CHINA YUCHAI INTERNATIONAL LTD
Form 20-F
April 15, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

Commission file number 1-13522

China Yuchai International Limited

(Exact Name of Registrant as Specified in Its Charter)

Not Applicable	**Bermuda**
(Translation of Registrant s Name Into English)	**(Jurisdiction of Incorporation or Organization)**

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(Address and Telephone Number of Principal Executive Offices)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value US$0.10 per Share	The New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2014, 38,195,706 shares of common stock, par value US$0.10 per share, and one special share, par value US$0.10, were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this report is an annual report, indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨ No ¨

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Certain Definitions and Supplemental Information

All references to China, PRC and the State in this Annual Report are references to the People s Republic of China. Unless otherwise specified, all references in this Annual Report to US dollars, dollars, US$ or $ are to United States dollars; all references to Renminbi, RMB or Rmb are to Renminbi, the legal tender currency of China; all references to S$ are to Singapore dollars, the legal tender currency of Singapore; all references to RM are to Ringgit, the legal tender currency of Malaysia. Unless otherwise specified, translation of amounts for the convenience of the reader has been made in this Annual Report (i) from Renminbi to US dollars at the rate of Rmb 6.1563 = US$1.00, the rate quoted by the People s Bank of China, or PBOC, on March 9, 2015, (ii) from Singapore dollar to US dollars at the rate of S$1.3792 = US$1.00, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on March 9, 2015, and (iii) from Ringgit to US dollars at the rate of RM 3.6770 = US$1.00, the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on March 9, 2015. No representation is made that the Renminbi amounts, Singapore dollar amounts or Ringgit amounts could have been, or could be, converted into US dollars at rates specified herein or any other rate.

Our consolidated financial statements are reported in Renminbi and prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). We adopted IFRS effective as of and for the fiscal year ended December 31, 2009 by applying IFRS 1: First Time Adoption of International Reporting Standards. For the years prior to 2009, we prepared our financial statements, in accordance with accounting principles generally accepted in the United States (US GAAP), which differs in certain significant respects from and is not comparable with IFRS. Totals presented in this Annual Report may not correctly total due to rounding of numbers. References to a particular fiscal year are to the period ended December 31 of such year.

As used in this Annual Report, unless the context otherwise requires, the terms the Company , the Group , CYI , we , us , our and our refer to China Yuchai International Limited and its subsidiaries. All references herein to Yuchai are to Guangxi Yuchai Machinery Company Limited and its subsidiaries and, prior to its incorporation in July 1992, to the machinery business of its predecessor, Guangxi Yulin Diesel Engine Factory, or Yulin Diesel, which was founded in 1951 and became a state-owned enterprise in 1959. In the restructuring of Yulin Diesel in July 1992, its other businesses were transferred to Guangxi Yuchai Machinery Holdings Company, also sometimes referred to as Guangxi Yuchai Machinery Group Company Limited, or the State Holding Company, which became a shareholder of Yuchai. All references to HLGE are to HL Global Enterprises Limited (formerly known as HLG Enterprise Limited); and all references to the HLGE group are to HLGE and its subsidiaries. All references to TCL are to Thakral Corporation Ltd; and all references to the TCL group are to TCL and its subsidiaries.

As of December 31, 2014, 38,195,706 shares of our common stock, par value US$0.10 per share, or Common Stock, and one special share, par value US$0.10, of our Common Stock were issued and outstanding. The weighted average shares of common stock outstanding during the year were 37,720,248. Unless otherwise indicated herein, all percentage share amounts with respect to the Company are based on the weighted average number of shares of 37,720,248 for 2014. As of March 9, 2015, 38,195,706 shares of our Common Stock, and one special share, par value US$0.10 were issued and outstanding.

In China, Euro emission standards are equivalent to National emission standards and references to National emission standards are equivalent to references to Euro emission standards. All references to Tier 2, 3 and 4 emission standards are to emission standards adopted by the Ministry of Environmental Protection of the People s Republic of China applicable to diesel engines used in non-road machinery.

Cautionary Statements with Respect to Forward-Looking Statements

We wish to caution readers that the forward-looking statements contained in this Annual Report, which include all statements which, at the time made, address future results of operations, are based upon our interpretation of factors affecting our business and operations. We believe that the following important factors, among others, in some cases have affected, and in the future could affect our consolidated results and could cause our consolidated results for 2015 and beyond to differ materially from those described in any forward-looking statements made by us or on our behalf:

- political, economic and social conditions in China, including the Chinese government s specific policies with respect to foreign investment, economic growth and the availability of credit, particularly to the extent such current or future conditions and policies affect the diesel and natural gas engine industries and markets in China, our diesel and natural gas engine customers, the demand, sales volume and sales prices for our diesel and natural gas engines and our levels of accounts receivable;

the effects of a weaker than expected recovery in the global economy subject to continued fragilities and certain downside risks such as persistently weak global trade, possible financial market volatility as interest rates in major economies rise on varying timelines, protracted recovery in the Euro Area, weaker than expected growth in China, possible set-backs in the restructuring of China s economy, the escalating geo-political crisis in Eastern Europe, Middle East and South East Asia, on the overall global economy and our business, operating results and growth rates;

the effects of competition and excess capacity in the diesel engine market on the demand, sales volume and sales prices for our diesel engines;

the effects of previously reported material weaknesses in our internal control over financial reporting and our ability to implement and maintain effective internal control over financial reporting;

our ability to collect and control our levels of accounts receivable;

our dependence on Dongfeng Automobile Co., Ltd. and other major diesel truck manufacturers controlled by or affiliated with Dongfeng Automobile Co., Ltd.;

our ability to successfully manage and implement our joint ventures and manufacture and sell our diesel and natural gas engines and any new products;

our ability to finance our working capital and capital expenditure requirements, including obtaining any required external debt or other financing;

the effects of fluctuating interest rates in China on our borrowing costs or the availability of funding;

the effects of inflation and deflation on our financial condition and results of operations;

our ability to successfully implement the Reorganization Agreement, as amended by the Cooperation Agreement (both as defined in Item 4. Information on the Company History and Development);

our ability to control Yuchai and consolidate Yuchai s financial results;

the effects of uncertainties in the Chinese legal system, which could limit the legal protection available to foreign investors, including with respect to the enforcement of foreign judgments in China;

the ability of HLGE to continue as a going concern or raise sufficient funds to repay its debt obligations to us;

the ability of HLGE to remain listed;

- the effects of changes to the international, regional and economic climate and market conditions in countries where the HLGE group s hospitality operations are located, as well as related global economic trends that adversely impact the travel and tourism industries;

- the outbreak of communicable diseases, if not contained, and its potential effects on the operations of the HLGE group and its business in the hospitality industry; and

- the impact of terrorism, terrorist events, airline strikes, hostilities between countries or increased risk of natural disasters or viral epidemics that may affect travel patterns and reduce the number of travelers and tourists to the HLGE group s hospitality operations.

Our actual results, performance, or achievement may differ from those expressed in, or implied by, the forward-looking statements contained in this Annual Report. Accordingly, we can give no assurances that any of the events anticipated by these forward-looking statements will transpire or occur or, if any of the foregoing factors or other risks and uncertainties described elsewhere in this Annual Report were to occur, what impact they will have on these forward-looking statements, including our results of operations or financial condition. In view of these uncertainties, you are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward-looking statements contained in this Annual Report to reflect the occurrence of events after the date of this Annual Report.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Selected Financial Data

The selected consolidated statement of financial position data as of December 31, 2013 and 2014, and the selected consolidated statement of profit or loss data and the selected consolidated statement of cash flows data set forth below for the years ended December 31, 2012, 2013 and 2014 are derived from our audited consolidated financial statements included in this Annual Report. The selected consolidated statement of financial position data as of December 31, 2010, 2011 and 2012, and the selected consolidated statement of profit or loss data and the selected consolidated statement of cash flows data set forth below for the years ended December 31, 2010 and 2011 are derived from our audited consolidated financial statements not included in this Annual Report. Our consolidated financial statements as of and for the years ended December 31, 2010, 2011, 2012, 2013 and 2014 have been prepared in conformity with IFRS. We adopted IFRS effective as of and for the fiscal year ended December 31, 2009 by applying IFRS 1: First Time Adoption of International Reporting Standards.

In accordance with rule amendments adopted by the U.S. Securities Exchange Commission, or SEC, which became effective on March 4, 2008, we do not provide a reconciliation to US GAAP for financial information prepared in accordance with IFRS. The selected financial information as of and for the years ended December 31, 2012, 2013 and 2014 set forth below should be read in conjunction with, and is qualified in its entirety by reference to Item 5. Operating and Financial Review and Prospects and our audited consolidated financial statements and the notes thereto.

We currently own, through six of our wholly-owned subsidiaries, 76.4% of the outstanding shares of Yuchai. Our ownership interest in Yuchai is our main business asset. As a result, our financial condition and results of operations depend primarily upon Yuchai s financial condition and results of operations, and the implementation of the Reorganization Agreement, as amended by the Cooperation Agreement.

Following an announcement in February 2005 by the Board of Directors of the Company of its approval of the implementation of our business expansion and diversification plan, we looked for new business opportunities to seek to reduce our financial dependence on Yuchai. As of December 31, 2014, we had a 48.9% interest in the outstanding ordinary shares of HLGE and a 7.7% interest in the outstanding ordinary shares of TCL. As of March 9, 2015, our interest in the outstanding ordinary shares of HLGE and TCL remain unchanged.

Relating to our interest in HLGE:

On January 13, 2012, our wholly-owned subsidiary, Grace Star Services Limited (Grace Star) transferred 24,189,170 Series B redeemable convertible preference shares in the capital of HLGE (the Trust Preference Shares) to Amicorp Trustees (Singapore) Limited (the Trustee) pursuant to a trust deed entered into between HLGE and the Trustee (the Trust). On January 16, 2012, the Trust Preference Shares were mandatorily converted into 24,189,170 new ordinary shares in the capital of HLGE (the Trust Shares) resulting in our shareholding interest in HLGE decreasing from 49.4% to 48.1%. On April 4, 2012, as a result of the conversion of all the outstanding Series A redeemable convertible preference shares held by our wholly-owned subsidiaries, Venture Delta Limited (Venture Delta) and Grace Star, into new ordinary shares in the capital of HLGE, our shareholding interest in HLGE increased from 48.1% to 48.9%.

The Trust Shares are accounted for as treasury shares by HLGE as they are issued by HLGE and held by the Trust, which is considered as part of HLGE. As a result, based on the total outstanding ordinary shares of HLGE net of the Trust Shares, our shareholding interest in HLGE is stated as 50.2% for accounting purposes in the Company s consolidated financial statements for the year ended December 31, 2014. However, these Trust Shares are not regarded as treasury shares under the Singapore Companies Act, Chapter 50, and the Trustee has the power, inter alia, to vote or abstain from voting in respect of the Trust Shares at any general meeting of HLGE in its absolute discretion and to waive its right to receive dividends in respect of the Trust Shares as it deems fit. Accordingly, based on the total outstanding ordinary shares of HLGE including the Trust Shares, our shareholding interest in HLGE is 48.9% as of December 31, 2014 and March 9, 2015. We consolidate the results of HLGE as a subsidiary. See Note 1.4 to the accompanying consolidated financial statements in Item 18.

Relating to our interest in TCL:

In July 2010, we reduced our total shareholding in TCL from 34.4% to 13.9%. As a result of the subsequent sales of TCL shares in the open market, our shareholding interest in TCL decreased to 12.2% as of December 31, 2012, to 7.7% as of December 31, 2013 and remained unchanged as of December 31, 2014 and March 9, 2015. We classify our shareholding in TCL as held for trading investment.

For further information on the Company s investments in HLGE and TCL, see Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan.

