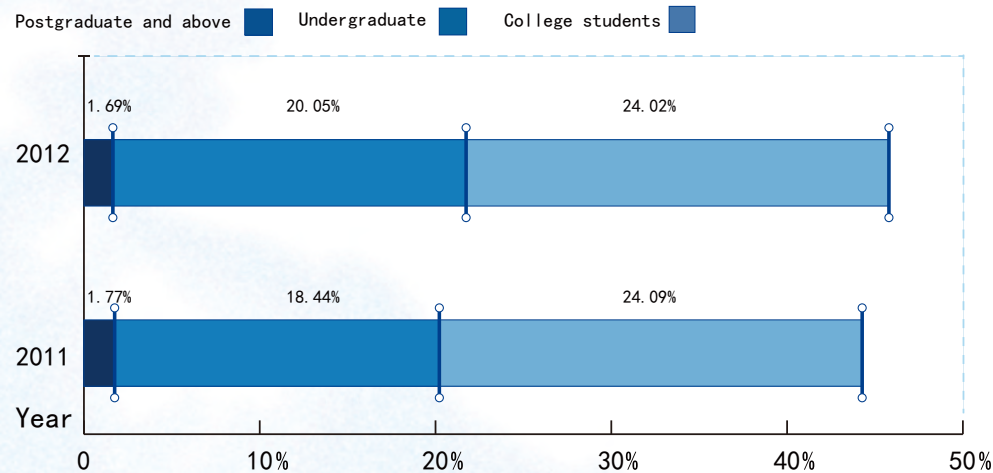
Yuchai has always implemented labour laws and regulations and signed collective contract with whole workers.

China's engine industry experienced a "winter" in 2012, when the accumulative total sales of 14 main domestic enterprises in diesel engine industry fell by 19.46%. In such a tough economic situation, Yuchai group made it clear that "even many difficulties it must be guaranteed that no workers be laid off, no decrease on workers basic wage and keeping bonus and welfare of them at the same level of last year". This is an important contribution to the employment stability. The Company won the title of National Advanced Enterprise on Employment awarded by the government.

At the same time, the Company strengthened the efforts to introduce talents and high-level talents in professional areas through multi-channels, and reserve best talents for development of the company. In 2012, more than 600 employees with education at or above bachelor degree were enrolled. In July, Yuchai was awarded "National advanced enterprise of employment".



Structure of Employees' Education in Yuchai Group



(2) Ensuring Remuneration and Inspiring Advanced Staff

(i) Innovating Methods on Compensation Management & Control

In 2012, based on innovating the method to determine wage guiding lines, introducing the coefficient of management difficulty, conducting three variables matching analysis and considering comprehensively such elements as regional difference as well as the differences of industry and development stage in the subsidiaries, etc., the Company adopted the Measures for Administration of Wage Guiding Lines of Yuchai Group and established the effective and standardized wage distribution and raise mechanism.

The Notice on Regulating of Total Wages Management and Controlling Strictly of Workers Welfare Funds in Subsidiaries was issued to regulate

the management of wage and welfare matters. The company conducted investigations to find problems timely and provide reasonable suggestions to help the subsidiaries prevent effectively the management risks and increase the level of remuneration management.

The remuneration system based on grades and posts is implemented, by which the salary of employees is embodied from dimensions of post value, professional skill and job performance, and workers with better ability, outstanding performance and rich experience will get better pay and more space for vocational development.

Responsibility for Employees

(ii) Ensuring Remuneration for Employees

The Company believes that “ensuring the income of employees especially workers at the production line is necessary to achieve the workforce stability and sound development of enterprise”. To solving effectively the problem of unbalanced incomes between peak and slack seasons of production, the

Company issued in January 2012 the revised Plan on Remuneration 2012-2015 in order to make Yuchai’s remuneration matching with the social average level and linking with price level of the society, and to link annual bonus with company's comprehensive achievements. The main measures are following:

a. increasing hours wage; setting up the monthly performance payments for production workers; adjusting the way of subsidies payment, i.e. instead of being involved into contracted expenditures of each plant, the subsidies are provided directly by the Company and the standards of subsidy is increased properly;

b. To ensure the rights and interests of employees further, the Company issued the Method on Compensation Management for Production Line Suspending, by which the Company will compensate workers on production line according to standards when the suspending occurred not because of their own; the standards of allowance for bitter, dirty, tiring and risk posts are also increased.

(iii) Rewarding amply the talents with significant contribution

Yuchai has always attached great importance to talents management and introduced a number of effective incentives. The relevant measures include the issue of Reward Method on New Product Benefits, the Regulations of House-buying Agreement for Top-notch Talents, the Incentive Method of Fund Options for Science and Technology Top-notch Talents in Key Posts, etc., that formed a set of incentive mechanism and inspired effectively the innovation enthusiasm of all employees.

In April, Yuchai spent one million Yuan again to reward amply the high skill talents for whom the front-line workers are the main body, and 18 top technicians and gold-medal workers won the rewards. Until present Yuchai has spent one million Yuan each year to award the talents for three years.

In May, Mr. Shen Jie and Mr. Zhuo Bin senior adviser of Board Chair , Yuchai Group, were rewarded with luxury car respectively.

In June, Yuchai held the ceremony to sign agreement on house purchase with top talents of 2011, on the occasion 35 top talents signed agreement with the Company respectively. The house purchase agreements are divided into three levels, top talents cohering with levels 1, 2 and 3 will obtain house purchase allowance of 300000, 250000 and 200000 Yuan.



Yuchai researchers and engineers were rewarded with cars

Responsibility for Employees

(3) Collective Negotiation and Democratic Management

(i) Strengthening Enterprise Democracy and Implementing Democratic Rights of Employees

Through the system of workers congress, Yuchai gives full play to the workers' role to participate in management and provides an effective guarantee for scientific and rational decision-making of the enterprise.

The first session of the 17th Workers Congress of Yuchai group was held on February 8, 2012, the matters dealt with during the meeting include the review of the working report and budget and final accounts report of Guangxi Yuchai Machinery group Co., Ltd. and Guangxi Yuchai Machinery Co., Ltd., the

annual democratic appraisal to leading members of the management, the discussion on major problems relevant to workers' interests, the consultation on the policy responding to severe market situation as well as development strategy of the Company during the Twelfth Five Year Plan. Then the subsidiaries held the second level workers congress respectively to listen to the working report of the management, discuss and review the annual salary allocation plan, and put forward the views and suggestions on management of enterprise.



(ii) Insisting on Consultation & Supervision to Safeguard Legitimate Rights and Interests of Workers

The mechanism on collective consultation and collective supervision has been improved further. According to relevant provisions of the Working Rules of Enterprise Workers Congress of Guangxi Region, Yuchai group established three supervision committees to deal with matters on labour, salary and welfare respectively at the 17th workers congress in 2012, with the members of committees elected by workers' representatives. The committees will exercise on behalf of workers congress the rights to supervise and review such issues as labour, salary, welfare and others related to the interests of workers, requesting rectification of the problems within a time limit, giving opinions or suggestions on rewards and punishment as well as supervising

the implementation of decisions on labour and personnel, salary distribution, life welfare, etc.

The review and consultation meeting on implementation of Company's 2011 Collective Contract and Collective Contract for Female Workers was held, in which view exchanging and consultation carried out between workers representatives and the administration on issues reflected by workers in respect of labour and employment, working hours, rest time and vacation, salary distribution, safety and health, special training, security and welfare, in order to finding and analyzing the cause of problems and presenting and implementing corrective measures, so to promote the harmony and win-win of enterprise and workers.

Responsibility for Employees

(4) Realizing Production Safety and Putting Prevention First

The Company pursues a principle of "life foremost, safety first" to further improve the safety production system, and realize the harmonious and safe development of enterprise.

In 2012, the Company had further improved the organization of safety production, set up the committee on safety production, clarified the responsibility and authority of the production safety and occupational health, developed the work plans on safety in production and occupational health, increased training on safety, popularized safety knowledge, and controlled strictly the safety and health measures on new, changing and extending construction projects. It also carried out the examination on system of safety management and safety information, promoting effectively the standardization of Company's safety management.

The Company carried out safety inspection activities at different levels. In the monthly special inspections of workplace safety in 2012, a total of 1196 problems were identified, among which the rectification for 1176 were finished, with a completion rate of 98.33%. In addition to the daily safety supervision and inspection, the Group arranged and organized other kinds of special examination, for example the safety inspection on

lightning protection before rainy season, the safety check before holidays, the check for heatstroke prevention in summer, the inspection to workplace construction, the fire control examination to flammable and explosive points of the business sites, the special safety inspection in major events, etc.

A variety of means were adopted to conduct publicity and education on safety production and operation. First, conducting the safety education at three levels to new entrants and workers transferred to new post; second, carrying out quiz programs on post safety knowledge and showing safety production education movies during the period of safety production month; third, conducting training on the Safety Quality Standardization of Machinery Industry in September to improve effectively the knowledge on safety management of the key safety management staff and equipment maintenance personnel from subsidiary companies; fourth, setting up hazard identifications and warning signs at key posts and dangerous sites which play the role to remind and prevent effectively; fifth, commenting on production safety problems by photograph and conducting training on standardization of rectification in monthly safety meeting.

Running of Safety Indicators in 2012

Indicators	Targeted values	Completion	Notes
Fatal accident	0	0	—
Major equipment and fire accident	0	0	—
Rate of serious injury	≤0.30‰	0	—
Rate of minor injury	≤3‰	0.36‰	—
Rate of rectification on safety risk in workplace	100%	100%	—
Emissions of "three wastes" (waste gas, waste water, waste residue)	Not more than indicators	Up to indicators	—
Scope of occupational disease prevention and control	100%	100%	Comprehensive physical examination for workers on poisonous and harmful post

Responsibility for Employees

Column: Campaign of "I am responsible for my safety" 1000 signatures

The campaign of "I am responsible for my safety" 1000 signatures was held by Yuchai machinery co. ltd., on June 1, on the occasion 13 safety inspector representatives from the second engine factory took an oath solemnly. Afterwards, activities were carried out such as "education week on safety warning", "week on safety culture", "week on emergency drill", "going into the production safety team" etc. to create an atmosphere of production safety, improve the safety consciousness and promote the cultural idea of production safety so as to meet the requirement of "scientific development and safe development".