	Year ended December 31,					
	2010	**2011**	**2012**	**2013**	**2014**	**2014**
	Rmb	**Rmb**	**Rmb**	**Rmb**	**Rmb**	**US$(1)**
			(in thousands)			
Selected Consolidated Statement of Profit or Loss Data:						
Revenue	16,208,184	15,444,428	13,449,489	15,902,355	16,436,142	2,669,809
Gross profit	4,008,931	3,442,279	2,879,884	3,264,904	3,290,990	534,573
Research and development costs	(324,123)	(328,140)	(373,732)	(468,612)	(494,594)	(80,339)
Other operating income, net	87,628	73,078	132,350	156,352	94,892	15,414
Operating profit	1,949,672	1,535,088	1,163,464	1,402,416	1,292,618	209,968
Share of results of associates and joint ventures	(54,023)	(79,632)	(36,869)	(79,086)	(29,755)	(4,834)
Profit before tax from continuing operations	1,765,203	1,299,282	913,576	1,162,119	1,201,385	195,148
Income tax expense	(327,946)	(226,780)	(142,238)	(222,147)	(179,639)	(29,180)
Profit for the year from continuing operations	1,437,257	1,072,502	771,338	939,972	1,021,746	165,968
Profit after tax for the year from discontinued operations	12,655					
Profit for the year	1,449,912	1,072,502	771,338	939,972	1,021,746	165,968
Attributable to:						
Equity holders of the parent	1,117,297	818,532	567,333	700,423	730,280	118,624
Non-controlling interests	332,615	253,970	204,005	239,549	291,466	47,344
Basic and diluted earnings per common share attributable to ordinary equity holders of the parent	29.98	21.96	15.22	18.79	19.36	3.14
Profit from continuing operations per share	38.57	28.78	20.70	25.22	27.09	4.40
Profit for the year per share	38.91	28.78	20.70	25.22	27.09	4.40
Weighted average number of shares	37,268	37,268	37,268	37,268	37,720	37,720

	As of December 31,					
	2010 Rmb	2011 Rmb	2012 Rmb	2013 Rmb	2014 Rmb	2014 US$[1]
	(in thousands)					
Selected Consolidated Statement of Financial Position Data:						
Working capital [2]	2,553,495	2,754,111	2,906,300	4,333,904	4,925,945	800,147
Property, plant and equipment	3,276,302	3,748,233	4,016,593	4,036,163	4,460,842	724,598
Trade and bills receivables	4,234,475	6,690,917	6,591,736	7,437,948	8,113,094	1,317,852
Total assets	16,246,263	19,151,019	17,923,673	19,293,168	18,773,336	3,049,451
Trade and other payables	7,902,317	7,234,151	6,921,197	7,718,488	6,547,296	1,063,512
Short-term interest-bearing loans and borrowings	423,543	3,551,848	2,339,273	1,230,981	1,209,001	196,384
Long-term interest-bearing loans and borrowings	201,850	144,883	111,422	1,028,396	1,077,716	175,059
Non-controlling interests	1,687,980	1,807,958	1,869,954	2,042,592	2,163,382	351,409
Issued capital	1,724,196	1,724,196	1,724,196	1,724,196	1,840,227	298,918
Equity attributable to equity holders of the parent	5,097,947	5,542,203	5,901,913	6,391,573	6,988,432	1,135,167

	Year ended December 31,					
	2010 Rmb	2011 Rmb	2012 Rmb	2013 Rmb	2014 Rmb	2014 US$[1]
	(in thousands)					
Selected Consolidated Statement of Cash Flows Data:						
Net cash provided by operating activities	1,464,964	(1,762,386)	1,512,192	589,642	535,686	87,015
Capital expenditures[3]	644,305	931,764	736,727	429,631	683,929	111,094

(1) The Company s functional currency is US dollar and its reporting currency is Renminbi. The functional currency of Yuchai is Renminbi. Translation of amounts from Renminbi to US dollars is solely for the convenience of the reader. Translation of amounts from Renminbi to US dollars has been made at the rate of Rmb 6.1563 = US$1.00, the rate quoted by the People s Bank of China at the close of business on March 9, 2015. No representation is made that the Renminbi amounts could have been, or could be, converted into US dollars at that rate or at any other rate prevailing on March 9, 2015 or any other date. The rate quoted by the People s Bank of China (the PBOC) at the close of business on December 31, 2014 was Rmb 6.1190 = US$1.00.

(2) Current assets less current liabilities.

(3) Purchase of property, plant and equipment and payment for construction in progress.

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Dividends

Our principal source of cash flow has historically been our share of the dividends, if any, paid to us by Yuchai, as described under Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

In May 1993, in order to finance further expansion, Yuchai sold shares to the Company, or Foreign Shares, and became a Sino-foreign joint stock company.

Chinese laws and regulations applicable to a Sino-foreign joint stock company require that before Yuchai distributes profits, it must (i) recover losses in previous years; (ii) satisfy all tax liabilities; and (iii) make contributions to the statutory reserve fund in an amount equal to 10% of net income for the year determined in accordance with generally accepted accounting principles in the PRC, or PRC GAAP. However, the allocation of statutory reserve fund will not be further required once the accumulated amount of such fund reaches 50% of the registered capital of Yuchai.

Any determination by Yuchai to declare a dividend will be at the discretion of Yuchai s shareholders and will be dependent upon Yuchai s financial condition, results of operations and other relevant factors. Yuchai s Articles of Association provide that dividends shall be paid at least once a year out of after-tax profits (if any). To the extent Yuchai has foreign currency available, dividends declared by shareholders at a shareholders meeting to be paid to holders of Foreign Shares (currently only us) will be payable in foreign currency, and such shareholders will have priority thereto. If the foreign currency available is insufficient to pay such dividends, such dividends may be payable partly in Renminbi and partly in foreign currency. Dividends allocated to holders of Foreign Shares may be remitted in accordance with the relevant Chinese laws and regulations. In the event that the dividends are distributed in Renminbi, such dividends may be converted into foreign currency and remitted in accordance with the relevant Chinese laws, regulations and policies.

The following table sets forth a five-year summary of dividends we have paid to our shareholders as well as dividends paid to us by Yuchai:

Fiscal Year	Dividend paid by the Company to its shareholders for the fiscal year/ in the fiscal year (per share)	Dividend paid by Yuchai to the Company [(1)] for the fiscal year /in the fiscal year (in thousands)
2010	US$0.25 [(2)]	Rmb 451,775 (US$69,213) [(3)]
2011	US$1.50 [(4)]	Rmb 234,917 (US$36,829) [(5)]
2012	US$0.90 [(6)]	Rmb 234,923 [(7)]
2013	US$0.90 [(8)] [(9)]	Rmb 343,349 (US$54,999) [(10)]
2014	US$1.20 [(11)]	Rmb 325,278 [(12)]

(1) Dividends paid by Yuchai to us, as well as to other shareholders of Yuchai, were declared in Renminbi and paid in US dollars (as shown in parentheses) based on the exchange rates at local designated foreign exchange banks on the respective payment dates. For dividends paid for fiscal years 2010 and 2011, the exchange rates used were Rmb 6.5273 = US$1.00 and Rmb 6.3786 = US$1.00 respectively.

(2) On March 5, 2010, we declared a dividend of US$0.25 per ordinary share amounting to US$9.3 million for fiscal year 2009. This dividend was paid to our shareholders on March 30, 2010.

(3) The dividend declared by Yuchai for fiscal year 2010 was paid to us on May 5, 2011.

(4) On May 11, 2011, we declared a dividend of US$0.50 per ordinary share and a special dividend of US$1.00 per ordinary share amounting to a total of US$55.9 million for fiscal year 2010. This dividend was paid to our shareholders on May 31, 2011.

(5) The dividend declared by Yuchai for fiscal year 2011 was paid to us on June 12, 2012.

(6) On June 15, 2012, we declared a dividend of US$0.50 per ordinary share and a special dividend of US$0.40 per ordinary share amounting to a total of US$33.5 million for fiscal year 2011. This dividend was paid to our shareholders on July 9, 2012.

(7) The dividend declared by Yuchai for fiscal year 2012 was paid to us on June 7, 2013. For dividends paid for fiscal year 2012, Rmb 68.4 million was paid in Renminbi and the remaining Rmb 166.5 million was paid in US dollars at an exchange rate of Rmb 6.1474 = US$1.00.

(8) On June 17, 2013, we declared a dividend of US$0.40 per ordinary share and a special dividend of US$0.40 per ordinary share amounting to a total of US$29.8 million for fiscal year 2012. This dividend was paid to our shareholders on July 10, 2013.

(9)

On August 5, 2013, we declared an interim dividend of US$0.10 per ordinary share for fiscal year 2013 amounting to a total of US$3.7 million. This dividend was paid to our shareholders on August 26, 2013.

(10) The dividend declared by Yuchai for fiscal year 2013 was paid to us on May 16, 2014. For dividends paid for fiscal year 2013, Rmb 343.3 million was paid in US dollars at an exchange rate of Rmb 6.2428 = US$1.00.

(11) On May 12, 2014, we declared a dividend of US$1.20 per ordinary share amounting to a total of US$44.7 million for fiscal year 2013 payable either wholly in cash or new shares at the election of shareholders. Based on the elections by shareholders, the aggregate dividend was paid in the form of approximately US$26 million in cash and 928,033 ordinary shares.

(12) The dividend declared by Yuchai for fiscal year 2014 has been approved for payment by Yuchai s Board of Directors. It will be paid to us upon the issuance of Yuchai s audited financial statements for fiscal year 2014 and upon the receipt of approval by Yuchai s shareholders.

Historical Exchange Rate Information

On December 31, 2014, the PBOC rate was Rmb 6.1190 = US$1.00. On March 9, 2015, the PBOC rate was Rmb 6.1563 = US$1.00.

On December 31, 2014, the noon buying rate was Rmb 6.2046 = US$1.00. On March 9, 2015, the noon buying rate was Rmb 6.2635 = US$1.00.

The following tables set forth certain information concerning exchange rates between Renminbi and US dollars based on the noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate [1] (Rmb per US$1.00)	
Period	High	Low
October 2014	6.1385	6.1107
November 2014	6.1429	6.1117
December 2014	6.2256	6.1490
January 2015	6.2535	6.1870
February 2015	6.2695	6.2399
March 2015	6.2741	6.1955

	Noon Buying Rate [1] (Rmb per US$1.00)			
Period	Period End	Average (2)	High	Low
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012	6.2301	6.3088	6.3879	6.2221
2013	6.0537	6.1478	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0402
2015 (through March 9, 2015)	6.2635	6.2390	6.2741	6.1870

(1) The noon buying rate in New York for cable transfers payable in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Since April 1994, the noon buying rate has been based on the rate quoted by the PBOC. As a result, since April 1994, the noon buying rate and the PBOC rate have been substantially similar. The PBOC rate at the end of December 31, 2014 was Rmb 6.1190 compared with Rmb 6.2046 for the noon buying rate at the end of December 31, 2014.

(2) Determined by averaging the rates on each business day of each month during the relevant period.

Risk Factors

Risks relating to our shares and share ownership

Our controlling shareholder s interests may differ from those of our other shareholders.

As of March 9, 2015, our controlling shareholder, Hong Leong Asia Ltd., or Hong Leong Asia, indirectly owns 14,137,961 or 37.0%, of the outstanding shares of our Common Stock, as well as a special share that entitles it to elect a majority of our directors. Hong Leong Asia controls

us through its wholly-owned subsidiary, Hong Leong (China) Limited, or Hong Leong China, and through HL Technology Systems Pte Ltd, or HL Technology, a wholly-owned subsidiary of Hong Leong China. HL Technology owns approximately 21.7% of the outstanding shares of our Common Stock and has, since August 2002 been the registered holder of the special share. Hong Leong Asia also owns, through another wholly-owned subsidiary, Well Summit Investments Limited, approximately 15.3% of the outstanding shares of our Common Stock as of March 9, 2015. Hong Leong Asia is a member of the Hong Leong Investment Holdings Pte. Ltd. or Hong Leong Investment group of companies. Prior to August 2002, we were controlled by Diesel Machinery (BVI) Limited, or Diesel Machinery, which, until its dissolution, was a holding company controlled by Hong Leong China and was the prior owner of the special share. Through HL Technology s stock ownership and the rights accorded to the Special Share under our Bye-Laws and various agreements among shareholders, Hong Leong Asia is able to effectively approve and effect most corporate transactions. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Shareholders Agreement. In addition, our shareholders do not have cumulative voting rights. There can be no assurance that Hong Leong Asia s actions will be in the best interests of our other shareholders. See also Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

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We may experience a change of control as a result of sale or disposal of shares of our Common Stock by our controlling shareholders.

As described above, HL Technology, a subsidiary of Hong Leong Asia, owns 8,297,905 shares of our Common Stock, as well as the special share. If HL Technology reduces its shareholding to less than 7,290,000 shares of our Common Stock, our Bye-Laws provide that the special share held by HL Technology will cease to carry any rights, and Hong Leong Asia may as a result cease to have control over us. See Item 7. Major Shareholders and Related Party Transactions The Special Share. If HL Technology sells or disposes of all of the shares of our Common Stock, we cannot determine what control arrangements will arise as a result of such sale or disposal (including changes in our management arising therefrom), or assess what effect those control arrangements may have, if any, on our financial condition, results of operations, business, prospects or share price.

In addition, certain of our financing arrangements have covenants requiring Hong Leong Asia to retain ownership of the special share and that we remain a principal subsidiary (as defined in such arrangements) of Hong Leong Asia. A breach of that covenant may require us to pay all outstanding amounts under those financing arrangements. There can be no assurance that we will be able to pay such amounts or obtain alternate financing.

The market price for our Common Stock may be volatile.

There continues to be volatility in the market price for our Common Stock. See Item 9. The Offer and Listing. The market price could fluctuate substantially in the future in response to a number of factors, including:

- our operating results whether audited or unaudited;
- the public s reaction to our press releases and announcements and our filings with the SEC;
- changes in financial estimates or recommendations by stock market analysts regarding us, our competitors or other companies that investors may deem comparable;
- operating and stock price performance of our competitors or other companies that investors may deem comparable;
- political, economic, and social conditions in China;
- any negative perceptions about corporate governance or accounting practices at listed companies with significant operations in China;
- changes in general economic conditions, especially the effects of a weaker than expected recovery in the global economy subject to continued fragilities and certain downside risks such as persistently weak global trade, possible financial market volatility as interest rates in major economies rise on varying timelines, protracted recovery in the Euro Area, weaker than expected growth in China, possible set-backs in the restructuring of China s economy and increasing geopolitical tensions in Eastern Europe, the Middle East and South East Asia see Item 3. Key Information Risk Factors Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy;
- future sales of our Common Stock in the public market, or the perception that such sales could occur; or

the announcement by us or our competitors of a significant acquisition.