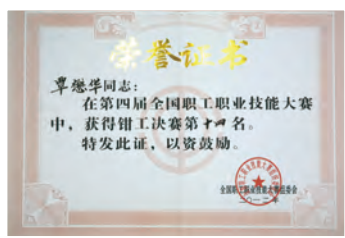
Campaign of "I am responsible for my safety"

(5) Promoting Training by Competition to Advance Skills

(i) Holding Skill Competitions to Form a Mechanism of Skill Promotion

The Company attaches importance to organizing skill competitions. Activities carried out in this connection include drawing up comprehensive plans, establishing leading group, implementation group and professional group, collecting players and coaches and organizing intensive trainings by all kinds of training facilities. Through promoting practice by competition and promoting training by practice, not only better results are obtained in the competitions but also the level of employees' skill improved dramatically.

In 2012, in addition to holding skill competitions at the two levels of Company and subordinate departments, Yuchai group undertook the 4th workers' vocational skills competition of Yulin city, participated on behalf of Yulin city in the 4th workers' vocational skills competition of Guangxi region and the 4th national workers' vocational skills competition on behalf of Guangxi region. Players from Yuchai obtained excellent results in these competitions, not only winning honors for the Company and the Guangxi region, but also providing employees with a platform for learning, exchanging and showing skills.



Responsibility for Employees

Skill Structure of Production Workers of Yuchai Group

Year	Senior technician	Technician	Senior skill worker	Medium skill worker	Junior skill worker
2012	1.18%	7.40%	20.45%	25.23%	12.09%

(ii) Attaching Importance to the Construction of Associations and Institutions and Giving Full Play to Them in Training Talents

Yuchai has many associations and institutions with perfect management system and organization established for each of them, playing an important role in skills teaching and improving, talents cultivating, academic researching and knowledge spreading.

The Technicians Association is one of them. With the strategic target of building a first-class skilled workforce for the Company, it sets up six master studios for different types of job and established the apprenticeship system at levels of Company, departments and sections, which have played an important role in imparting skills and technology, tackling key technical problems and lean manufacturing. The Trainers Association has selected and trained a large number of trainers according to the requirement of establishing matrix training system and the training system for lean manufacturing, in order to meeting the training demand of workers in vocational development. The English Association has, with the target of fostering internationalized talents, insisted the activities on English Corner to cultivate a large number of employees adapting to the needs of international operation. Consisting of four sub-institutes, i.e. the gray iron sub-institute, the ductile iron sub-institute, the material sub-institute and the equipment sub-institute, the Institute of Casting conducted a series of research and investigations in 2012 to transfer professional information for small and medium-sized casting enterprises in Yulin city and strengthen the technical exchanges between Yuchai and foundry industry in Yulin city.



Yuchai's technicians are showing their unique skills

Responsibility for Employees

Yuchai Training Programs:



Column: The Yuchai Group Awarded "Demonstration Site of Workers Education and Training"

Yuchai group has fulfilled seriously the responsibility for workers education over the years. Taking the quality upgrading of workers as a general goal, the activities it has carried out in this area include deepening the movement of "creating learning teams and striving to be a worker with more knowledge"; promoting the development of "workers' bookstore" to guide workers to like reading, read more and good books; conducting competition on vocational skill and on job training actively to motivate workers to be successful based on their posts; and conducting labour competition with quality, safety and equipment as themes. The activities above have promoted effectively the overall quality of workers.

In recent years, Yuchai has won honorary titles such as the "national excellent unite of learning organization", the "national demonstration site of workers book house", etc. in 2012 Yuchai was awarded by ACFTU the "national demonstration site of workers education and training".

Environmental Responsibilities



- 31 Leading Domestic Market in Green Power Development
- 34 Promoting Resource Recycling to Save Material and
Reduce Energy Consumption
- 37 Developing Clean Energies to Save Energy and Reduce Emission

Environmental Responsibilities

(1) Leading Domestic Market in Green Power Development

(i) Improving Environmental Performance of the Products Comprehensively

Bearing the dual mandate of social responsibility and self-development as a national brand, Yuchai has devoted to technical innovation and strived to break through the key technology of engines with energy conservation and environmental protection, so to develop new engines which is suitable for China's national conditions and reaching the international level. In recent years, performance of Yuchai products have been improved comprehensively, the indicator of maximum power per liter increased by two-thirds in past four years, reaching the most advanced level

of the world. On other aspects such as reliability, fuel consumption, average noise, emission of harmful particles the Yuchai engines have also reached the most advanced domestic level, and continued to narrow the gap with international levels.

In 2012, sales of Yuchai engine was doubled compared with 2004, while the amount of particulate emissions decreased by 22% in the same period. Yuchai has now become the backbone of mobile pollution source controlling in internal combustion engine industry.

Table: Current Levels and Trends of Performance of Yuchai Engine Products

Index of indicators	Past/current levels				Predicted value		Most advanced level at present	
	2009	2010	2011	2012	2013	2014	National	International
Maximum liter power (kw/l)	30.6	45.0	50.0	51.0	51.5	52.0	50.0	50.0
Reliability B10 life (ten thousand km)	85	95	100	100	100	100	100	120
Fuel consumption (g/kwh)	193	193	185	185	185	185	185	183
Average noise (dB(A))	96	96	95	95	95	93	95	86
Hazardous particulate emissions (PM)	0.015	0.015	0.015	0.015	0.010	0.010	0.015	0.010

Note:

1. Maximum liter power is the most important indicator representing the power performance of engine, which refers to the ratio of maximum power to displacement of engine; a greater ratio means better dynamic performance.
2. Fuel consumption is the most important indicator to measure the fuel efficiency of engine.
3. Average noise is one of the important indicators to measure the performance of engine on environment protection.
4. Hazardous particulate emission is another important indicator of environmental protection for engine.

Environmental Responsibilities

Column: the Project of Yuchai Diesel Engine with Energy Conservation and Environmental Protection Won the Second Prize of National Scientific and Technological Progress Award.

On January 18, 2013, at conference of 2012 National Scientific and Technological Progress Award held in Beijing great hall of the people, the Yuchai project of "key technology and industrialization of diesel engine with energy conservation and environmental protection" won the second prize of National Scientific and Technological Progress Award. This is the first time Yuchai won the award.

The project was established in 2003 aimed at breaking through the key technology of diesel engine with energy conservation and environmental protection. With nearly a decade of efforts, the project has got a number of technical innovations and breakthrough on the development of core technical platforms as structure designing of diesel engine, combustion development, emission control and electronic control, etc. and achieved the target intended. In the technical parameters and economic indexes such as emission control, fuel economy, thermal efficiency, specific power, B10 life, the Yuchai engine have reached basically the same level as in Europe.



YC6L330 engine

(ii) Continuing to Launch Green Products with High-performance

With a view to meeting the emission requirement of national regulations, Yuchai increased the investment as early as seven years ago and, starting with research and design of products, lean production and quality guarantee, developed and launched continuously the energy-saving China IV diesel engine and China V CNG engine against the subdivided markets; in the process Yuchai has explored a highly efficient way of innovation and got a lot of success in research and development of green, eco-friendly and low emission engines.

On December 27, the Company launched at the conference of Yuchai products 2013 seven China V natural gas engines and five China IV diesel engines. The new engine products gather a lot of advanced technologies in the world, have an excellent performance, own a complete intellectual property right and therefore have a strong market competitiveness. They are the high-performance products that Yuchai developed according to opportunity and demand of the segment market and based on years of technology deposition, and will provide leading and applicable power to the public.



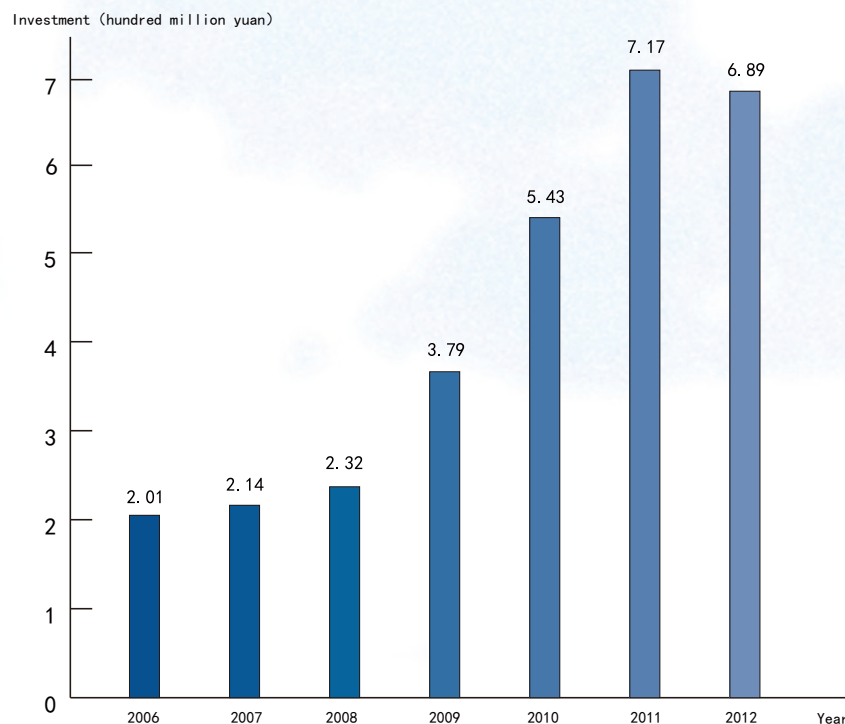
Environmental Responsibilities

(iii) Accumulating Research and Development Reserve of Green Technology

Yuchai has always expanded new technologies actively. While strengthen own innovation platform, it is accumulating the technical reserve through technology exchange and cooperation with universities and research institutes domestic and abroad in a way of powers combination in order to ensure that technology of its products are docking with advanced technology of the world and staying ahead of demand of the industry.

In 2012, Yuchai engineering research institute was responsible for 37 technology development projects, which involved almost all of the frontier and promising mainstream technologies in the world today. For example: China VI emission technology, pneumatic-hybrid power technology, autonomous control system, non-road engine emission technology, OBD technology, waste heat energy recovery technology, ultra-high pressure jet combustion diesel engine, post-processing adaptive technology, DPF regeneration technology, etc. The projects shall play a decisive role in development of Yuchai new products in the future.

Yuchai R&D Investment



Patents application and awarded

Year	Total number of application	Patent granted
2006	99	23
2007	164	95
2008	223	160
2009	247	185
2010	286	230
2011	414	258
2012	522	344

Environmental Responsibilities

Column: Opening Ceremony of Dalian–Yuchai Turbocharging Technology Research and Development Center

Established jointly by Dalian Jiaotong University and Yuchai, the Dalian-Yuchai Turbocharging Technology Research and Development Center held an opening ceremony on Oct. 20. The Center will be devoted to break the international barrier on turbocharging technology, build industry base of turbocharging technology and distribution base of high-tech turbocharging technology products with worldwide influence. Main business of the Center relates to design, development, manufacture, sales, technical service and training, etc. of the products with combustion engine supercharging technology. After putting into operation, the Center will promote the development of turbocharging technology industry in our country, form a powerful turbocharger and turbo technology research and development platform, which takes independent technology as the core, holds leading-edge technologies of the world and gets outside supporting for research and development, so the high-end turbocharging technology products will be no longer depending on imports.

(2) Promoting Resource Recycling to Save Material and Reduce Energy Consumption

(i) Saving Manufacturing Cost through Development of New Material and Application of New Technology

● Promoting Lightweight Diesel Engines

Along with the demands of auto industry on lightweight diesel engine, the lightweight engine body and cylinder head has now become the theme of diesel engine industry. Therefore, Yuchai has made efforts actively to find new materials and developed successfully the vermicular cast iron with high strength to replace traditional gray cast iron. Comparing with gray cast iron, vermicular cast iron has such comprehensive advantages as high strength, good toughness, high wear resistance, impact resistant/antiknock ability, that can make it possible to increase the quality of engine while achieving the lightweight of engine body and cylinder head.

In 2012, Yuchai succeeded in the experiment on lightweight of KJ100 cylinder block with vermicular graphite cast iron, the weight of cylinder block is decreased by 13% comparing to original one with a cost saving of 269 Yuan per set.



● Development and Application of Ductile Iron Crankshaft Technology

Yuchai achieved success in developing and applying the technology of rolling reinforcement ductile iron crankshaft to replace forged steel crankshaft technology on low power (low detonation pressure) engines, through which the safety coefficient and bending fatigue strength of 6M ductile iron crankshaft is improved while the manufacturing cost is reducing significantly. Calculating in

accordance with the current purchasing price, the cost of each ductile iron crankshaft can be reduced around 700 Yuan than that of forged steel crankshaft; in the case of batch production of 10000 6M engine with ductile iron crankshaft, the technology will bring with the save of manufacturing cost each year amounted to more than 7 million Yuan.

Environmental Responsibilities

(ii) Reducing Resource Waste of and Promoting Remanufacturing of Engines and Parts

● Recycling of Resources

In aspect of use of water resource, water-saving technologies are promoted vigorously including the renovation of water circulation systems for factories, which can save 300 tons of water every day. The recycled water satisfied with standards is fully used in boilers, slag flushing of cupola and water spraying and de-dusting in plant area. The rate of recycling of industrial water has now reached 79.8% and the consumption of water resource reduced obviously.

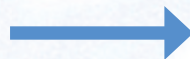
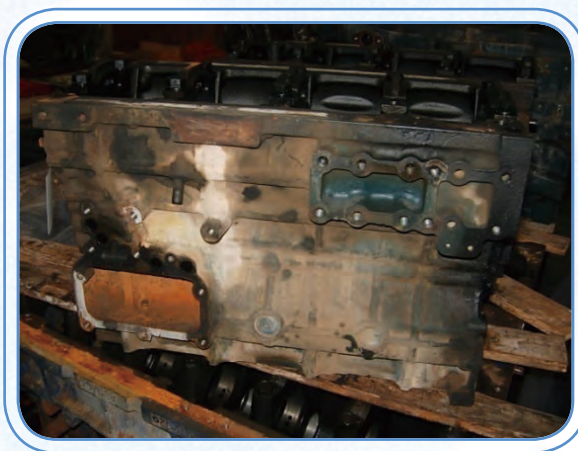
Using recycled water to reduce emissions. The

wastewater was re-treated (sand filtration and chlorine dioxide disinfection) and then used as supplementary production water in plant area. The recycled water is being used in water membrane de-dusting of boiler, factory road spraying, slag flushing of cupola, dishcloth cleaning and so on, and will be used further as cooling water. 23664 tons of recycled water was used in 2012, amounting to saving water or reducing emission by 23664 tons.

● Creating Further Success in Remanufacturing

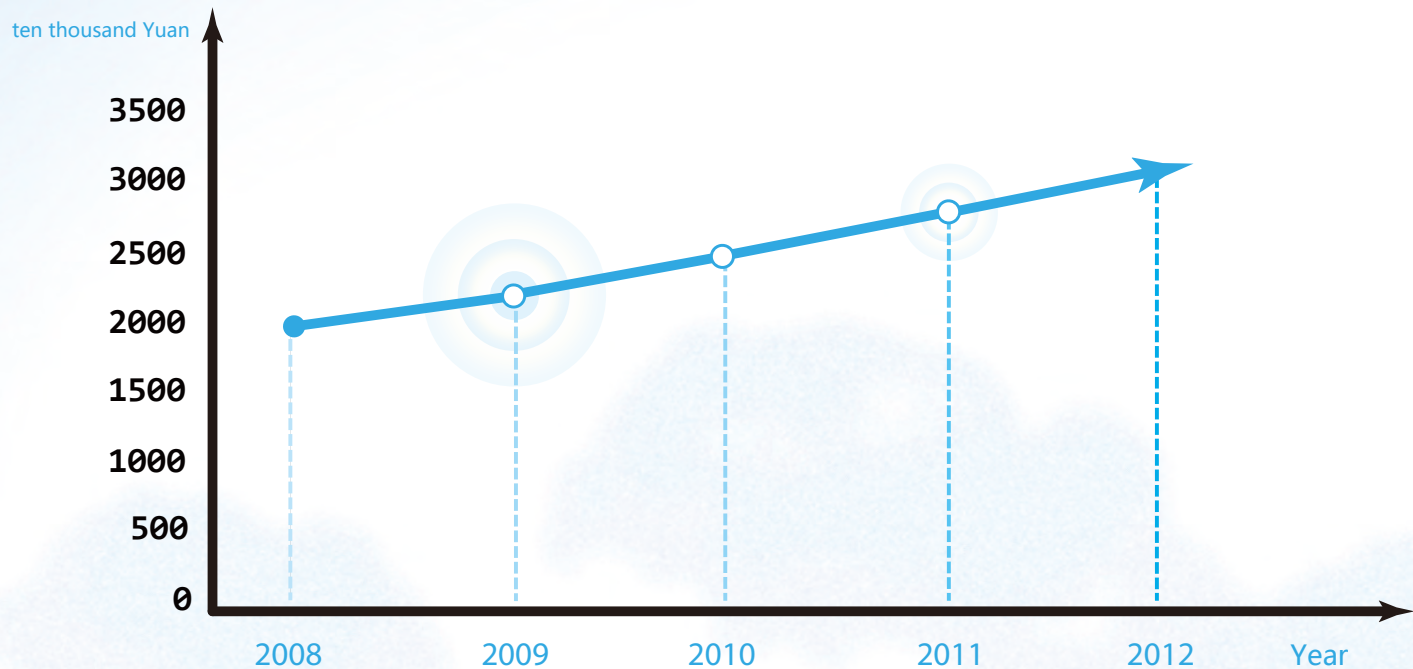
Yuchai has obtained outstanding achievements including good economic and social benefits in remanufacturing of engines and components. Until present, the undertaking of remanufacturing has created a profit of nearly 122 million Yuan, provided with 300 new job positions, saved more than 1300 tons of standard coal and reduced 3500 tons of carbon dioxide emission. Yuchai has now mastered the key technology and process of remanufacturing and accumulated rich experiences in this connection; that is a solid foundation for it to further promote the development of remanufacturing industry in China and build a conservation-minded society.

In May 2012, the construction of new factory of Yuchai Remanufacturing(Suzhou) Co., Ltd. was completed and put into use. By the end of 2012, the sales income of the Company amounted to 43.6327 million Yuan, among which sales of seed products was 26.8215 million Yuan, remanufactured machines and base machines 16.7888 million Yuan, remanufactured parts 22400 Yuan.

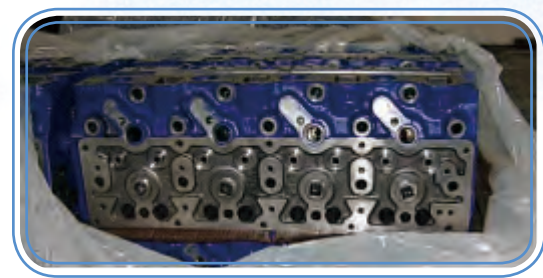


Environmental Responsibilities

Output Value of Remanufacture 2008-2012



old → new



Column: Yuchai Project on 30000 Engine Remanufacture Passed State Acceptance

Starting preparation by the end of 2005, the Yuchai project on engine remanufacture was approved by the National Development and Reform Commission in March, 2008 as one of the first national pilot enterprises of auto parts remanufacture. After construction over three years, the project on 30000 engines remanufacturing was completed and put into production on schedule, the objectives of which are basically achieved and all of its indicators meet the requirements of the implementation plan and conform to national law and regulations.

In December 2011, the project passed the evaluation by Guangxi government and submitted to the National Development and Reform Commission for review. After reviewed by the expert group, the project then passed smoothly the state acceptance in February 2012.

Environmental Responsibilities

(3) Saving Energy & Reducing Emission Developing Clean Energies

(i) Optimizing Process to Reduce Energy Consumption

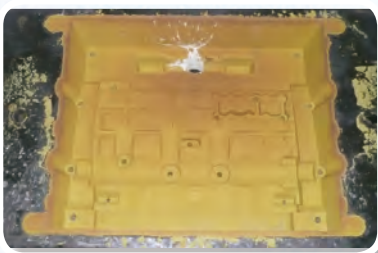
Improvement of production process is not only helpful for the raise of production efficiency and reduction of unnecessary loss, but can also reduce pollution emission and save resources. Yuchai group has always adhered to the concept of "green production" to achieve the goal of energy conservation and emissions reduction constantly through technology innovation and the improvement of product fineness. In 2012, Yuchai has completed several projects of energy-saving renovation such as

electric dynamometer of the first engine plant, waste heat utilization of annealing furnace in the foundry, dust removal fan in the foundry, water pump of power plant, etc, resulting in a electricity saving of 2.16 million kwh, which is equal to 970 tons of standard coal, a reduction of carbon dioxide emission of 2157 tons and sulfur dioxide emission of 65 tons, and a saving of electricity expenditure of 1.265 million Yuan yearly.