Any of the above factors either individually or together may result in market fluctuations which may materially adversely affect our stock price.

We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences to US Holders.

A non-United States corporation is considered a passive foreign investment company, or PFIC, for United States federal income tax purposes for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the total value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. For this purpose, the total value of our assets generally will be determined by reference to the market price of our shares. We believe that our shares should not be treated as stock of a PFIC for United States federal income tax purposes for the taxable year that ended on December 31, 2014. However, there is no guarantee that the United States Internal Revenue Service will not take a contrary position or that our shares will not be treated as stock of a PFIC for any future taxable year. Our PFIC status will be affected by, among other things, the market value of our shares and the assets and operations of our company and subsidiaries. If we were to be treated as a PFIC for any taxable year during which a US Holder (defined below) holds our shares, certain adverse United States federal income tax consequences could apply to the US Holder. See Item 10. Additional Information Taxation United States Federal Income Taxation PFIC Rules.

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Risks relating to our company and our business

The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy.

Our operations and performance depend significantly on worldwide economic conditions. During periods of economic expansion, the demand for trucks, construction machinery and other applications of diesel engines generally increases. Conversely, uncertainty about current global economic conditions or adverse changes in the economy could lead to a significant decline in the diesel engine industry which is generally adversely affected by a decline in demand. According to the World Bank s latest Global Economic Prospects issued in January 2015, the world economy is still struggling to gain momentum as many high income countries continued to grapple with legacies of the global financial crisis. While activity in the high income countries of the United States and United Kingdom had exceeded pre-crisis output peaks as labor markets recover and monetary policy remains loose, growth in the Euro Area and Japan had stalled and growth in middle- and low-income countries slipped as a result of cyclical factors, domestic policy tightening and political tensions.

The world economy is expected to grow 3% in 2015 compared with 2.6% in 2014, strengthening to 3.3% and 3.2% in 2016 and 2017 respectively. This should be supported by continued recovery in the United States, a gradual acceleration of activity in the Euro Area, and receding headwinds to growth among slower growing developing regions. The sharp decline in oil prices since mid-2014 is projected to be sustained and to contribute to global growth, with significant income shifts from oil-exporting to oil-importing economies. However, underneath the fragile global recovery lie increasingly divergent trends with significant implications for global growth. The risks to the global growth outlook are tilted to the downside as a result of persistently weak global trade, possibility of financial market volatility as interest rates in major economies rise on varying timelines, the impact of low oil prices on oil-producing countries and the risk of a prolonged period of stagnation or deflation in the Euro Area or Japan.

In addition, the performance of the Chinese economy affects, to a significant degree, our financial condition, results of operations, business and prospects. For example, the various measures taken by the Chinese government from time to time to regulate economic growth and control inflation have in prior periods, significantly weakened demand for trucks in China, and may have a similar effect in the future. Uncertainty and adverse changes in the Chinese economy could also increase costs associated with developing our products, increase the cost and decrease the availability of potential sources of financing, and increase our exposure to material losses from our investments, any of which could have a material adverse impact on our financial condition and operating results.

On November 15, 2013, after the closure of the Third Plenum of the 18th Chinese Communist Party Congress, the new government issued a comprehensive reform document detailing extensive new social and economic policies with the primary aim to restructure and rebalance the economy to a more sustainable model by focusing more on domestic consumption away from investment and export fuelled growth. On March 5, 2015, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report announced the lowering of the growth target for China in 2015 to 7% from 7.5% in 2014 acknowledging that China s economic development had entered a new normal as it deals simultaneously with the economic slowdown and implementation of structural adjustments as it reforms its growth model. Premier Li also advocated a proactive fiscal policy and prudent monetary policy and placed an emphasis on wide-ranging reforms in a continuation of the goals set out in the November 2013 reform document. In addition, Premier Li announced that the government would spend Rmb 477.6 billion (US$77.6 billion) on new major projects covering clean energy, oil, natural gas supply; energy-saving, environmental protection and ecological conservation; major railway; highway transport projects in the central and western regions of China; and urbanization projects. As the Chinese government has stated that its top priority is to pursue a range of reforms, the new leadership is expected to implement new economic and social policies already announced and make further changes to existing ones. The business and prospects for the diesel engine industry, and thus the business and prospects of our company, may also be adversely affected by changes in Chinese government policies.

Further, in recent years, as a result of recurring liquidity tightening in the banking system, alternative lending and borrowing outside of traditional banking practices, generally known as shadow banking , has grown to become an integral and significant aspect of the Chinese economy. Such alternative lending is loosely regulated and has led to an increase in China s debt levels leading to concern over rising bad debts and financial problems. As some of the funds obtained from shadow banking are being used for investments in speculative and risky products, should a widespread default on such investments occur, this could harm the growth prospects of the Chinese economy. In 2014, there were reports of a number of shadow banking defaults in China resulting in increased scrutiny and oversight by regulators who have proposed draft rules to control the industry. Even if the Chinese government increases regulation over such alternative lending and borrowing, there is no assurance that such regulations will be successful, or that they would not have an adverse impact on the overall loan markets and liquidity in China, which will negatively impact the Chinese economy.

The diesel engine business in China is dependent in large part on Chinese government policy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by Chinese government policies affecting our business.

Our business is dependent on the state of the commercial vehicle market in China. According to the China Association of Automobile Manufacturers (CAAM), the sales of commercial vehicles have experienced fluctuations over the years. This is primarily the result of government incentives and subsidies introduced from time to time as well as the replacement cycle of commercial vehicles. In 2010, the sales of commercial vehicles (excluding gasoline-powered vehicles) increased 29.8% over 2009 which was partly due to the Chinese government s stimulus measures to counter the effects of the global financial crisis and maintain economic stability as well as the evolving emission standards for automotive vehicles which contributed to the demand for new vehicles. Thereafter, in 2011 and 2012, sales of commercial vehicles declined by 5.4% and 8.2%, respectively. This was due to a variety of factors including the phasing out of government incentives for commercial vehicle purchases and a slowing pace in the implementation of infrastructure projects. In 2013, the commercial vehicles market rebounded by 6.6% mainly due to the pre-buying of commercial vehicles prior to the implementation of the National IV emission standards nationwide on July 1, 2013. In 2014, the commercial vehicle market declined by 10.8% mainly due to a 13% decline in the truck segment. This was primarily due to the strict enforcement of the National IV emission standards from January 1, 2015.

In recent years, the policies of the Chinese government have encouraged energy conservation and emissions reduction. China s 12th Five-Year Plan, which was officially adopted in 2011, targets a 16% and 17% reduction in energy use and carbon dioxide emissions respectively per unit of economic output by 2015. Out of seven strategic investment areas identified under the 12th Five-Year Plan, three relate to energy, namely clean energy, energy conservation and clean energy vehicles. On June 16, 2012, in an effort to strengthen the country s energy saving and emission reduction efforts, the Chinese government issued the 12th Five-Year Development Plan for the Energy Saving and Environmental Protection Industry (the Energy Plan). While the Energy Plan recognized that China s energy saving and environmental protection industry has grown rapidly and is expected to continue to do so through 2015, it also acknowledged that the scale and strength of the industry is not sufficient to meet the needs of the nation s economic and social development. On August 11, 2013, the new Chinese government released a guideline titled Opinions of the State Council on Accelerating the Development of Energy-Saving and Environmental Protection Industries. According to the guideline, the government plans to upgrade the environmental sector to a key industry by 2015 and the sector is expected to grow at the rate of 15% annually. The government announced that it would fund through investments, tax breaks and direct subsidies, environmental protection industries across a range of technologies addressing air, water and soil pollution including energy saving products, electrical vehicles and pollution monitoring. On November 19, 2014, the State Council unveiled a new Energy Development Strategy Action Plan (2014 - 2020) focusing on the development of renewables and limiting its primary energy consumption growth rate to 3.5% per year until 2020. Premier Li Keqiang in his 2015 annual policy report acknowledged the concern over environmental pollution and stated that the Chinese government would implement an action plan to conserve energy, reduce emissions and improve the environment such as promoting the use of new-energy vehicles, improving the quality of fuel and prohibiting the use of commercial vehicles registered prior to the end of 2005. Although a series of policy measures have been formulated to create a sustainable environment for the rapid growth of the energy saving and environmental protection industry, there is no assurance that these measures will be successful. We cannot assure you that the Chinese government will not change its policies in the future to de-emphasize the use of diesel engines and encourage increased use of cleaner energy alternatives, and any such change will adversely affect our financial condition, results of operations, business or prospects.

The government incentive schemes have, from time to time contributed to an increase in our engine sales in the past. However, since government incentive schemes may be changed from time to time, there can be no assurance that sales of our engines will continue to grow at the same rate as in the past or at all.

Our financial condition, results of operations, business and prospects may be adversely affected if we are unable to implement the Reorganization Agreement and the Cooperation Agreement.

We own 76.4% of the outstanding shares of Yuchai, and one of our primary sources of cash flow continues to be our share of the dividends, if any, paid by Yuchai and investment earnings thereon. As a result of the agreement reached with Yuchai and its related parties pursuant to the July 2003 Agreement, we discontinued legal and arbitration proceedings initiated by us in May 2003 relating to difficulties with respect to our investment in Yuchai. In furtherance of the terms of the July 2003 Agreement, we, Yuchai and Coomber Investments Limited, or Coomber, entered into the Reorganization Agreement in April 2005, as amended in December 2005 and November 2006, and agreed on a restructuring plan intended to be beneficial to our shareholders. In June 2007, we, along with Yuchai, Coomber and the State Holding Company, entered into the Cooperation Agreement. The Cooperation agreement amends certain terms of the Reorganization Agreement and as so amended, incorporates the terms of the Reorganization Agreement. Pursuant to the amendments to the Reorganization Agreement, the Company has agreed that the restructuring and spin-off of Yuchai will not be effected, and, recognizing the understandings that have been reached between the Company and the State Holding Company to jointly undertake efforts to expand the business of Yuchai, the Company will not seek to recover the anti-dilution fee of US$20 million that was due from Yuchai. For more information on these agreements see Item 4. Information on the Company History and Development. No assurance can be given as to when the business expansion requirements relating to Yuchai as contemplated by the Reorganization Agreement and the Cooperation Agreement will be fully implemented, or that implementation of the

Reorganization Agreement and the Cooperation Agreement will effectively resolve all of the difficulties faced by us with respect to our investment in Yuchai.

In addition, the Reorganization Agreement contemplates the continued implementation of our business expansion and diversification plan adopted in February 2005. One of the goals of this business expansion and diversification plan is to reduce our financial dependence on Yuchai. Subsequently, we acquired strategic stakes in TCL and HLGE. See Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan. Nonetheless, no assurance can be given that we will be able to successfully expand and diversify our business. We may also not be able to continue to identify suitable acquisition opportunities, or secure funding to consummate such acquisitions or successfully integrate such acquired businesses within our operations. Any failure to implement the terms of the Reorganization Agreement and Cooperation Agreement, including our continued expansion and diversification, could have a material adverse effect on our financial condition, results of operations, business or prospects. Additionally, although the Cooperation Agreement amends certain provisions of the Reorganization Agreement and also acknowledges the understandings that have been reached between us and the State Holding Company to jointly undertake efforts to expand and diversify the business of Yuchai, no assurance can be given that we will be able to successfully implement those efforts or as to when the transactions contemplated therein will be consummated.

We have in the past and may in the future experience disagreements and difficulties with the Chinese shareholders in Yuchai.

Although we own 76.4% of the outstanding shares of Yuchai, and believe we have proper legal ownership of our investment and a controlling financial interest in Yuchai, in the event there is a dispute with Yuchai s Chinese shareholders regarding our investment in Yuchai, we may have to rely on the Chinese legal system for remedies. The Chinese legal system may not be as effective as compared to other more developed countries, such as the United States. See Item 3. Key Information Risk Factors Risks relating to China The Chinese legal system embodies uncertainties which could limit the legal protection available to foreign investors. We have, in the past experienced problems from time to time in obtaining assistance and cooperation of Yuchai s Chinese shareholders in the daily management and operation of Yuchai. We have, in the past also experienced problems from time to time in obtaining the assistance and cooperation of the State Holding Company in dealing with other various matters, including the implementation of corporate governance procedures, the payment of dividends, the holding of Yuchai board meetings and the resolution of employee-related matters. Examples of these problems are described elsewhere in this Annual Report. The July 2003 Agreement, the Reorganization Agreement and the Cooperation Agreement are intended to resolve certain issues relating to our share ownership in Yuchai and the continued corporate governance and other difficulties which we have had with respect to Yuchai. As part of the terms of the Reorganization Agreement, Yuchai agreed that it would seek the requisite shareholder approval prior to entering into any material transactions (including any agreements or arrangements with parties related to Yuchai or any of its shareholders) and that it would comply with its governance requirements. Yuchai also acknowledged and affirmed the Company s continued rights as majority shareholder to direct the management and policies of Yuchai through Yuchai s Board of Directors. Yuchai s Articles of Association have been amended and such amended Articles of Association as approved by the Guangxi Department of Commerce on December 2, 2009, entitle the Company to elect nine of Yuchai s 13 directors, thereby reaffirming the Company s right to effect all major decisions relating to Yuchai. While Yuchai has affirmed the Company s continued rights as Yuchai s majority shareholder and authority to direct the management and policies of Yuchai, no assurance can be given that disagreements and difficulties with Yuchai s management and/or Yuchai s Chinese shareholders will not recur, including implementation of the Reorganization Agreement and the Cooperation Agreement, corporate governance matters or related party transactions. Such disagreements and difficulties could ultimately have a material adverse impact on our consolidated financial position, results of operations and cash flows.

We have previously identified material weaknesses in our internal control over financial reporting and cannot assure you that material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements in the future, or cause us not to be able to provide timely financial information, which may cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

We reported material weaknesses in our internal control over financial reporting as of December 31, 2005 to 2011, and concluded that our disclosure controls and procedures and our internal control over financial reporting were not effective as of December 31, 2006 to 2011. However, since the year ending December 31, 2012, we have not identified any material weaknesses in our internal control over financial reporting. Our management concluded that our disclosure controls and procedures and our internal control over financial reporting were effective as of December 31, 2012 to 2014. See Item 15. Controls and Procedures. Our independent registered public accounting firm has expressed an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2012 to 2014.

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We cannot assure you that material weaknesses or significant deficiencies in our internal control over financial reporting will not be identified in the future. Any failure to maintain or improve existing controls or implement new controls could result in material weaknesses or significant deficiencies and cause us to fail to meet our periodic reporting obligations which in turn could cause our shares to be delisted or suspended from trading on the New York Stock Exchange (NYSE). In addition, any such failure could result in material misstatements in our financial statements and require us to restate our financial statements and adversely affect the results of annual management evaluations regarding the effectiveness of our internal control over financial reporting. Any of the foregoing could cause investors to lose confidence in our reported financial information, leading to a decline in our share price.

We depend on and expect to continue to depend on the Dongfeng Group for a significant percentage of our sales.

Our sales are concentrated among the Dongfeng Group, which includes Dongfeng Automobile Co., Ltd., one of the largest state-owned automobile companies in China, and other major diesel truck manufacturers controlled by or affiliated with Dongfeng Automobile Co., Ltd. In 2014, sales to the Dongfeng Group accounted for 22.4% of our total revenue, of which sales to our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Commercial Vehicle Co., Ltd., accounted for 6.4% and 4.0% respectively. In 2014, our sales to our top five customers including the Dongfeng Group accounted for 36.3% of our total revenue. Although we consider our relationship with the Dongfeng Group and the other top four customers to be good, the loss of one or more of the companies within the Dongfeng Group as a customer or any one of our other top four customers whether singly or combined together would have a material adverse effect on our financial condition, results of operations, business or prospects.

As we are dependent on the purchases made by the Dongfeng Group from us, we have exposure to their liquidity arising from the high level of accounts receivable from them. We cannot assure you that the Dongfeng Group will be able to repay all the money they owe to us. In addition, the Dongfeng Group may not be able to continue purchasing the same volume of products from us which would reduce our overall sales volume.

The Dongfeng Group also competes with us in the diesel engine market in China. Although we believe that the companies within the Dongfeng Group generally make independent purchasing decisions based on end-user preferences, we cannot assure you that truck manufacturers affiliated with Dongfeng Automobile Co., Ltd. will not preferentially purchase diesel engines manufactured by companies within the Dongfeng Group over those manufactured by us.

Competition in China from other diesel engine manufacturers may adversely affect our financial condition, results of operations, business or prospects.

The diesel engine industry in China is highly competitive. We compete with many other China domestic companies, most of which are state-owned enterprises. Some of our competitors have formed joint ventures with or have technology assistance relationships with foreign diesel engine manufacturers or foreign engine design consulting firms and use foreign technology that is more advanced than ours. We expect competition to intensify as a result of:

- improvements in competitors products;
- increased production capacity of competitors;
- increased utilization of unused capacity by competitors; and
- price competition.

In addition, we believe there has been excess capacity in the diesel engine industry in the past from time to time due to fluctuations in market demand. For example, the stimulus measures announced by the Chinese government in 2009 to counter the effects of the global financial crisis and maintain economic stability led to significantly increased demand for commercial vehicles in China in 2010, which we believe led our competitors to invest in significant capacity expansion. These investments significantly increased the overall capacity in the industry in 2012. The market for commercial vehicles in China softened in 2011 and this continued into 2012 due to a variety of factors including the phasing out of government incentives for car purchases, the introduction of policies to restrict automotive growth in Beijing and other major cities to curb emissions and ease traffic congestion and a slowdown in China s economy. The market rebounded in 2013 mainly due to the pre-buying of

commercial vehicles prior to the implementation of the National IV emission standards nationwide on July 1, 2013. In 2014, the commercial vehicle market declined by 10.8% mainly due to a 13% decline in the truck segment. This was primarily due to the strict enforcement of the National IV emission standards from January 1, 2015. Any excess capacity or decrease in demand in the diesel engine industry in the future could lead to a decrease in prices in the diesel engine market and as we and our competitors compete through lower prices, this could adversely impact our revenues, margins and overall profitability. Furthermore, if restrictions and tariffs on the import of motor vehicles and motor vehicle parts into China are reduced, foreign competition could increase significantly. An increase in competition as a result of these various factors operating singly or together may adversely affect our financial condition, results of operations, business or prospects as a result of lower gross margins, higher fixed costs or decreasing market share.

Our long-term business prospects will depend largely upon our ability to develop and introduce new or improved products at competitive prices. Our competitors in the diesel engine markets may be able to introduce new or improved engine models that are more favorably received by customers. Competition in the end-user markets, mainly the truck market, may also lead to technological improvements and advances that render our current products obsolete at an earlier than expected date, in which case we may have to depreciate or impair our production equipment more rapidly than planned. Failure to introduce or delays in the introduction of new or improved products at competitive prices could have a material adverse effect on our financial condition, results of operations, business or prospects.

If we are not able to continuously improve our existing engine products and develop new engine products or successfully enter into other markets, we may become less competitive, and our financial condition, results of operations, business and prospects will be adversely affected.

As the diesel engine industry in China is highly competitive and continues to develop, we will have to continuously improve our existing engine products, develop new engine products and enter into new markets in order to remain competitive. As a result, our long-term business prospects will largely depend upon our ability to develop and introduce new or improved products at competitive prices and enter into new markets. Future products may utilize different technologies and may require knowledge of markets that we do not currently possess. Moreover, our competitors may be able to introduce new or improved engine models that are more favorably received by customers than our products or enter into new markets with an early-entrant advantage. Any failure by us to introduce, or any delays in the introduction of, new or improved products at competitive prices or entering into new markets could have a material adverse effect on our financial condition, results of operations, business or prospects.

We have entered into several joint ventures in order to expand our product portfolio. There can be no assurance that our joint ventures will be successful or profitable. We have recognized impairment losses in the past related to our investments in the joint ventures and may do so again in the future. We review our investments in these joint ventures on an ongoing basis and may take such action as is deemed strategically appropriate including but not limited to divestment and shareholding changes. Examples of our joint ventures include the following:

In April 2007, Yuchai entered into an Equity Joint Venture Agreement with Zhejiang Geely Holding Group Co., Ltd (Geely) and Zhejiang Yinlun Machinery Company Limited (Yinlun) to form two joint venture companies for the development, production and sale of the 4Y20 diesel engine and parts for passenger vehicles. In May 2012, Yuchai exited one joint venture in Zhejiang Province and increased its stake in the second joint venture in Jining, Shandong Province (Jining Yuchai) through a share swap agreement that gave Yuchai a 70% shareholding in Jining Yuchai, with Geely maintaining its 30% shareholding. In September 2014, Yuchai divested its entire 70% shareholding in Jining Yuchai. However, Yuchai consolidates Jining Yuchai as a result of various contractual arrangements that allows Yuchai to exercise effective control over Jining Yuchai. See Note 3.1 to the accompanying consolidated financial statements in Item 18. The technology for the 4Y20 diesel engine is entirely owned by Jining Yuchai. We recorded an impairment loss of Rmb 60 million on the intellectual property relating to the 4Y20 technology for the year ended December 31, 2014.

In August 2009, Yuchai reached an agreement with Jirui United Heavy Industry Co., Ltd. (Jirui United), a joint venture of China International Marine Containers Group Ltd, Chery Automobile Co., Ltd. and Shenzhen City Jiusi Investment Management Co., Ltd. to establish Y & C Engine Co., Ltd. to produce heavy-duty vehicle engines with the displacement range from 10.5L to 14L. The key focus of Y & C Engine Co., Ltd. is the production of YC6K diesel engines. Production commenced in December 2010.

In December 2009, Yuchai entered into a joint venture agreement with Caterpillar (China) Investment Co., Ltd. (Caterpillar China) to provide remanufacturing services for and relating to diesel engines and components of Yuchai and Caterpillar China through a new joint venture company, Yuchai Remanufacturing Services (Suzhou) Co., Ltd. (YRC). Remanufacturing operations commenced at a temporary workshop in 2011 and shifted to a permanent factory located in the Suzhou Industrial Park in July 2012. In September 2014, Yuchai acquired Caterpillar China s 49% equity ownership stake in the joint venture, following which YRC became a wholly-owned subsidiary of Yuchai.

On April 9, 2015, we announced that Yuchai had entered into an agreement to form a new joint venture, YC Europe Co., Ltd. (YC Europe), in Hong Kong with Shentou Investments (Hong Kong) Limited (Shentou) and one partner with extensive engine distribution experience with familiarity with the markets in Europe. YC Europe will establish a wholly-owned subsidiary, YC Europe (Germany) GmbH (YC Germany), based in Germany to market off-road engines (excluding marine engines) in Europe. YC Europe and YC Germany

will establish a sales network and develop distribution programs to exclusively sell Yuchai s off-road diesel and gas engines (excluding marine engines) and spare parts throughout Europe, as well as provide services in engine related areas. The registered capital of YC Europe is 3.0 million Euros and Shentou and Yuchai s shareholding in YC Europe will be 57.5% and 35% respectively with the other partner taking the remaining 7.5% equity interest.

We have developed natural gas engines to expand our product portfolio. There can be no assurance, however, that these activities will be profitable. In March 2012, we announced that Yuchai would be constructing a new facility at its main manufacturing facility at Yulin City, Guangxi Province to develop and produce a full portfolio of natural gas engines to complement its existing suite of diesel engines. The new facility was completed and has been in operations since the middle of 2013 to develop and manufacture a full portfolio of gas engines for all applications. In December 2012, we announced that seven new models of natural gas engines would be launched in 2013 for both on-road and off-road applications, all of which would be compliant with China s National V emission standards. In January 2015, we announced the launch of one new model of natural gas engine compliant with National V emission standards for on-road applications. The main applications of Yuchai s natural gas engines are in the large bus, medium- to heavy-duty truck, power generator and marine sectors. See Item 4. Information on the Company Products and Product Development Yuchai Other products and services for more information on Yuchai s natural gas engines.

Natural gas engines represent an emerging market in China, as well as in other countries around the world, and the development of a sustainable market for natural gas engines may be affected by many factors, some of which are beyond our control, including:

- the emergence of newer, more competitive technologies and products;
- the future cost and availability of natural gas;
- the successful development of natural gas refueling infrastructure;
- the structure and implementation of government policies, including the availability of government incentives;
- consumer perceptions of the safety of natural gas engines; and
- consumer reluctance to adopt new products.

There can be no assurance that a sustainable market for natural gas vehicles will develop in China or in other countries around the world or that our initiative to enter the natural gas engine market will be successful or profitable.

Yuchai has committed substantial resources to continually improve the technology of its products and maintain the competitiveness of its products. For more information on Yuchai s research and development efforts, see Item 4. Information on the Company History and Development Research and Development. Our research and development efforts may not be successful and our new products may not address the needs of our current and prospective customers or achieve market acceptance. Moreover, competitors may be in the process of developing technology that could be developed more quickly or eventually become more profitable than our products. If our investments in research and development do not yield new technologies and products that we can successfully market and sell, our business, financial condition and results of operations may be adversely affected.

Our financial condition, results of operations, business or prospects may be adversely affected to the extent we are unable to continue our sales growth.

In 2012, Yuchai recorded engine sales of 431,350 units. In 2013, engine sales increased to 500,756 units, a 16.1% increase as compared with 2012. In 2014, engine sales declined by 3.4% to 483,825 units. Despite the drop in unit sales, our revenue increased by 3.4% in 2014 as we sold a higher number of National IV compliant engines. We cannot assure you that we will be able to maintain or increase engine sales in the future. For example, we may not be able to maintain or increase our engine sales or revenue commensurate with our increased levels of production capacity. Moreover, our future growth is dependent in large part on factors beyond our control, such as the continued growth and stability of the global and Chinese economies. See Item 3. Key Information Risk Factors Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy.

In addition, we cannot assure you that we will be able to properly manage any future growth, including:

- obtaining the necessary supplies, including the availability of raw materials;
- hiring and training skilled production workers and management personnel;
- manufacturing and delivering products for increased orders in a timely manner;
- maintaining quality standards and prices;
- controlling production costs; and
- obtaining adequate funding on commercially reasonable terms for future growth.