● Developing and Applying Technique of Iron Based Coated Sand to Save Cost Substantially

In 2012, Yuchai initiated first in China the technique of Iron Based Coated Sand to replace resin sand process in manufacturing of engine body products. Using of the new technique can make a sharp decrease of investment in production line and achieve a better dimensional stability, higher precision and good material density of products, with the scrap rate decreased to 2% from 5%, the production yield increased to 82% from 67% by green sand casting before and the production efficiency increased by 300%. Also the technique can effectively avoid the shrinkages of casting caused by the low rate of creep, therefore vermicular cast iron material can be used to reduce the thickness of cylinder block, making the gross weight of it decreased by about 16% and the total cost decreased by 8-10%.

Meanwhile, process improvement have also made obvious effect in energy conservation and emission reduction: first, emissions of waste gas and waste water are eliminated; second, the amount of waste sand is decreased by 86% while the waste sand also can be recycled and made into precoated sand; third, the lightening of product brought a reduction of cost more than 50%.



Iron based coated sand castings without core



Iron based coated sand castings with core



Cylinder blocks made by technique of iron based coated sand

● Reducing the Time for Commissioning Markedly to Improve Efficiency and Save Cost

In 2012, the running-in time of Yuchai YC4F diesel engine was reduced successfully to 9 minutes from 17 minutes. Calculated on two shifts throughout the year, the reducing of running-in time can make an efficiency increased by 29.6%. The cost saving per

engine (including electricity and diesel expense) is 10.55 Yuan and, in terms of annual output of 50000 sets, the cost saving can be amounted to 527000 Yuan.

Environmental Responsibilities

Table: Energy Consumption Per Unit

Year	2007	2008	2009	2010	2011	2012
Energy consumption per set (1 Kg of standard coal/set)	136.30	150.41	119.80	144.61	112.42	144.92

Table: Consumption of Water, Electricity and Coal in Past Six Years

Year	2007	2008	2009	2010	2011	2012
Water (m3 /set)	3.212	3.555	2.229	2.895	2.67	3.65
electricity (kwh/set)	390.822	436.713	349.08	519.295	449	561.86
coal (kg/set)	36.68	51.49	28.38	25.79	23.62	21.54

Table: Energy Consumption of Hot

Year	2007	2008	2009	2010	2011	2012
Energy consumption of hot meta per ton (1 kg of standard coal/ton)	311.2	315.5	294.2	265.2	276.29	291.06

Note: The reason for increase of the data in 2012 on energy consumption than that of 2011:

- 1. The data on production included those on Yuchai Marine Power Company and CSR Yuchai Sichuan Engine Company when calculating the energy consumption of unit product in 2011, while the data on production was only accounted for data from Yuchai Machinery Company in 2012.
- 2. Change of production was also due to the development delay of the industry caused by international and domestic policies and the cutting down of orders in a persistently depressed market in 2012. In the year the production of foundry declined by 20% and the whole Group fell by 8%. Decline of production affected directly the overall level of energy consumption, according to the original data, the higher the output, the higher the energy efficiency and the lower the unit energy consumption.

(ii) Upgrading Equipments to Reduce Greenhouse Gas Emission

The Company invested 10.79 million Yuan in 2012 to conduct technical reform on environmental facilities. The eight key projects include flue gas control of cupola in new casting workshop of the foundry, flue gas control for cooling channel in new casting workshop, control of electrowelding flue gas in engineering workshop of the foundry, dust control of the fourth integrative workshop of cold working plant, machining dust control and technology upgrading of 05 line, system of on-line monitoring to emissions of sewage treatment station of power plant, sewage treatment station of casting center, test platform noise control of the third engine factory. Along with implementation of the projects, the factory environment has been improved obviously.

Environmental Responsibilities



Column: Substitute of Coal-fired Boiler -Air Source Heat Pump

To achieve low-carbon environmental protection and create a development pattern of resource-conserving, Yuchai group invested 16 million Yuan to implement the project of replacing coal-fired boiler with heat pump, and put it into use formally in October, 2012. Electric heating technology is adopted in the new device. A heat pump is added on each cleaning machine to turn the electrical energy into heat energy, that can not only meet the demand of process but also save the production cost greatly, i.e. 3 million Yuan yearly. The boiler worked over 17 years was ceased and removed since August. After reform the emission of carbon dioxide and sulfur dioxide per year is equivalent to two years during the Eleventh Five-year Plan, that is a dramatic effect in emission deduction. For surrounding residents it means that the pulverized coal, dust and noise are disappeared thoroughly and the atmospheric pollution caused by carbon dioxide and sulfur dioxide eliminated completely.



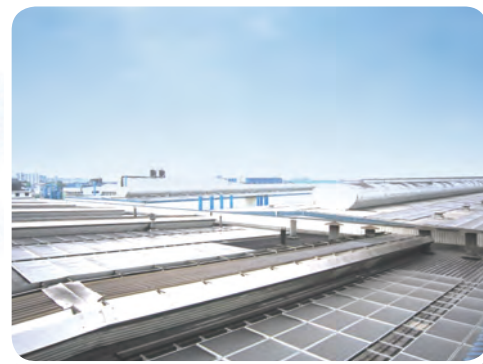
Cleaning machine being used

(iii) Practicing Earnestly to Develop Green Energy Projects

To achieve the goal of saving energy, reducing consumption and sustainable development, Yuchai group implemented a project on photovoltaic power in 2012. Solar panels of 300000 square meters with capacity of 30 mw are installed on the roof of 38 plant buildings in 10 factory areas, and the anticipated average annual output of them is 31.107 million kwh in the coming 30 years, which is accounting for 15% of annual electricity consumption of the Company. Calculated by the cost of 340g standard coal/1 kwh, implementation of the project will bring obvious effects on emission-reducing and good environmental benefits, including a saving of standard coal of 11198.4 tons and emission reduction of CO₂ by 29339.7 tons, SO₂ by 95.2 tons, NO_x by 82.9 tons and dust by 2239.7 tons. Meanwhile, the solar panels can reduce considerably the heat absorption of the roof so as to lower the temperature in workshops to a certain extent, providing workers with a better working environment.

The Yuchai golden sun project is a model

of National Golden Sun Project and the roof photovoltaic generation project with largest installed capacity nationwide so far, the capacity of which exceeds the sum of all similar projects implemented in Guangxi Region. It has a demonstrative significance for Guangxi to explore the way of increasing energy supply ability, promote further the energy saving of buildings and push forward the integration of photovoltaic building, and provides valuable experience for construction on large-scale roof photovoltaic power station.



Solar panels installed on the roof of buildings

Operational Responsibilities



- 41 Enforcing Internal and External Supervision in Anti-corruption
- 41 Securing Fair Operation through Business Subdivision
- 42 Breaking Up Monopolies by Self-dependent Innovation
- 43 Fulfilling Responsibilities with Stakeholders Hand in Hand

Operational Responsibilities

(1) Enforcing Internal and External Supervision in Anti-corruption

(i) Implementing Supervision Mechanism on Business Cleanness

The Company has revised Responsibility System of Yuchai Group on Construction of the Party Conduct and Clean Business, the System of Yuchai Group on Bids Management, signed the Responsibility Certificate on Business Clean with subsidiaries, the Business Ethics Commitment with senior management personnel, the Responsibility Certificate on Incorrupt Self-discipline with middle management staff and the personnel of business abroad, and carried out inspection and evaluation to the implementation of them.

Measures to implement the mechanism on internal control of clean business have been taken including 8 testing and improving actions on internal control of anti-fraud, the risk checking on

business cleanness to 304 positions, 79 departments (sectors) and 81 units, through which 36 level 2 risk of business cleanness and 428 level 3 risks were identified and the corresponding monitoring steps were adopted to promote the risk prevention and control in the subsidiaries.

In respect of bidding supervision, 231 inspections on project bidding, material procurement and dispose of materials were carried out; in outside supervision, the Company visited three major domestic suppliers, i.e. Wuxi cummins turbo technologies Co., Ltd., Wuxi weifu high-tech Co., Ltd., Honeywell automotive parts services (Shanghai) co., ltd.

(ii) Concentrating Efforts on Handling of Workers' Complaint

The Mechanism on Communication with Audit Committee on Report Information was implemented to notify the Company audit committee of the reporting information from workers quarterly, which has strengthened the internal and external communication for anti-fraud. 10 cases of workers reporting were investigated in 2012. Through

communication of investigation information and providing guidance to the work of rectification for all sectors, negative phenomena have been hit hard, the situation on incorruptibility and self-discipline of staff and the healthy development of enterprise are promoted further.

(2) Securing Faire Operation with Professional Subdivision

Under the widespread recession of the industry in 2012, Yuchai market share decline was lower than the main competitors and improved further by

means of market segment, deep service, advanced technology and fair competition.



the Company issued the industry-leading YC6MK special engine for coach, etc. as results of careful production based on long-term technical accumulation. By Seizing new market opportunities, strengthening market segmentation and implementing the tracking and feedback system on demand of coach market, the Company ensured that each segment of the market demands is monitored effectively and the leading position in coach power market kept continuously.



with "strengthening foundation, consolidating advantages, focusing on opportunities and ensuring task" as the guiding ideology, the company implemented a differentiation marketing and focused on the breakthrough in key areas.



the sector of engineering machinery was based on specific marketing to intensify docking with engine plants at all levels and focus on the promotion of terminal market. The sector of agricultural machinery focused on the expanding of market coverage for adaptive products and launching of corresponding supporting products timely.



making a better market positioning for products, developing the market deeply and driving it by market segmentation, expanding overseas market further.