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Furthermore, we have acquired in the past, and may acquire in the future, equity interests in engine parts suppliers and logistics and marketing companies. If we are unable to effectively manage or assimilate these acquisitions, our financial condition, results of operations, business or prospects could be adversely affected.

We may be unable to obtain sufficient financing to fund our capital requirements which could limit our growth potential.

We believe that our cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. If we have underestimated our capital requirements or overestimated our future cash flows, additional financing may be required. Financing may not be available to us on acceptable terms or at all. Our ability to obtain external financing is subject to various uncertainties, including our results of operations, financial condition and cash flow, economic, political and other conditions in China, the Chinese government s policies relating to foreign currency borrowings and the condition of the Chinese and international capital markets. For example, China continued to experience a shortage of liquidity in its banking system in 2014 causing the Chinese government to announce a reduction in its one year lending rate to 5.6% on November 21, 2014 which was further reduced to 5.35% with effect from March 1, 2015. In addition, on February 4, 2015, the People s Bank of China cut the reserve requirements to be held by banks in an effort to inject liquidity into the economy in response to rising deflationary and slowdown pressures. A shortage of liquidity in the banking system or any other factor that results in our inability to access capital may adversely affect our business, financial condition, results of operations and prospects.

We could be exposed to the impact of interest rates and foreign currency movements with respect to our future borrowings and business.

We may use borrowings from time to time to supplement our working capital requirements and to finance our business expansion and diversification plan. See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources. A portion of our borrowings may be structured on a floating rate basis and denominated in US dollars, Singapore dollars or Renminbi. In 2013, Yuchai issued the first tranche of Rmb-denominated three year unsecured medium-term notes (MTNs) in China amounting to RMB 1.0 billion upon the receipt of approval from NAFMII, at an annual interest rate of 4.69%. The maturity date of the MTNs is May 30, 2016.

In 2014, there were significant fluctuations in interest rates. For example, the interest rate varied between 5% and 7% in 2014 and affected our cost of funding and bill discounting, and our results of operations. Any fluctuations in interest rates, or fluctuations in exchange rates between the Renminbi or Singapore dollars and US dollars, may increase our funding costs or the availability of funding. This could affect our financial condition, results of operations, business or prospects. In particular, our financial condition, results of operations, business or prospects could be adversely affected by a devaluation of the Renminbi.

The value of the Renminbi is subject to changes in Chinese government policies and to international economic and political developments. Since 1994, the conversion of Renminbi into foreign currencies, including US dollars, has been based on rates set by the PBOC. On July 21, 2005, China reformed its foreign exchange regime by moving into a managed floating exchange rate system based on market supply and demand with reference to a basket of currencies, such that the Renminbi was no longer pegged to the US dollars. From December 30, 2010 to December 31, 2014, the Renminbi appreciated about 6.4% against the US dollars. From December 30, 2010 to December 31, 2014, the Singapore dollars depreciated about 2.7% against the US dollar. Since we may not be able to hedge effectively against Renminbi or Singapore dollars fluctuations, future movements in the exchange rate of the Renminbi, the Singapore dollars and other currencies could have an adverse effect on our business, financial condition and results of operations.

If China s inflation increases or the prices of energy or raw materials increase, we may not be able to pass the resulting increased costs on to our customers and this may adversely affect our profitability or cause us to suffer operating losses.

Economic growth in China has, in the past, been accompanied by periods of high inflation. The Chinese government has implemented various policies from time to time to control inflation. For example, the Chinese government has periodically introduced measures in certain sectors to avoid overheating of the economy, including tighter bank lending policies, increases in bank interest rates, and measures to curb inflation, which has resulted in a decrease in the rate of inflation. The global economic crisis resulted in a slowing of the rate of inflation in January 2009 and thereafter into negative territory until November and December 2009 according to the National Bureau of Statistics. In 2011, the annual inflation rate was 5.4% leading to the Chinese government raising lending interest rates and the reserve requirements for banks six times in 2011 to counter accelerating inflation. According to the National Bureau of Statistics, the annual inflation rate for 2012 and 2013 fell to 2.6% as a result of the slowing economy weakening further to 2% in 2014, below the 3.5% target set by the Chinese government. The inflation rate was 0.8% and 1.4% in January and February 2015 respectively. China s central bank, in its quarterly monetary policy report issued on February 10, 2015, noted that inflation figures had dropped to its lowest levels in more than five years and that it would continue with its prudent monetary policy to ensure continuity and stability as the economy undergoes structural adjustments to its economic model. On March 5, 2015, at Premier Li Keqiang s annual policy report presented at the National People s Congress in Beijing, he announced that the annual inflation rate target would be 3% in 2015, declining from 3.5% in 2014. An increase in inflation could cause our costs for parts and components, labor costs, raw materials and other operating costs to increase, which would adversely affect our financial condition and results of operations. Recently, concerns have

arisen over deflationary pressures in China as a result of weak domestic demand. A prolonged period of deflation may result in falling profits, closure of businesses, shrinking employment and incomes and increasing defaults on loans by companies and individuals, any of which could adversely affect our business, financial condition or results of operations.

We may be adversely affected by environmental regulations.

We are subject to Chinese national and local environmental protection regulations which currently impose fees for the discharge of waste substances, require the payment of fines for pollution, and provide for the closure by the Chinese government of any facility that fails to comply with orders requiring us to cease or improve upon certain activities causing environmental damage. Due to the nature of our business, we produce certain amounts of waste water, gas, and solid waste materials during the course of our production. We believe our environmental protection facilities and systems are adequate for us to comply with the existing national, provincial and local environmental protection regulations. However, Chinese national, provincial or local authorities may impose additional or more stringent regulations which would require additional expenditure on environmental matters or changes in our processes or systems.

In July 2008, China officially implemented the National III emission standards throughout China. The increasingly stringent emission standards led to the early implementation of the National IV emission standards in the main cities of Beijing in 2008, Shanghai in 2009 and Shenzhen and Guangzhou in 2010. The National IV emission standards for diesel engines were implemented throughout China on July 1, 2013 and strict enforcement of the standards was implemented nationwide on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government has mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. Yuchai produces diesel engines compliant with National IV and V emission standards and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards and develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. In October 2010 and October 2014, China officially implemented the Tier 2 and Tier 3 emission standards nationwide, respectively. Strict nationwide enforcement of the Tier 3 emission standards is scheduled to begin on October 1, 2015. The Tier 4 emission standards were implemented in Beijing on January 1, 2015. Yuchai is able to produce diesel engines compliant with both Tier 2 and 3 emission standards. While Yuchai produces diesel engines compliant with the current emission standards in both the off- and on-road markets, there can be no assurance that Yuchai will be able to comply with these emission standards or that the introduction of these and other environmental regulations will not result in a material adverse effect on our business, financial condition and results of operations.

Our insurance coverage may not be adequate to cover risks related to our production and other operations.

The amount of our insurance coverage for our buildings and equipment is at cost which could be less than replacement value. The amount of our insurance coverage for our inventory is at book value which could be less than replacement value. In accordance with what we believe is customary practice among industrial equipment manufacturers in China, we insure only high risk assets, such as production property and equipment and certain inventory. However, our under insurance of other properties, facilities and inventory in accordance with this Chinese practice exposes us to substantial risks so that in the event of a major accident, our insurance recovery may be inadequate. We do not currently carry third party liability insurance to cover claims in respect of bodily injury, property or environmental damage arising from accidents on our property or relating to our operations. We also do not carry business interruption insurance as such coverage is not customary in China. However, from time to time, we review the adequacy of our insurance coverage. Losses incurred or payments required to be made by us which are not fully insured could have a material adverse effect on our financial condition.

Risks relating to China

Substantially all of our assets are located in China, and substantially all of our revenue is derived from our operations in China. Accordingly, our financial condition, results of operations, business or prospects are subject, to a significant degree, to economic, political and legal developments in China. The economic system of China differs from the economies of most developed countries in many respects, including government investment, the level of development, control of capital investment, control of foreign exchange and allocation of resources.

Adverse changes in the economic policies of the Chinese government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and adversely affect our competitive position.

Economic reform in China has been ongoing since its shift from a planned economy to a market-oriented economy in the 1970s. In recent years, the Chinese government has implemented economic reform measures emphasizing decentralization, management autonomy and development driven by market forces. Although these reforms have resulted in economic growth and social progress, their effects on various geographic regions and economic sectors across China have been uneven. Moreover, periods of high inflation have accompanied economic growth.

The Chinese government has implemented policies in the past to control the rate of economic growth, manage inflation and otherwise regulate economic expansion. For example, the Chinese government has, from time to time introduced industry-specific measures to avoid overheating of certain sectors, such as tightening bank lending policies, increasing bank interest rates, and seeking to curb real estate and stock market speculation and inflation. In March 2015, the Chinese government announced a comprehensive reform plan for continued and gradual economic growth and development. See Item 3. Key Information Risk Factors Risks Relating to Our Company and Our Business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy. Further, in view of the increased focus on domestic consumption, further changes to existing economic and social policies are expected to be announced and implemented by the Chinese government.

Although we believe that the economic policies, measures and reforms adopted by the Chinese government will continue to have a positive long-term effect on economic development in China and that we will continue to benefit from these policies, measures and reforms, such government actions may, from time to time, be modified or reversed or have an adverse effect on the price of diesel and diesel-using products and the diesel engine market in general. Adverse changes in the Chinese laws, regulations or policies could have a material adverse effect on the overall economic growth of China and infrastructure investment in China. These developments could adversely affect our business, financial condition and results of operations.

***Adverse economic developments in China or elsewhere in the Asian region could have a material adverse effect on our financial condition, results of operations, business or prospects*.**

Since the late 1990s, many Asian countries have experienced significant adverse changes in economic conditions such as reduced rates of economic growth, stock market volatility, corporate bankruptcies, depreciation in currency exchange rates, reduced foreign currency turnover and government-imposed austerity measures. These conditions led many Asian governments to implement economy-stabilizing policy measures and affected the operations and financial condition of businesses across the region.

The global economy continues to grapple with the lingering effects of the 2008-2009 global financial crisis. While economic activity in high-income countries such as the United States and the United Kingdom has returned to and surpassed pre-crisis levels, economic growth among middle- and low-income countries in the Euro area and across Asia has stalled due in part to weak global trade, financial market volatility, low oil prices affecting oil-producing and oil-exporting countries and geopolitical tensions. In Asia, governments continue to respond through economy-stabilizing policy measures. For example, the Chinese government in 2012 expedited the approval of infrastructure projects and reduced interest rates and bank reserve requirements, and in March 2015 lowered its economic growth target for 2015 after China s growth rate fell from 7.8% in 2012 to 7.7% in 2013 to 7.4% in 2014. For more information on the Chinese economy, see Item 3. Key Information Risks relating to our company and our business The diesel engine business in China is dependent in large part on the performance of the Chinese and the global economy. As a result, our financial condition, results of operations, business and prospects could be adversely affected by slowdowns in the Chinese and the global economy.

The demand for trucks, construction machinery and other applications of diesel engines generally increases during periods of economic expansion and decreases during periods of economic slowdown. In the event that the global economy does not return to pre-2008 levels or new adverse economic developments occur in China or elsewhere in the Asian region, our sales may decrease and our business, prospects, financial condition or results of operations may suffer.

The Chinese legal system embodies uncertainties which could limit the legal protection available to foreign investors.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedent value. In 1979, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters in general including, for example, with respect to corporate organization and governance, foreign investments, commerce, taxation and trade. Since China s economic reform and opening-up in late 1970s, legislation has significantly enhanced the protection afforded to various forms of foreign investment in China. The laws, regulations and legal requirements relating to foreign investment are relatively recent and are still evolving, and their interpretation and enforcement involve uncertainties and may not be consistent or predictable as in other more developed jurisdictions which may limit the legal protection available to foreign investors.

Our operations in China are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. The PRC Company Law and these regulations, in general, and the provisions for the protection of shareholders rights and access to information, in particular, are less developed than those applicable to companies incorporated in the United States, Hong Kong or other developed countries or regions. In addition, the interpretation of PRC laws may be subject to policy changes which reflect domestic political changes. As China s legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have an adverse

effect on our prospects, financial condition and results of operations.

We may not freely convert Renminbi into foreign currency, which could limit our ability to obtain sufficient foreign currency to satisfy our foreign currency requirements or to pay dividends to shareholders.

Substantially all of our revenues and operating expenses are generated by our Chinese operating subsidiary, Yuchai, and are denominated in Renminbi, while a portion of our indebtedness is, or in the future may be, denominated in US dollars and other foreign currencies. The Renminbi is currently freely convertible under the current account, which includes dividends, trade and service-related foreign exchange transactions, but not under the capital account, which includes, among other things, foreign direct investment, overseas borrowings by Chinese entities and proceeds of overseas public offering by Chinese entities. Some of the conversions between Renminbi and foreign currency under capital account are subject to the prior approval of the State Administration for Foreign Exchange, or SAFE.

Our Chinese operating subsidiary, as a foreign invested enterprise, may purchase foreign currency without the approval of SAFE for settlement of current account transactions , including payment of dividends, by providing commercial documents evidencing these transactions. Our Chinese operating subsidiary may also retain foreign exchange in its current account to satisfy foreign currency liabilities or to pay dividends. However, the relevant Chinese government authorities may limit or eliminate our Chinese operating subsidiary s ability to purchase and retain foreign currencies in the future. Our Chinese operating subsidiary, therefore, may not be able to obtain sufficient foreign currency to satisfy its foreign currency requirements to pay dividends to us for our use in making any future dividend payments or to satisfy other foreign currency payment requirements. Foreign currency transactions under the capital account and foreign debt account continue to subject to limitations and require registrations with and reviews from the designated foreign exchange banks and SAFE. This could affect our Chinese operating subsidiary s ability to obtain foreign currency through debt or equity financing, including by means of loans or capital contributions from us. Furthermore, the General Affairs Department of SAFE promulgated circulars in August 2008 and July 2011, pursuant to which, Renminbi converted from capital contribution in foreign currency to a domestic enterprise in China can only be used for the activities that are within the approved business scope of such enterprise and cannot be used for China domestic equity investment, acquisition, giving entrusted loans or repayment of intercompany loans, with limited exceptions. As a result, we may not be able to increase the capital contribution of our operating subsidiary, Yuchai and subsequently convert such capital contribution into Renminbi for equity investment or acquisition in China.

Outbreaks of communicable diseases in various parts of China and other countries may materially and adversely affect our business, financial condition and results of operations.

We face risks related to health epidemics or outbreaks of communicable diseases. For example, in 2003, several countries, including China, experienced an outbreak of a highly contagious form of atypical pneumonia known as severe acute respiratory syndrome (SARS), which severely restricted the level of economic activity in affected areas and had an adverse impact on the sale of engines, particularly during the second and third quarters in 2003. In 2009, an outbreak of H1N1 flu first occurred in Mexico and quickly spread to other countries, including China. In addition, an infectious strain of influenza known as the H5N1 Avian flu has been reported from time to time in China, Hong Kong, Vietnam, and other parts of Asia. More recently, a new strain of Avian flu (H7N9) was reported in China and a new virus known as the novel coronavirus, NCoV, was reported in the Middle East and other parts of the world. Beginning in 2014, the largest Ebola virus outbreak in history affected numerous countries in West Africa and led to various reported cases of Ebola around the world.

The outbreak of such communicable diseases could result in a widespread health crisis that could adversely affect general commercial activity and the economies and financial markets of many countries. Since most of our operations and customers and suppliers are based in Asia, an outbreak of these or any other communicable diseases in Asia or elsewhere, or the perception that such an outbreak could occur, and the measures taken by the governments of countries affected could adversely affect our business, financial condition or results of operations.

Our auditor engages its China-based affiliate to audit our China entities. Because registered public accounting firms in China, including our auditor s China-based affiliate, are not permitted under Chinese law to be inspected by the U.S. Public Company Accounting Oversight Board, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies whose shares are publicly traded in the United States, is registered with the U.S. Public Company Accounting Oversight Board (the PCAOB). As a PCAOB registered firm, our auditor is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with relevant U.S. laws and professional standards. Our auditor engages its China-based affiliate to audit our China entities and China is a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities. In May 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission (the CSRC) and the China Ministry of Finance (the China MoF), which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by the PCAOB, the CSRC or the China MoF in the United States and China. The PCAOB continues to be in discussions with the CSRC and the China MoF to permit joint inspections in China of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. stock exchanges.

The inability of the PCAOB to conduct inspections of the China-based affiliate of our independent registered public accounting firm makes it more difficult to evaluate the effectiveness of such affiliate s audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections, and investors and potential investors in our stock may lose confidence in our audit procedures, reported financial information and the quality of our financial statements, which may adversely affect the market price of our shares.

If additional remedial measures are imposed on the Chinese affiliates of five global accounting firms pursuant to administrative proceedings brought by the SEC against them, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934.

In December 2012, the SEC commenced administrative proceedings under the Securities Exchange Act and the Sarbanes-Oxley Act against the Chinese affiliates of five global accounting firms (the Chinese Firms), including the China-based affiliate of our independent registered public accounting firm, for their failure to respond to the SEC s request to produce audit work papers of nine U.S. listed Chinese companies suspected of potential accounting fraud. The Chinese Firms asserted that they were unable to comply with the SEC s requests because doing so would constitute violations under Chinese law. We were not and are not subject to any SEC investigations, nor are we involved in the proceedings brought by the SEC against the Chinese Firms.

Further to the administrative proceedings commenced by the SEC, on January 22, 2014, an initial administrative law decision was rendered. The Administrative Law Judge (ALJ) held that the Chinese Firms had acted wilfully and with a lack of good faith by refusing to comply with the SEC s document requests and imposed on four of the Chinese Firms including the Chinese affiliate of our independent registered public accounting firm, a six-month suspension from practicing before the SEC. The decision of the ALJ is not legally effective until after the SEC has issued a final decision. The four Chinese Firms appealed the ALJ s initial decision to the SEC.

In a settlement reached with the SEC on February 6, 2015, four of the Chinese Firms, including the Chinese affiliate of our independent registered public accounting firm (Settling Firms) agreed to pay a fine to the SEC and admit that they did not produce documents to the SEC as requested. The Settling Firms subsequently provided the requested documents to the SEC through assistance rendered by the China Securities Regulatory Commission and agreed to abide by certain procedures set forth in the settlement order with respect to future requests for documents by the SEC over the next four years. If the Settling Firms abide by the procedures set forth in the settlement order, the administrative action will be dismissed after the four year period. The SEC also withdrew ALJ s six-month suspension order.

Although a settlement order has been reached with the Settling Firms, including the China-based affiliate of our independent registered public accounting firm, should future document productions fail to meet the specified criteria set out in the order, the SEC has the authority to impose a variety of additional remedial measures on the non-complying party. These measures include an automatic six-month bar on a party s performance of certain audit work, commencement of a new proceeding against a party or the resumption of the current proceedings against all Settling Firms. Any non-compliance with the terms of the settlement order by any of the Settling Firms may result in it being denied, temporarily or permanently, from practicing before the SEC. In such an event, U.S. listed companies with major China operations such as us may find it difficult or impossible to retain auditors for their China operations and timely meet their reporting obligations in compliance with SEC requirements under the Exchange Act, which may ultimately result in the delisting of their common stock from U.S. stock exchanges. In addition, any negative news about the proceedings against the Settling Firms may erode investor confidence in China-based, U.S. listed companies which could adversely affect the market price of our shares. Although the CSRC continues to be in discussions with the SEC, PCAOB and other regulators on the production of audit work papers by China-based accounting firms, we cannot predict the outcome of such discussions and its resultant impact on the Settling Firms.

Risks relating to our investment in HLGE

The HLGE group operates hotels in the PRC and Malaysia. As of March 9, 2015, we had a 48.9% shareholding interest in HLGE, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited (the Singapore Exchange). See Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan for further information on our investment in HLGE. Set forth below are risks related to our equity interest in HLGE.

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The HLGE group s hotel ownership and management business may be adversely affected by risks inherent in the hotel industry.

The HLGE group s financial performance is dependent on the performance of each of the hotels it operates. The HLGE group s hotel ownership and management business are exposed to risks which are inherent in and/or common to the hotel industry and which may adversely affect the HLGE group s financial performance, including the following:

- changes to the international, regional and local economic climate and market conditions (including but not limited to changes to regional and local populations, changes in travel patterns and preferences, and oversupply of or reduced demand for hotel rooms that may result in reduced occupancy levels and performance for the hotels it operates);
- changes to the political, economic, legal or social environments of the countries in which the HLGE group operates (including developments with respect to inflation, interest rates, currency fluctuations, governmental policies, real estate laws and regulations, taxation, fuel costs, expropriation, including the impact of the current global financial crisis);
- increased threat of terrorism, terrorist events, airline strikes, hostilities between countries or increased risk of natural disasters or viral epidemics that may affect travel patterns and reduce the number of travelers and tourists;
- changes in laws and governmental regulations (including those relating to the operation of hotels, preparation and sale of food and beverages, occupational health and safety working conditions and laws and regulations governing its relationship with employees);
- competition from other international, regional and independent hotel companies, some of which may have greater name recognition and financial resources than the HLGE group (including competition in relation to hotel room rates, convenience, services or amenities offered);
- losses arising out of damage to the HLGE group s hotels, where such losses may not be covered by the insurance policies maintained by the HLGE group;
- increases in operating costs due to inflation, labor costs (including the impact of unionization), workers compensation and health-care related costs, utility costs, insurance and unanticipated costs such as acts of nature and their consequences;
- fluctuations in foreign currencies arising from the HLGE group s various currency exposures;
- dependence on leisure travel and tourism;
- the outbreak of communicable diseases (see Item 3. Key Information Risk Factors Risks Relating to China Outbreaks of communicable diseases in various parts of China and other countries may materially and adversely affect our business, financial condition and results of operations.); and
- adverse effects of a downturn in the hospitality industry.

The above factors may materially affect the performance of those hotels and the profitability and financial condition of the HLGE group. There can be no assurance that we will not suffer any losses arising from our investment in HLGE.

The hospitality business is a regulated business.

The operation of hotels in the PRC and Malaysia is subject to various laws and regulations. The withdrawal, suspension or non-renewal of any of the hotels licenses, or the imposition of any penalties, as a result of any infringement or non-compliance with any requirement, will have an adverse impact on the business and results of operations of the hotels that the HLGE group operates. Further, any changes in such laws and regulations may also have an impact on the businesses at the hotels and result in higher costs of compliance. In addition, any failure to comply with these laws and regulations could result in the imposition of fines or other penalties by the relevant authorities. This could have an adverse impact on the revenues and profits of HLGE group or otherwise adversely affect the operations of the hotels.

The HLGE group may be unable to continue as a going concern or raise sufficient funds to repay its debt obligations to us.

The HLGE group has recorded pre-tax losses for the last five consecutive fiscal years starting from 2009 to 2013. For fiscal year 2014, the HLGE group recorded a profit mainly due to the acquisition by its wholly-owned subsidiary of the remaining 55% equity interest in Augustland Hotel Sdn Bhd, which owned Copthorne Hotel Cameron Highlands. HLGE s average daily market capitalization has fallen below the minimum threshold of S$40 million resulting in it being placed on the Watch-list of the Singapore Stock Exchange (Watch-list) on June 4, 2014, for failing to comply with the minimum criteria for continued listing. In addition, HLGE group owes debt obligations to repay us S$68 million under a loan agreement. The original loan amount of S$93 million was granted to HLGE by our wholly-owned subsidiary, Venture Lewis Limited (Venture Lewis) in February 2009 to refinance the outstanding zero coupon unsecured non-convertible bonds previously issued by HLGE and which matured on July 3, 2009. The current outstanding loan amount of S$68 million has been extended six times by us since 2010.

These factors have made it difficult for the HLGE group to obtaining financing from financial institutions or to repay its debt obligations to us. In view of these difficulties, we extended the S$68 million loan to HLGE for another year from July 2015 to July 2016 to provide financial support, which is essential to ensure HLGE group s ability to continue as a going concern. The HLGE group will likely require additional funds for its core businesses and to invest in future growth opportunities. There is no assurance that the HLGE group would be able to generate sufficient internal funds to finance its growth plans or to pay the outstanding debt owing to us either through additional disposals of their assets or potential merger and acquisition opportunities to grow its earnings base. Accordingly, the HLGE group may, depending on the cash flow requirements and financial condition, need to raise additional funds by issuing equity or a combination of equity and debt or by entering into strategic relationships or through other arrangements. Any additional equity financing by HLGE may dilute our equity interests in HLGE. Any debt financing may contain restrictive covenants with respect to dividends, future capital raising and other financial and operational matters. Failure to obtain sufficient funds to finance its growth plans or to repay outstanding debt to us will adversely affect the HLGE group s business, financial performance and financial position and the HLGE group s ability to continue as a going concern that in turn could have a material adverse effect on the value of our investment in the HLGE group.

The HLGE group may be unable to remain listed.

The HLGE group has recorded pre-tax losses for the last five consecutive fiscal years, from 2009 to 2013. For fiscal year 2014, the HLGE group recorded a profit mainly due to the acquisition by its wholly-owned subsidiary of the remaining 55% equity interest in Augustland Hotel Sdn Bhd, which owned Copthorne Hotel Cameron Highlands. HLGE group s average daily market capitalization has fallen below the minimum threshold of S$40 million resulting in it being placed on the Watch-list of the Singapore Stock Exchange (Watch-list) on June 4, 2014, for failing to comply with the minimum criteria for continued listing. The Monetary Authority of Singapore and the Singapore Stock Exchange have introduced a minimum trading price (MTP) of S$0.20 for issuers listed on the Main Board of the Singapore Exchange, which took effect from March 2, 2015 as a continuing listing requirement. Issuers will be first assessed for compliance with the MTP on March 1, 2016 and those who fail to comply with the MTP at the first review date or any of the subsequent quarterly reviews will be placed on the Watch-list. On March 2, 2015, HLGE announced that as its shares have been trading below the MTP for the past six months prior to March 2, 2015, it proposed to undertake a share consolidation of every ten existing issued ordinary shares in the share capital of HLGE into one consolidated share subject to shareholders approval and the Singapore Stock Exchange. On March 9, 2015, HLGE announced that it had received in-principle approval from the Singapore Stock Exchange for the proposed share consolidation, which is subject to shareholders approval at an extraordinary general meeting.