Operational Responsibilities

(3) Breaking Up Monopolies by Self-dependent Innovation

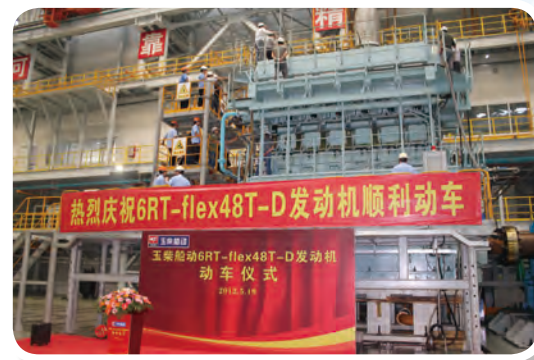
Since the 21st century, China's shipbuilding industry has been flourishing, especially the share of international market increased but not dropped after the international financial crisis. On April 2010, China jumped to the first shipbuilding power in the world and the Chinese shipbuilding industry established its center position of the world. But in China the rate of localization of marine equipments, especially marine engines is less than 50%, that is the bottleneck restricting the development of shipbuilding industry further in China. As the NO.1 domestic brand in

internal combustion engine industry, it is incumbent on "Yuchai Machine" to participate in the industry of ship equipments manufacturing.

Yuchai group, through independent research and development, launched successfully a series of high power marine diesel engines and diesel generators in 2012, not only promoting the development of marine engines and generators in China, but also breaking the market monopoly by international giant engine and promoting China from a big shipbuilding country to a strong shipbuilding country.

● low-speed Engines

Driven by the historical mission to develop the industry of ship equipments manufacturing in China, the Yuchai Zhuhai Company was established in September 2009 to implement the project on low speed ship engines, with excellent and high quality products to meet the needs on ship power of China's shipbuilding industry. At present, Yuchai has the capability to produce low speed ship engines with power range of 3475 to 21780kW. The Yuchai low speed high-power ship diesel engines are widely used in the 10000-150000 DWT bulk carriers, container ships, oil tankers and engineering ships, changed the situation that most of the low speed high-power ship engines are imported abroad for many years, broken the bottleneck which has restricted severely the development of China's shipbuilding industry.



● Medium-speed Engines



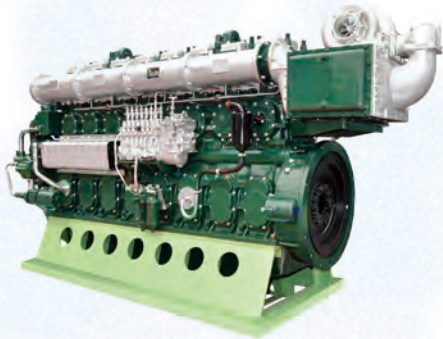
On December 20, 2012, Yuchai met with Wartsila again in Zhuhai city to sign the agreement on joint production of medium-speed ship engines and create jointly the production base of medium-speed ship engines in Zhuhai. The two sides would devote together to build the production base with most efficiency in China and create an operating condition for the production of engines with environmental protection, in order to satisfy the demands for powers in shipbuilding industry in China. The medium-speed engines to be produced will be widely used in marine engineering, offshore/ocean-going vessels and vessels for special purpose.

Operational Responsibilities

● High-speed Engines

In March 2012, Yuchai launched three heavy-duty, high speed and high power diesel engines with independent intellectual property rights, i.e. YC12VC, YC12VT, YC8C engines for vessels and power generation. All the engines have characteristics as energy efficient, reliable and durable, lightweight and compact appearance, the technology of which

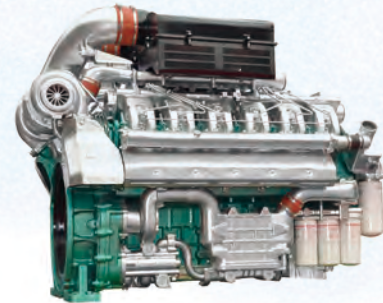
are equal to international level and leading the domestic market. Launching of three engines will change the pattern of high-end market on high-speed engines for vessels and power generation, and break the situation that the market of high-end stationary diesel generator sets above 700 kW has been dominated by imported products.



YC8C1230-G20 ship power



YC12VC2240L-D20 electricity power



YC12VT electricity power

(4) Fulfilling Responsibilities with Stakeholders Hand in Hand

(i) Strengthening the Best Supplier System

Based on the plan of three years for general structure and system of best supply, Yuchai group has set up the Working Plan on Construction of Best Supplying System in 2012. The Plan promotes supply system construction from many aspects including the research to supply system of the industry, construction of strategic alliance system of suppliers according to sector segmentation, construction of suppliers' capability on product development, construction of suppliers' Yuchai special supplying line, appropriate separation between strategic purchasing and implementing purchasing, top design on development of new product suppliers, optimization of business process, establishment of management mechanism for secondary supplier, purchase cost and purchase risk management, upgrading of IT system on procurement, etc.



Operational Responsibilities

(ii) Supporting and Training to Suppliers

Yuchai group has always taken the supporting and training to suppliers as a long-term mechanism and brought it into the work on promotion of suppliers ability.

In 2012, Yuchai group carried out 12 onsite supporting activities for more than 130 suppliers, the content of which include improvement of production management, production process and quality control, as well as strengthening of production capacity, etc.

Since the implementation of lean manufacturing in October 2011, Yuchai group has always focused on the synchronous development with suppliers and transferred timely the lean manufacturing requirements and ideas to them. In November 2012, Yuchai arranged senior executives from more than 200 suppliers to attend study and training in Wuxi Cummins Company.



Column: Supporting Activities on Quality Promotion of Castings Suppliers

2012, the Yuchai Casting Association carried out jointly with purchasing department of the Company the supporting activities on quality improvement of Castings Suppliers. Investigation on present situation of around 20 Yuchai casting suppliers was completed. Against the result of investigation, the Association reached cooperation intention with several castings suppliers to provide them on-the-spot guidance on casting quality.

Operational Responsibilities

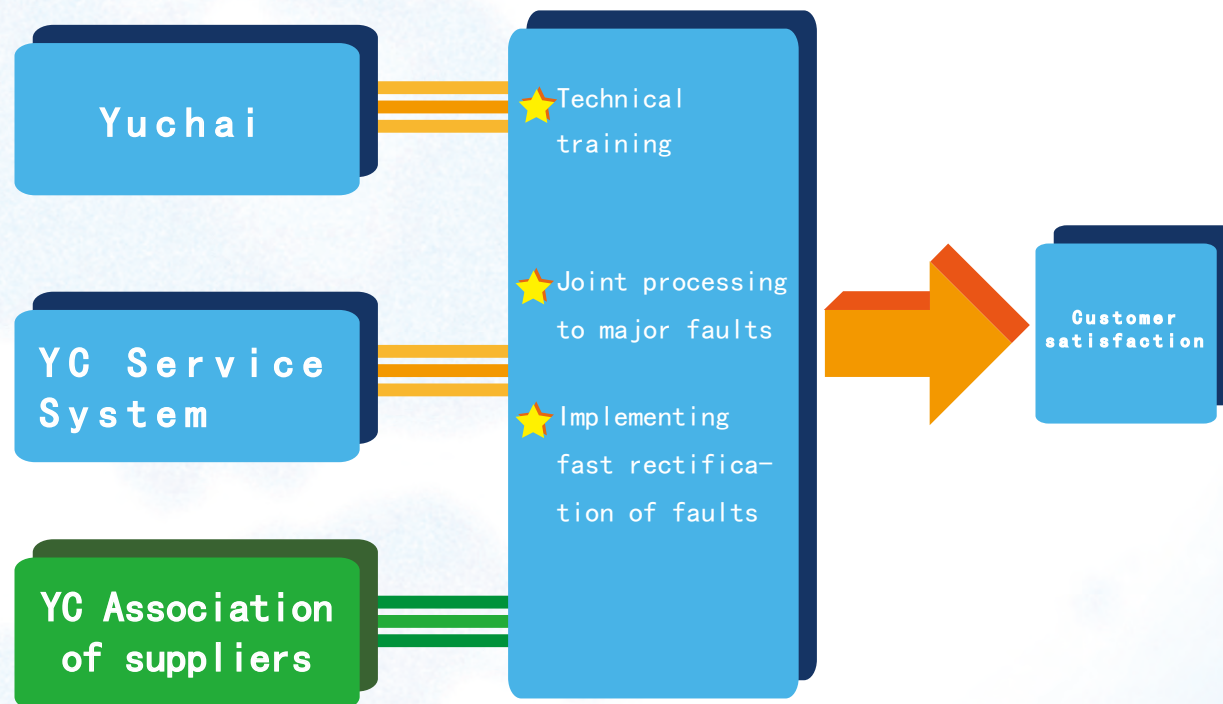
(iii) Promoting Construction of Social Responsibilities on Supply Chain

Since integrating the concept of corporate social responsibility into enterprise management, Yuchai has also put forward requirements concerned gradually to suppliers and provided guidance, encourage and assistance to them.

Yuchai concluded the Agreement on Environment, Occupational Safety and Health Management with more than 300 suppliers in 2012. In the so called de-asbestos action, some suppliers were not willing to replace asbestos products due to cost increase at first, then they changed attitude under persuasion by Yuchai and fulfilled their social responsibility in this connection.

As one of the important links in the "trinity value-added service", Yuchai not only carried out training and supporting activities for its 3000 maintenance service stations to provide customers better after-sales service, but also organized

suppliers together to participate in the joint training to those stations. In 2012, Yuchai had organized suppliers to conduct skill training for about 500 service stations. 48 trainers from 16 major suppliers of assembly parts attended the training activities. Moreover, technicians from 183 service stations had been invited to suppliers' companies, where they can understand the production process deeply, learn the knowledge on working principle of product, instructions of installation, correct use and maintenance, procedures and guidelines for fault determination, etc., and analyze common faults in service by a way of combining theory with practice. Trainers also discussed and analyzed with trainees the complicated problems encountered in practice to find proper solution. The joint training programs were helpful for trainees to increase the accuracy on determining the cause of fault.



Trinity Value-added Service

Customer Responsibilities



- 47 Providing Safe and Reliable Products for Customers
- 49 Ensuring Customers to fully Enjoy Rights and Interests

Customer Responsibilities

(1) Providing Safe and Reliable Products for Customers

(i) Minimizing Safety Risk of Products

"Zero defect and zero tolerance" is the quality concept incorporated into the soul of Yuchai. The Company has insisted to combine closely the quality culture, lean production and management idea, and set up the "concept of broader quality" to have the quality culture run through the whole process of designing, manufacturing, sales, operation and management.