In the event that HLGE is unable to meet the requirements for continued listing, it may be removed from the official list of the Main Board of the Singapore Exchange. The delisting of HLGE s ordinary shares could make it more difficult for HLGE to raise capital and obtain financing. The resulting lack of liquidity in HLGE s ordinary shares could also affect our ability to dispose of our shareholding in HLGE. Each of these events could have a material adverse effect on HLGE s business, financial condition and operating results and its ability to continue as a going concern and its ability to pay our debt, that in turn could have a material adverse effect on our investment in the HLGE group.

ITEM 4. INFORMATION ON THE COMPANY

History and Development

The Company

China Yuchai International Limited is a Bermuda holding company established on April 29, 1993 to own a controlling interest in Yuchai. We currently own, through six of our wholly-owned subsidiaries, 76.4% of the outstanding shares of Yuchai. We operate as an exempted company limited by shares under The Companies Act 1981 of Bermuda. Our principal operating office is located at 16 Raffles Quay #39-01A, Hong Leong Building, Singapore 048581. Our telephone number is (+65) 6220-8411. Our transfer agent and registrar in the United States is BNY Mellon Shareowner Services, located at 480 Washington Blvd., 29th Floor Jersey City, NJ 07310. On March 7, 2008, we registered a branch office of the Company in Singapore. On July 28, 2011, we registered a representative office of the Company in Hong Kong. The registration of this representative office was cancelled on January 7, 2014 as this office was no longer required.

Until August 2002, we were controlled by Diesel Machinery, a company that was 53.0% owned by Hong Leong Asia, through its wholly-owned subsidiary, Hong Leong China. Hong Leong China owns HL Technology which held shares in us through Diesel Machinery. Diesel Machinery was also 47.0% owned by China Everbright Holdings Company Limited, or China Everbright Holdings, through its wholly-owned subsidiary, Coomber. Hong Leong Asia, a company listed on the Singapore Exchange, is part of the Hong Leong Investment group, which was founded in 1941 by the Kwek family of Singapore and remains one of the largest privately-controlled business groups in Southeast Asia. China Everbright Holdings is a state-owned enterprise of China. In 2002, China Everbright Holdings and Coomber gave notice to Diesel Machinery and the other shareholders of Diesel Machinery to effect a liquidation of Diesel Machinery. As a result of the liquidation, Hong Leong Asia acquired the special share through HL Technology which entitles Hong Leong Asia to elect a majority of our directors and also to veto any resolution of our

shareholders. China Everbright Holdings sold its shareholding in Coomber, which held shares of our Common Stock, in October 2002 to Goldman Industrial Limited, or Goldman, and China Everbright Holdings is no longer a shareholder of our company. Goldman was a subsidiary of Zhong Lin Development Company Limited, or Zhong Lin, an investment vehicle of the city government of Yulin in Guangxi, China until September 29, 2006 when Zhong Lin sold its shareholding in Goldman to the State Holding Company.

We provide certain management, financial planning and other services to Yuchai and we continue to have a team working full-time at Yuchai s principal manufacturing facilities in Yulin city. In addition, the President, Chief Financial Officer and a manager proficient in Section 404 of Sarbanes Oxley Act of 2002, or SOX, travel frequently, usually monthly for as much as up to two weeks at a time, to Yuchai to actively participate in Yuchai s operations and decision-making process.

To our knowledge, since January 2014, there have not been any public takeover offers by third parties in respect of shares of our Common Stock, nor have we made any public takeover offers in respect of the shares of other companies.

Our main operating asset has historically been, and continues to be, our ownership interest in Yuchai, and our primary source of cash flow has historically been our share of the dividends, if any, paid by Yuchai and investment income thereon. However, on February 7, 2005, the Board of Directors of the Company announced its approval of the implementation of a business expansion and diversification plan by the Company. Following such announcement, we have looked for new business opportunities to seek to reduce our financial dependence on Yuchai:

In March 2005, we acquired a 15.0% interest in the capital of TCL through our wholly-owned subsidiary, Venture Delta. Our shareholding in TCL has since changed through various transactions, and as of December 31, 2012, we had a 12.2% interest in the outstanding ordinary shares of TCL, which has further reduced to 7.7% as of December 31, 2013 and has since remained unchanged as of March 9, 2015.

In February 2006, we acquired debt and equity securities in HLGE through our wholly-owned subsidiaries, Grace Star, and Venture Lewis. Our shareholding in HLGE has changed through various transactions and as of December 31, 2012, we had a 48.9% interest in the outstanding ordinary shares of HLGE, which has remained unchanged as of March 9, 2015.

HLGE and TCL are each listed on the Main Board of the Singapore Exchange.

We have eight wholly-owned subsidiaries which directly hold investments in Yuchai, HLGE and TCL, as described below:

Through our 76.4% interest in Yuchai held by six wholly-owned subsidiaries, we primarily conduct our manufacturing and sale of diesel engines which are mainly distributed in the PRC market.

As of March 9, 2015, through our wholly-owned subsidiary, Grace Star, we had a 48.9% shareholding interest in HLGE. Another wholly-owned subsidiary, Venture Delta holds 1 share in HLGE. The HLGE group is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia.

As of March 9, 2015, through our wholly-owned subsidiary, Venture Delta, we had a 7.7% equity interest in TCL. The TCL group invests in real estate and other investment opportunities which include property-backed financial instruments and in direct property.

For more details on our investments in HLGE and TCL, see Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan.

Yuchai

Yuchai engages in the manufacture, assembly and sale of a wide variety of light-, medium- and heavy-duty engines for trucks, buses, passenger vehicles, construction equipment, and marine and agriculture applications in China. Yuchai also produces diesel power generators. The engines produced by Yuchai range from diesel to natural gas and hybrid engines. Through its regional sales offices and authorized customer service centers, Yuchai distributes its engines directly to auto original equipment manufacturers and retailers and provides maintenance and retrofitting services throughout China.

Yuchai was founded in 1951 and became a state-owned enterprise in 1959. Prior to 1984, Yuchai was a small producer of low-power diesel engines for agricultural machinery. In 1984, Yuchai introduced the earliest model of its 6105 (YC6J) medium-duty diesel engine for medium-duty trucks. In 1989, Yuchai became one of China s 500 largest industrial enterprises in terms of profitability and tax contribution. In July 1992, in order to raise funds for further expansion, Yuchai became the first state-owned enterprise in the Guangxi Zhuang Autonomous Region to be restructured into a joint stock company.

As a result of this restructuring, Yuchai was incorporated as a joint stock company in July 1992 and succeeded the machinery business of Yulin Diesel. All of Yulin Diesel s businesses, other than its machinery business, as well as certain social service related operations, assets, liabilities

and employees (for example, cafeterias, cleaning and security services, a hotel and a department store), were transferred to the State Holding Company. The State Holding Company also became the majority shareholder of Yuchai through its ownership stake of approximately 104 million shares of Yuchai, or State Shares. The State Holding Company is owned by the Yulin City government. In connection with its incorporation, Yuchai also issued 7 million shares to various Chinese institutional investors, or Legal Person Shares.

In May 1993, in order to finance further expansion, Yuchai sold shares to the Company, or Foreign Shares, and became a Sino-foreign joint stock company.

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Our initial shareholders, consisting of HL Technology, Sun Yuan Overseas (BVI) Ltd., or Sun Yuan BVI, the Cathay Investment Fund, Limited, or Cathay, GS Capital Partners L.P., or GSCP, and Coomber, then a wholly-owned subsidiary of China Everbright Holdings and, thus, controlled by China Everbright International Limited, or China Everbright International, made their initial investments in Yuchai in May 1993, when their respective wholly-owned subsidiaries purchased for cash in the aggregate 200 million newly-issued shares of Yuchai (51.3% of the then-outstanding Yuchai Shares). These shareholders exchanged with the Company their shareholdings in their wholly-owned subsidiaries, six companies which held Foreign Shares of Yuchai, for 20 million shares of our Common Stock (after giving effect to a 10-for-1 stock split in July 1994, or the Stock Split). In connection therewith, Yuchai became a Sino-foreign joint stock company and became subject to the laws and regulations relating to joint stock limited liability companies and Sino-foreign joint venture companies in China. Foreign Shares may be held by and transferred to non-Chinese legal and natural persons, subject to the approval of the Ministry of Commerce, the successor entity to the Ministry of Foreign Trade and Economic Cooperation of China, or MOFTEC. Foreign Shares are entitled to the same economic rights as State Shares and Legal Person Shares. State Shares are shares purchased with state assets by government departments or organizations authorized to represent state investment. Legal Person Shares are shares purchased by Chinese legal persons or institutions or social groups with legal person status and with assets authorized by the state for use in business.

In November 1994, we purchased from an affiliate of China Everbright Holdings 78,015,500 Foreign Shares of Yuchai in exchange for the issuance of 7,801,550 shares of our Common Stock (after giving effect to the Stock Split), or the China Everbright Holdings Purchase. The 78,015,500 Foreign Shares of Yuchai held by Earnest Assets Limited, a subsidiary of China Everbright Holdings and China Everbright International before its sale to us had been originally issued as Legal Person Shares and State Shares and were converted to Foreign Shares, pursuant to approvals granted by MOFTEC. As a result, the Company became the owner of each of these six companies: Hong Leong Technology Systems (BVI) Ltd., Tsang & Ong Nominees (BVI) Ltd., Cathay Diesel Holdings Ltd., Goldman Sachs Guangxi Holdings (BVI) Ltd., Youngstar Holdings Limited and Earnest Assets Limited.

In December 1994, we sold 7,538,450 shares of Common Stock in our initial public offering and used substantially all of the proceeds to finance our six wholly-owned subsidiaries purchase of 83,404,650 additional Foreign Shares in Yuchai.

In connection with our purchase, through our six wholly-owned subsidiaries, of additional Foreign Shares in Yuchai with proceeds of our initial public offering, Yuchai offered additional shares pro rata to its other existing shareholders (30 shares for each 100 shares owned) in accordance with such shareholders pre-emptive rights, and each of our subsidiaries was able to acquire these additional Foreign Shares in Yuchai. Such pro rata offering (including the offering to the Company) is referred to herein as the Yuchai Offering. Certain Legal Person shareholders subscribed for additional shares in the Yuchai Offering. The State Holding Company informed Yuchai at the time that it would not subscribe for any of its portion of Yuchai Shares (31,345,094 shares) in the Yuchai Offering. In order to obtain MOFTEC s approval of the Yuchai Offering, the State Holding Company was given the right by Yuchai s Board of Directors to subscribe for approximately 31 million shares of Yuchai at a price of Rmb 6.29 per share at any time prior to December 1998. This was because provisional regulations of the State Administration Bureau of State Property, or SABSP, and the State Committee of Economic System Reform, or SCESR, published in November 1994, imposed on any holder of state-owned shares certain obligations to protect its interest in any share offering. Under such regulations, the State Holding Company could have been required to subscribe for Yuchai Shares in the Yuchai Offering. Yuchai s shareholders subsequently agreed to extend the duration of such subscription right to March 31, 2002 (the exercise of which would have reduced our ownership of Yuchai from 76.4% to 71.7%). The State Holding Company informed the shareholders of Yuchai that it had determined not to subscribe for additional Yuchai Shares and this determination was noted by the Yuchai Board of Directors on November 1, 2002. However, given the November 1994 provisional regulations of the SABSP and the SCESR, the SABSP, the SCESR and/or the Ministry of Commerce may take action against the State Holding Company, and there can be no assurance that any such action would not, directly or indirectly, have a material adverse effect on Yuchai or the Company.

Reorganization Agreement

On April 7, 2005, we entered into the Reorganization Agreement with Yuchai and Coomber, which is intended to be in furtherance of the implementation of the restructuring contemplated in the agreement dated July 19, 2003 between the Company and Yuchai with respect to the Company s investment in Yuchai (the July 2003 Agreement), as amended and incorporated into the Cooperation Agreement on June 30, 2007. The terms of the Reorganization Agreement have also been acknowledged and agreed to by the State Holding Company. The Reorganization Agreement provides for the implementation of corporate governance guidelines approved by the directors and shareholders of Yuchai in November 2002 and outlines steps for the adoption of corporate governance practices at Yuchai conforming to international custom and practice. Pursuant to the Reorganization Agreement, Yuchai also acknowledged and affirmed our continued rights as majority shareholder to direct the management and policies of Yuchai through Yuchai s Board of Directors.

Subsequent to the execution of the Reorganization Agreement, a number of steps have been taken by the parties thereto towards its implementation. For example, Yuchai s directors and shareholders have confirmed that the amendments to Yuchai s Articles of Association and corporate governance guidelines required to be adopted by Yuchai pursuant to the Reorganization Agreement have been ratified and implemented, and that steps are being taken to have such amendments and guidelines approved by the relevant Chinese authorities. The

amended Articles of Association was approved by the Guangxi Department of Commerce on December 2, 2009.

Cooperation Agreement

The Reorganization Agreement was scheduled to terminate on June 30, 2007. On June 30, 2007, we entered into the Cooperation Agreement with Yuchai, Coomber and the State Holding Company. The Cooperation Agreement amends certain terms of the Reorganization Agreement, as amended, among CYI, Yuchai and Coomber, and as so amended, incorporates the terms of the Reorganization Agreement.