To ensure stability and under control of production process, the Company fully increased the level of equipment and built the trial and installing line of diesel engines that is most advanced in China and at same level of the world. It established the standardized process of manufacturing process and technology management, and the goal-oriented prevention and early warning system with more than 2000 quality control points, in order to further promote the control of process consistency.

According to the characteristics that the product series are applied widely, Yuchai has added more targeted safety specification documents according to different application fields, which are based on the original engine safety and disaster prevention



The Quality Award on Chairman of Guangxi Autonomous Region

specification. Whole series products for different application fields have to implement strictly the corresponding specification and be examined strictly from multiple aspects such as designing, production, supporting application and so on.

In June 2012, the Ministry of Industry and Information Technology awarded Yuchai the title of "quality benchmark of industrial enterprise". On October 29, Yuchai obtained the Quality Award on Chairman of Guangxi Autonomous Region, the highest quality award of the Autonomous region.

Column: Advocating green materials and carrying out "de-asbestos" action

Replacing asbestos gaskets with that of no asbestos can reduce the toxic emissions of engine, and reduce the risk of engine burning and explosion, etc. But there are no laws and regulations or industry standards yet that ban the use of asbestos products in our country. In 2012, with a view to advocating green products, Yuchai formulated and published the Q/YC 37 — 2012 Technical Conditions on No-asbestos Gasket for Engines, Q/YC41-2008 Requirements on Banned Substances in Engine Parts. Designing and manufacturing of products without asbestos and other harmful materials have been started gradually to such parts as gaskets, clutches and bearing pads. Nearly 300 kinds of gaskets which may contain asbestos have been upgraded to the gaskets without asbestos.

Customer Responsibilities

(ii) Providing High Quality School Bus Products and Services for Children

In view of the facts that the ownership of school bus in China is far from meeting the social needs, and frequent children casualty accidents caused by unqualified school bus, Yuchai group began to research and develop special engine for school bus two years ago. The product idea of "profession and efficiency" has been followed in relevant research, development and technical reserve activities. Since promulgation of the Regulations on School Bus Safety Management by the State Council and the issue of two mandatory National Safety Standards on School Bus by the State Administration of Quality Supervision Inspection and Quarantine and the National Standardization Management Committee in 2012, Yuchai launched the first school bus engine in the industry. Based on the professional research to school bus market, such demand factors as special requirement on speed for school bus and the different total quality of it from traditional vehicles, etc. had been considered carefully, and a new electric control calibration on applicability was made in the process of development. Launch of the school bus engine shows the Yuchai image of full love and responsible for the society, and the excellent technical strength of Yuchai in the area.

On May 16, Yuchai held the "Professional, Loving and Enjoying" — Yuchai school bus engine conference in National Convention Center in Beijing,

on the occasion five products of school bus engine that satisfy special requirements were launched, including YC4FA, YC4D, YC4E, YC4G, YC6J, the so called 4416 series (four models of engine with four cylinders and one with six cylinders), which can meet precisely the power demands of different school bus models, i.e. flat fronted and long head models with body length from 5.5-10m. The school bus powers designed and developed by Yuchai group have three major characteristics: safety, convenience and comfort; the customers can enjoy "3 + 3" service, that is all Yuchai engines for school bus are provided with three years of guarantee period without limitation on distance traveled, three times of engine maintenance and three times of safety examination when school term starts. This is the first service policy for school bus power in China.

Total sales of Yuchai school bus engines in 2012 reached 12500 units, accounting for 70% of the domestic market on school bus power and more than 90% for high-end school bus power, and Yuchai engine has become the first choice for school bus power in China. Over 10000 school buses using Yuchai engine are running in Zhejiang, Tibet, Gansu, Shaanxi, Ningxia, Heilongjiang, Jiangsu, Fujian provinces and regions to guarantee the travel safety for over 10 million school children.



A group of children are taking the school bus equipped by engine of Yuchai

Customer Responsibilities

Column: Providing Security through Remote Expert Service

On May 17, 2012, Yuchai received the order from Yutong Bus for YC4FA school bus selling to Lhasa, Tibet. According to the high elevations of Tibetan area, the special condition on use of school bus (use at an altitude of 3800 m), the low temperature performance and the requirements from Yutong on power configuration, the department on application and development of Yuchai conducted suitability evaluation for the products and had a special treatment for these school bus based on discussion and solution about loss of power in plateau and engine smoke at low speed.

On June 1, Mr. Chen Huafu, an Yuchai engineer for application and development learned that 53 YC4FA school buses to be sold to Tibet can not control the maximum speed (80 km/h) steadily. The customer had to obtain these products and hoped Yuchai to deal with the problem immediately. Chen went to Yutong Company instantly while he was connecting with Yuchai colleague by phone to confirm the factory state of engines. After arriving and asking relevant personnel the situation, Chen found through repeated checking and testing that the configuration of these engines were adjusted in response to request of customer. So Chen asked Yuchai factory headquarters to complete the procedure and coordinated Yuchai service center to encrypt the procedure at the same time; then he went again to Yutong workshop with electric control service personnel from service station. After brushing the procedure and commissioning repeatedly, the cause of failure was found eventually and the limitation to speed of the vehicle realized though setting maximum speed limit by tool. Mr. Chen then begun to deal with 53 vehicles with service personnel and completed the work at 12 am.

Chen Huafu, as an engineer responsible for the development and application of Yuchai school bus engines, has observed the essence of Yuchai culture, i.e. "serving customer with dedicated efforts", and won the recognition and trust of customers. There is only a simple idea in the mind of the excellent engineer: keeping children away from all the accidents, protecting the safety of school bus and providing children a most secure and reliable travel environment.



The school bus equipped by YC4FA engine running in Lhasa, Tibet

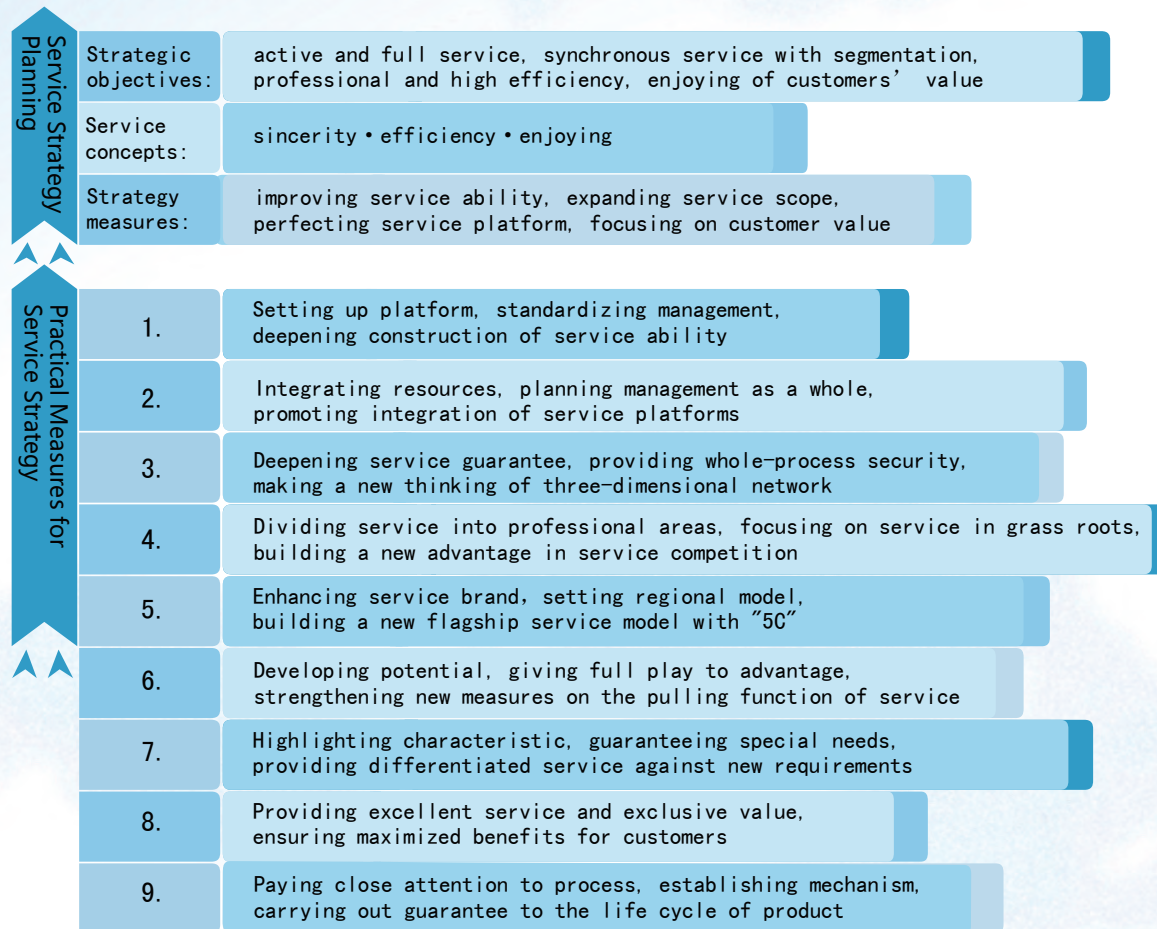
(2) Ensuring Customers to fully Enjoy Rights and Interests

(i) Yuchai Service Strategic Plan

In 2012, Yuchai designed the service strategy plan, determined the strategic targets and core concept of Yuchai service, put forward the service brand of "speedy-reliable" , identified the comprehensive service strategy of "increasing service ability, expanding service scope, perfecting

service platform, focusing on customer value", and presented nine specific measures of service strategy. By activities above both the direction of development in the future and the short term objectives for Yuchai service are established.

Customer Responsibilities



(ii) Build Multiple Service Platform

In respect of marketing service for the end customers, Yuchai has been perfecting its after-sale service system under the guidance of marketing concept, i.e. "casting brand by professional, creating value through service".

● Building a New Mainline for Deep Service

In 2012, Yuchai established the most perfect service system in the industry through implementing professional segmentation management, building electric control service security system and setting up the road three-dimensional service network structure, in order to providing more professional and rapid service for customers.

In 2012, Yuchai service network developed rapidly, the number of service stations reached more than 3000, the whole network improved further to specialization and focused on county and township levels. Currently, all the Yuchai service over the country have a service radius less than 30 km and the township service stations account for 35%. Realization of network segmentation make possible to manage the service gradually in accordance with sectors. Through evaluation to the segmentation

Yuchai has formed a professional service network covering all areas, with core stations as backbone and professional stations as supporting of the service.

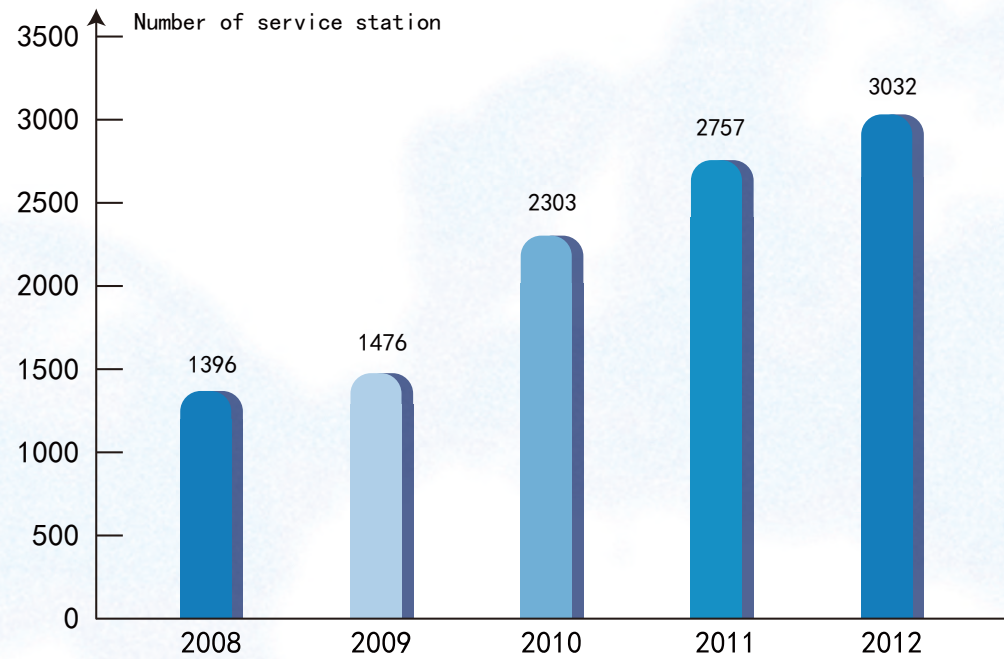
On the basis of original service network, Yuchai selected a batch of high-quality service stations to built three-dimensional service system with arterial highways as its main body. Establishment of the network has broken the original thinking of service radiating from base point to surrounding areas, thus service can be provided along the arterial highways to ensure that customers enjoy convenient service in the whole traveling and there is nothing to worry about.



Service Personnel from Dongshen Service Station in Lianyuan

Customer Responsibilities

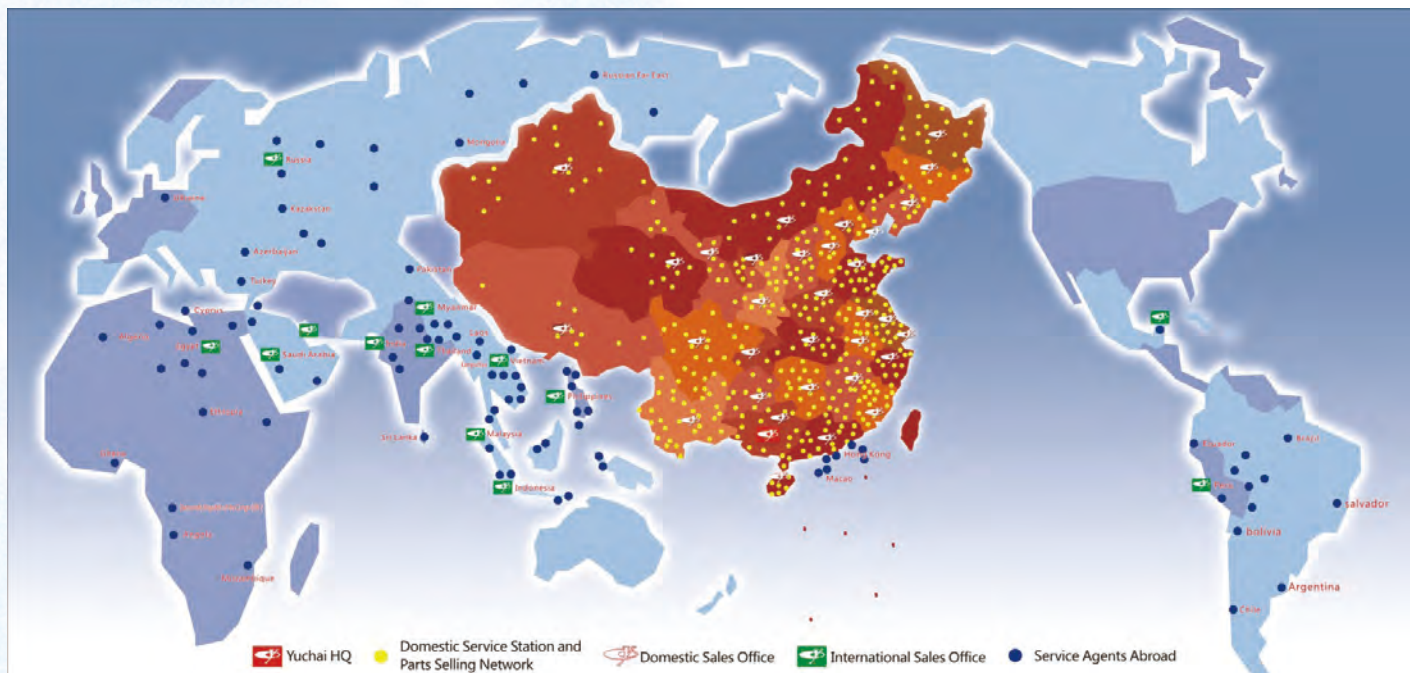
Number of service station in recent years



● Promoting Steadily the Construction of Service Network Overseas

According to the Schedule on Promoting Overseas Service Network published in early 2012, Yuchai established 16 new service agents abroad. By the end of 2012, Yuchai has 93 overseas service

agents and 145 service stations in 35 countries, which means that the Yuchai overseas service network has begun to take shape.



Customer Responsibilities

(iii) Providing Professional and Timely Service

Yuchai has long been adhering to the service tenet of "pouring my all, doing my best, loyalty to customers, integrity to the world" to provide comprehensive and effective after-sales supporting and consulting service.

● Establishing Management System on Multidimensional Customer Relationship

Measures adopted in this connection include: building usual channels and special channels for customers' consultation and complaints; making contact directly with customer departments and staff of engine plants as well as dealers to discuss and resolve relevant problem; improving mechanism of return visit to customers to enhance the management of customer relationship and improve customer satisfaction; taking 100% of phone tracking visits to customers and carrying out a series of special service activities to visit dealers and customers and keep tracking of the products; implementing individualized service and active innovation to meet constantly the different needs and expectation of customers. Service activities carried out in 2012 include the "summer harvest" and "autumn harvest" service, service provided by the mine and port stations, service for customers using new energy, the



Service Month on heavy engine, and the special transportation security service for State's important conferences such as the Fifth session of the 11th National People's Congress, the Fifth session of the 11th Chinese People's Political Consultative Conference, the 18th National Congress of the Communist Party of China.

● Implementing Multi-level Training to Improve Service Skill

Besides improving service quality and promoting service network and service tool, the service process should be standardized and service ability be enhanced. Therefore, Yuchai has intensified the construction of training base and carried out training

at different levels according to service needs, with a view to improving the skill of service staff. In 2012, a total of 180 all kinds of service training were held with 7438 participants.

Customer Responsibilities

Table: Service Training Activities in Recent Years

Year	2009	2010	2011	2012
Number of training course	85	110	121	180
Number of participants	3879	4226	4877	7438

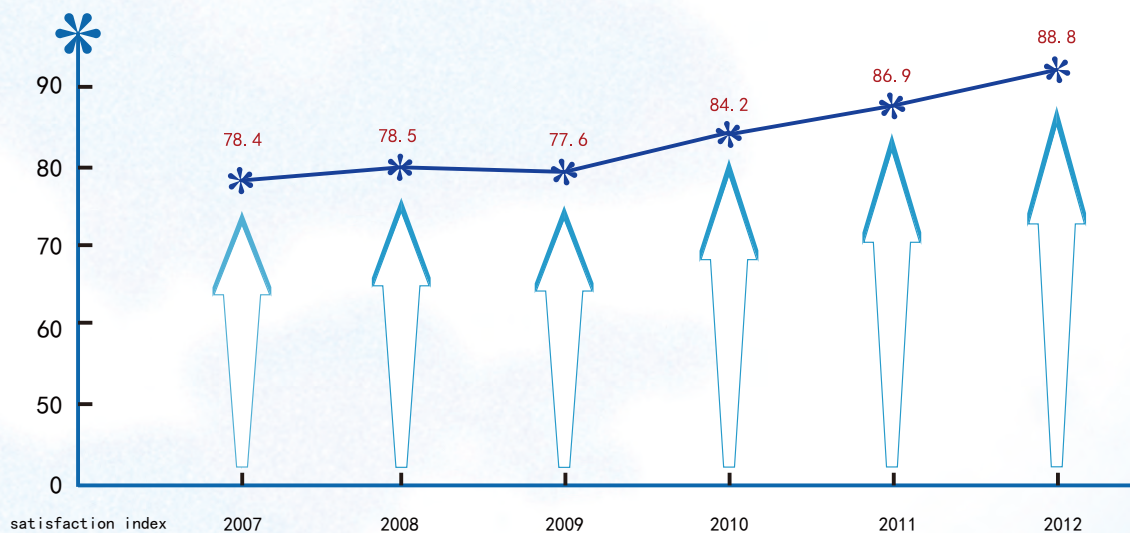
● **Developing Specific Training to Promoting Service Abroad**

Through special trainings organized irregularly for overseas service agents and major customers, these agents had more knowledge on Yuchai products and maintenance concerned, that improved their service ability effectively. By the measures as strengthening the management on delivery of parts, opening YCSS service information system, providing authorization and specialized tools, visiting agents regularly and providing them with guidance, etc., the management on overseas service agents has begun to be standardized and the service effects greatly improved.



Service group abroad Tan qing in the training in Angola, Africa

Table: Trends on Customers' Service Satisfaction in Recent Years



Yuchai has adhered to increase the service satisfaction and got significant results, the service satisfaction for the year 2012 achieved 88.82 points.

Community responsibilities

暨玉柴机器集团捐赠见义勇为基

主办：玉林市社会管理综

玉林市

玉柴机器集团

100万元



- 55 Increasing Local Employment by Projects Investment
- 55 Helping Disadvantaged Groups by Donation and Charity Action
- 57 Promoting Technological Development through Training Activities

Community responsibilities

(1) Increasing Local Employment by Projects Investment

Yuchai group has taken implementing social responsibility, supporting local economic development and increasing local employment as its own duty to create employment opportunities constantly through rapid development of the company, investments in major projects, new business development and building new industrial parks around core sectors. In past three years, Yuchai has provided the society over 7000 jobs, among which more than 900 are for university graduates to attend Yuchai group, and therefore awarded the title of "national employment advanced enterprise".

According to incomplete statistics, the projects including casting center phase ii, transit warehouse of fertilizer plant, gas engine project, ship engine project, college students apartment, Yuchai office building and Yuchai Nanning base, etc. had created more than 500 regular full time jobs and over 1500 part time jobs in peak season, and over 500 additional jobs created by catering, logistics and building material industries. It means that Yuchai has provided a tacit support for development of the nation and society while driving the local economic development.

(2) Helping Disadvantaged Groups by Donation and Charity Action

(i) Donating One Million Yuan to Yulin City's Found on Righteous Behaviors

On October 19, 2012, Yuchai donated to Yulin Association on Promotion of Righteous Behaviors one million Yuan to build a social morals of helping each other and acting bravely for a just cause. The Donation is the biggest one made by a local enterprise since establishment of the

Association. Yuchai was awarded the title as "Star of Public Interest" by the Municipal Committee on Comprehensive Treatment of Social Management and the Yulin Association on Promotion of Righteous Behaviors.

(ii) Carrying out "Spring Buds Program" Donation Activity

Since starting of the Spring Bud Program donation in 2006, all Yuchai staff have donated the poorest girls in Yulin city of Guangxi for their education and life every year. For 7 years, Yuchai has founded a total of 4365 "spring bud girls" for 300 Yuan per person. Through the ways as "big hand holding little", "one worker assisting one girl, more workers assisting one girl", etc., Yuchai also made its

workers to set up a voluntary helping relationship with the girls and provide support to the education and life of them. Loving donation in 2012 amounted to 286858.9 Yuan. In accordance with conviction of "assisting a girl, delivering a warm, taking a hope", the Spring Buds Program has now become a public welfare activity in which Yuchai workers widely participated and a platform for them to denote love.



Community responsibilities

(iii) Helping Poor Students Continue to Advanced Studies

The awarding ceremony of "Yuchai Scholarships and Grants" and "Yanping Love Grants" 2012 was held on August 31. 26 poor students received the Yanping Grants from 2000-3500 Yuan, 29 students got the Yuchai awards. Until present, the two programs have founded and awarded for 7 years

to the excellent students enrolled by universities and colleges as full-time students who are from poor families of Yuchai workers, with a total of 135 students enjoyed the awards and grants amounting to nearly 2 million Yuan.

(iv) Carrying Out Volunteer Actions to Help Vulnerable Persons

Since established six years ago, the volunteer team of Yuchai cold processing factory has always kept the tenet of "presenting rose to others with remaining fragrance at hand " in mind and carried out volunteer activities to assist vulnerable groups.

In 2012, the team adhered as always to provide service to the fixed service objects including "Guinan hospital Geracomium", "Longan Geracomium", "locomotive depot retired workers", "Yuchai workers and their families", etc., the overall service time increased by 20% than 2011.

To improve the ability of volunteer service, the volunteer team strengthened the coordination with other units and departments in organizing and implementing activities concerned in 2012. The activities conducted by the team including the donations to primary school students in poor mountainous areas jointly with Yuchai real estate company; the gala evenings conducted with Guinan hospital, Yuchai youth league committee and Yulin red bean volunteers in the double ninth festival (9.9, the Chinese seniors' festival) ; and the visits to seniors in hospital with doctors, etc.



Community responsibilities



(3) Promoting Technological Development through Training Activities

(i) Undertaking the Task of Teachers' Training Actively

At present, the development of vocational education in our country is facing the best opportunity. But due to historical reasons, there are structural flaws in composition of vocational school teachers, becoming a "bottleneck" to restrict the development of vocational school. So improving the composition of vocational teachers team and enhancing teachers' quality and ability has become the priority of sustainable development of vocational education.

Yuchai group has participated actively in

vocational education and take the initiative to undertake crucial task for it. The Group started to host Guangxi region's vocational teachers' training course since 2006, and became in 2012 a national training base for backbone young teachers of secondary vocational school, making a due contribution to the development of "double type" teachers (teachers with both the teacher qualification and technical titles) and the substantial increase of the level of vocational college teachers. The training base has completed training to 331 teachers.

(ii) Building the National Center of Engineering Education and Practice

In 2012, Yuchai was approved as the national engineering education and practice center of the Huazhong university of science and technology and Guangxi university. Purpose of establishing the center with two universities is to bring the specialty of enterprise and school on talents training into full play and foster jointly excellent engineers in the field of manufacturing through study, work and research. According to the partnership schedule, 20 to 30 students for bachelor, master and PhD degrees from

Huazhong University of Science and Technology will come to Yuchai to conduct production practice, professional course design, graduation design and subject studies determined by Yuchai and the University. In July 2012, a class of grade 3 students was arranged for an engineering practice in Yuchai. Through the model of collaboration between enterprise and school, the center will train 5 to 8 postgraduates each year for Guangxi University.

Looking forward to 2013



Community responsibilities

Overall Goals

The year 2013 is crucial for China to face economic structure adjustment and also critical for Yuchai to implement its Twelfth Five-year development strategy. Under the condition the global economic environment is still grim, through innovating management and control

mode, improving management level and strengthening talents development, Yuchai, will overcome all difficulties to achieve the business policies and goals in 2013 and promote healthy and sustainable development of the company.

Business Policy

Strong internal controls: strengthening effective control by the Group over the subsidiaries and their internal affairs through innovation in control mode.

Fine management: with objectives management as guidance and lean operation as a fulcrum, deepening the comprehensive budget management and promoting the management level of subsidiaries in technological innovation, product development, manufacturing quality and marketing services to an upper step.

Increased efficiency: improving operation efficiency and core competitiveness of the enterprise comprehensively by technology research and development, quality improvement, project construction, investment and financing platform construction, personnel training, etc.

Steady growth: achieving a continuous and steady rising on business scale, market share and brand value, and a steady growth of enterprise by measures and means of strengthening internal control, fining management and improving efficiency.

Business Goals

ensuring a sales revenue of 44 billion Yuan and striving for 46.8 billion Yuan; realizing the synchronized increase of total taxation and profits with sales volume.

Safety Goals

no industrial death and serious injuries or fire accident, the rate of minor injury accidents is below 3‰.

Appendix: Index Table

ISO26000 core subjects	Issues	Information disclosed	Corresponding page Numbers
1. Organizational governance	1-1: Organizational governance	Improvement of corporate governance structure	15
		Promotion of lean manufacturing projects	17
		Deepening culture construction of enterprise	17
2. Human rights	2-1: Due diligence	---	
	2-2: Human rights risk situations	---	
	2-3: Avoidance of complicity	---	
	2-4: Resolving grievances	Improvement of mechanism on employee complaints	19
	2-5: Discrimination and vulnerable groups	---	
	2-6: Civil and political rights	---	
	2-7: Economic, social and cultural rights	serving workers Sincerely	20
	2-8: Fundamental principles and rights at work	Respecting workers basic rights	20
3. Labor practices	3-1: Employment and employment relationships	Employment stability and talent introduction	23
	3-2: Conditions of work and social protection	Compensation security and excellent staff stimulation	23
	3-3: Social dialogue	collective bargaining and democratic management	25
	3-4: Health and safety at work	Production safety and prevention first	26
	3-5: Human development and training in the workplace	Promoting training by competition to improve skills	27
4. The environment	4-1: Prevention of pollution	Leading domestic and committing to green power development	31
	4-2: Sustainable resource use	Saving material and reducing consumption to promote resource recycling	34
	4-3: Climate change mitigation and adaptation	Saving energy and reducing emission to develop clean energy actively	37
	4-4: Protection of the environment, biodiversity and restoration of natural habitats	---	

ISO26000 core subjects

5. Fair operating practices

6. Consumer issues

7. Community involvement and development

Issues	Information disclosed	Corresponding page Numbers
5-1: Anti-corruption	Internal and external supervision and anti-corruption	41
5-2: Responsible political involvement	---	
5-3: Fair competition	Independent innovation and breaking monopoly	42
5-4: Promoting social responsibility in the value chain	Keeping close cooperation in fulfillment of responsibilities	43
5-5: Respect for property rights	---	
6-1: Fair marketing, factual and unbiased information and fair contractual practices	---	
6-2: Protecting consumers' health and safety	Providing safe and reliable products	47
6-3: Sustainable consumption	---	
6-4: Consumer service, support, and complaint and dispute resolution	Protecting the interests of customers	49
6-5: Consumer data protection and privacy	---	
6-6: Access to essential services	Building multiple service platform	50
6-7: Education and awareness	Promoting training by competition and advancing workers' Skill	27
7-1: Community involvement	Helping disadvantaged groups by donation and charity action	55
7-2: Education and culture	Garrying out vocational education and training activities	57
7-3: Employment creation and skills development	Increasing local employment through project investment	55
7-4: Technology development and access	Promoting technological progress through Cooperative innovation	33
7-5: Wealth and income creation	Giving priority to local suppliers	
7-6: Health	---	
7-7: Social investment	Investing projects to stimulate local employment	55