Pursuant to the amendments to the Reorganization Agreement, the Company agreed that the restructuring and spin-off of Yuchai would not be effected, and, recognizing the understandings that have been reached between the Company and the State Holding Company to jointly undertake efforts to expand the business of Yuchai, the Company would not seek to recover the anti-dilution fee of US$20 million from Yuchai.

The Cooperation Agreement provides that the parties will explore new business opportunities and ventures for the growth and expansion of Yuchai s existing businesses. Although the parties to the Cooperation Agreement expect to work towards its implementation as expeditiously as possible, no assurance can be given as to when the transactions contemplated therein will be consummated.

Various amendments to Yuchai s Articles of Association had been ratified and adopted by Yuchai in 2007 and were approved by the Guangxi Department of Commerce on December 2, 2009.

Emission Standards

As of July 2008, China officially implemented the National III emission standards throughout China. The 2008 Beijing Olympics led to an early implementation of the National IV emission standards in Beijing in 2008, which was implemented in Shanghai from November 2009 and in Shenzhen and Guangzhou in 2010. The National IV emission standards for diesel engines have been implemented throughout China on July 1, 2013 and strict enforcement of the standards nationwide commenced on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government has mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. Yuchai produces diesel engines compliant with National IV and V emission standards and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards, as well as develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. In October 2010 and October 2014, China officially implemented the Tier 2 and Tier 3 emission standards nationwide, respectively. Strict nationwide enforcement of the Tier 3 emission standards is scheduled to begin on October 1, 2015. The Tier 4 emission standards were implemented in Beijing on January 1, 2015. Yuchai is able to produce diesel engines compliant with both Tier 2 and 3 emission standards for use in non-road machinery.

Products and Product Development Yuchai

Yuchai manufactures diesel and natural gas engines for light-, medium- and heavy-duty on-highway vehicles, marine and industrial applications and generator sets. Yuchai also manufactures diesel engines for agriculture applications and is a supplier of after-market parts and services.

Yuchai s growth focus is mainly on medium-duty and heavy-duty engines, which are relatively higher margin products compared to light-duty engines, and it also intends to improve its competitiveness across all current engine platforms, including light-duty engines. In addition, Yuchai is focusing on higher emission standard engines, which are relatively higher margin products compared to traditional mechanical diesel engines.

Yuchai is also expanding its production and research and development capabilities in natural gas engines in order to meet the growing demand in the natural gas engine market in China and provide a full range of natural gas engines to complement all of its current diesel engine models.

New Products

Our new products are the YC6L-60 and YC4FQ-48 diesel engines, five new engines which are the YC4Y22-50, YC4S-50, YC4EG-50, YC6MK-50 and YC4FAN-50 models and new Tier 3 compliant engines including YC6J-T30, YC4D-T30, YC4A-T30.

(a) The YC6L-60 diesel engine is Yuchai s newest engine compliant with National VI emission standards. This engine is a high-end model of the YC6L heavy-duty platform. It has a power range between 177-243 KW and is designed for use in buses between 10-12 meters and trucks that carry loads of between 25-40 tons. Improvements to the engine include medium cooling exhaust gas

recirculation technology, innovative diesel particle filter and efficient SCR technologies.

(b) Five new engines compliant with National V emission standards were introduced for the truck and bus markets. The YC4Y22-50 diesel engine has a 2.2 liter engine for use in light-duty trucks and buses. The YC4S-50 diesel engine has a 3.76 liter engine for medium- to high-end trucks and buses. The YC4EG-50 diesel engine contains a 4.73 liter engine for medium-duty buses and light- and medium-duty highway trucks. The YC6MK-50 is a 10.3 liter engine for on-road trucks and buses. The YC4FAN-50 natural gas engine is designed to be used in light-duty vehicles.

(c) Three new diesel engines meeting the T-3 emission standards for off-road applications. Two new models, the YC6J-T30 and YC4D-T30, are for the loader, excavator and forklift markets. The YC4A-T30 engine, which has been upgraded, is designed for agriculture application. This engine improves the heat transfer efficiency of the cooling system by more than 30%, and uses a high pressure injection mechanical in-line pump and exhaust gas recirculation (EGR) technology.

(d) The new YC4FQ-48 engine compliant with National IV emission standards is for use in light-duty trucks. With a 2.5 liter displacement, it is lighter in weight with an improved cooling system compared with the model YC4FA engine. This new model utilizes high pressure common rail, EGR, diesel oxidation catalyst (DOC) and diesel particle filter (DPF) technologies.

Existing Diesel Engine Products

Our existing diesel engine products include light-duty, medium-duty and heavy-duty engines. The following table sets forth Yuchai s list of engines by application:

	Series
Trucks	YC4D, YC4E, YC4F, YC4FA, YC4DN, YC4S, YC6A, YC6B, YC6J, YC6JN, YC6K, YC6KN, YC6L, YC6MK, YC6MKN, YC6G, YC6GN, YC6LN.
Bus	YC6MK, YC6MKN, YC6L, YC6J, YC6JN, YC6G, YC6GN, YC6LN, YC6K, YC6KN, YG6A, YC4G, YC4GN, YC4E, YC4D, YC4DN, YC4FA, YC4F, YC4S
Construction	YC4A, YC4B, YC4D, YC4DN, YC4F, YC4G, YC4GN, YC6B, YC6J, YC6JN, YC6G, YC6L, YC6LN, YC6MK, YC6M, YC6A
Agriculture	YC4A, YC4B, YC4F, YC6A, YC6B, YC4D, YC6J, YC6L
Marine	YC4D, YC4G, YC6A/6B, YC6T, YC6TD, YC6C, YC6CL, YC6J, YC6L, YC6MK
Generator-Drive	YC4FA, YC4F, YC4D, YC4G, YC6A, YC6G, YC6L, YC6LN, YC6MK, YC6MJ, YC6T, YC6C, YC6CL, YC6MKN, YC6K, YC6KN
Passenger Vehicle	YC4W, YC4Y

(a) Light-Duty Diesel Engines

Trial production of the 4-Series light-duty diesel engines commenced in late 1999 and today, they represent a stable of reliable and high performance engines. Significant improvements to the technical specifications of the 4-Series engines to meet National III and IV emission standards have resulted in higher customer acceptance resulting in consistent sales demand since 2005. The sales have been further buoyed by the growth in demand for light trucks and agricultural machinery, and the Chinese government increasing its financial support for the agriculture sector.

Our line of 4-Series light-duty diesel engines consists of the following:

The 4108 (YC4D) engine was launched in the market in 2001 based on 6108 (YC6A and YC6B) engines. The 4108 (YC4D) engine is designed for light trucks and passenger vehicles and commercial production began in 2001.

The 4112 (YC4G) engine was primarily based on the 6112 (YC6G) engine and is designed for use in light to medium-duty cargo trucks and buses. The 4112 (YC4G) engine also features low emission characteristics. Commercial production of the engine began in late 2001.

The YC4F/YC4FA/YC4G engine is a 4-cylinder, four-stroke engine with a rated power ranging from 90 to 115 PS. The 4F/4FA/4G diesel engines were developed based on technologies from Germany and Japan for mini buses, trucks and passenger cars. Trial production of the 4F engines commenced in mid-2004.

The YC4D/YC4E engine is a 4-cylinder, four-stroke engine with a rated power ranging from 120 to 180 PS. The YC4D diesel engine was co-developed by Yuchai and Germany FEV, and features lower emission, lower fuel and oil consumption, lower noise, higher reliability, lower price and better upgrading potential. The YC4E series diesel engine was developed on the basis of the YC6G series diesel engine with a displacement of 7.8 liters through stroke-shortening and bore-reducing which maintains advantages over the YC6G series diesel engines and features higher dynamic characteristics, easier operation and maintenance, and is used in high-speed and light-duty vehicles.

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The YC4G was also further developed to be used in hybrid buses. This relatively small diesel engine coupled with a motor will enable the hybrid bus to power medium to large buses and at the same time reduce fuel consumption and emissions. The YC4G is rated at 170-220PS.

The YC4S engine at 3.8L is rated at 55-170PS and its main applications are in highway vehicles and industrial engines. The YC4S engine is certified compliant with National IV emission standards for on-highway use and Tier 2 emission standards for the industrial market.

The model YC4S-48 which has been upgraded from the YC4S engine for the high-end, light-truck market. This model targets mid- and high-end, on-road vehicles with a load capacity between 5-8 metric tons. It generates 88-110 KW power using a common rail system paired with Exhaust Gas Recirculation (EGR), Diesel Oxidation Catalyst (DOC) and Particulate Oxidation Catalyst (POC) technologies.

(b) Medium-Duty Diesel Engines

YC6J Diesel Engines

The 6105 (YC6J) medium-duty engine is a 6-cylinder, four-stroke engine that offers up to 230 PS. The 6105 (YC6J) engine was historically Yuchai s primary product and was principally installed in medium-duty trucks. Yuchai believes that its 6105 (YC6J) engine has a reputation for fuel efficiency, low noise levels, firm uphill traction and reliability.

The hybrid 6108 (YC6J) engine was launched in October 2010 for use in public buses. The 6108 (YC6J) National III and IV compliant 6.5L, 6-cylinder, 132-180KW, 2500rpm diesel engine uses BOSCH electronic controlled high-pressured common-rail fuel injection technology. These engines are suitable for use in coaches of 8m-11m in length.

Yuchai has also developed YC6J natural gas variants, including both compressed natural gas (CNG) and liquefied natural gas (LNG) systems, using similar major components as diesel engines. Yuchai is a market leader in developing diesel engines which are mainly used in public buses. The natural gas versions will complement the current diesel engine lines used in public buses enabling a reduction in emissions. The YC6J is also developed to work with battery-powered motors in hybrid buses which will help to reduce fuel consumption and emissions.

The YC6J engines previously compliant only with National IV emission standards have been upgraded to meet the National V emission standards with improved fuel efficiency and performance.

6108 (YC6A and YC6B) Diesel Engines

In response to the introduction of high-power medium-duty engines by its competitors in 1995, Yuchai began the development of its 6108 (YC6A and YC6B) medium-duty engine which offers improved overall performance compared to the 6105 (YC6J) engine, principally because of greater horsepower, increased reliability and improved acceleration.

Commercial production of the 6108 (YC6A and YC6B) engine began in the third quarter of 1997, when Yuchai began offering the 6108 (YC6A and YC6B) engine to its customers as a premium model, alongside its standard 6105 (YC6J) engine. Yuchai s existing and planned production facilities for medium-duty diesel engines are designed to produce 6108 (YC6A and YC6B) engines without major modifications. The customer base for the 6108 (YC6A and YC6B) engines is similar to that for the 6105 (YC6J) engines. Although the increased competition in the medium-duty diesel market and Yuchai s delay in commercially introducing the 6108 (YC6A and YC6B) engine has adversely affected Yuchai s market share, through an aggressive marketing program which included brand building and enhancing its corporate image, Yuchai was able to increase its unit sales of the 6108 (YC6A and YC6B) engine.

The YC6A National III and IV compliant 6-cylinder, 4-valves, 162-225KW, 2300rpm diesel engine uses BOSCH electronic controlled high-pressured common-rail fuel injection technology. Its main applications are in medium-sized trucks, construction machines, boats, generators, and agricultural machinery.

The YC6A engines have been upgraded to meet the National IV emission standards with improved fuel efficiency and performance.

YC6G Diesel Engines

YC6G National III and IV compliant 7.8L, 6-cylinder, 147-199KW, 2000-2200rpm diesel engine uses DELPHI electronic controlled high-pressured common-rail fuel injection technology. Yuchai has also developed variants that use CNG or LNG as fuel, using similar major components. Its main applications are for buses and coaches of 11-12 metres in length.

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(c) Heavy-Duty Diesel Engines

6112 (YC6G) Heavy-Duty Diesel Engines

In 1992, Yuchai purchased from an affiliate of Ford Motor Company in Brazil the production line machinery for manufacturing 6112 (YC6G) heavy-duty engines and moved the production line machinery to a factory in China, which we refer to as the 6112 (YC6G) Engine Factory. The facilities were designed to have a production capacity of approximately 50,000 units per year and could support the production of medium-duty engines when necessary. The facilities included product testing, production equipment repair and maintenance, factory automation and other support functions.

The 6112 (YC6G) heavy-duty engine is a 6-cylinder, four-stroke engine with a rated power ranging from 190 to 270 PS. Primarily as a result of unreliable key engine components supplied by China domestic component manufacturers, the 6112 (YC6G) engine encountered significant technical problems during the initial road testing and failed to perform satisfactorily under harsh environmental conditions. Although commercial production of the 6112 (YC6G) engine was delayed beyond the previously scheduled date, Yuchai was able to resolve these technical problems and commence trial marketing of the engine in early 1999. The 6112 (YC6G) Engine Factory was completed in 1995 and commercial production of these engines began in the second half of 1999.

6L Heavy-Duty Diesel Engines

The 6L heavy-duty engine (formerly referred to as 6113) is a National III, IV and V compliant 6-cylinder, four-stroke, turbocharged intercooling engine, with a rated power ranging from 280 to 350 PS. The 6L heavy-duty engine was co-developed with FEV, an independent German-owned engine development institute for big passenger buses. Yuchai launched the 6L engine in November 2003.

6MK Heavy-Duty Diesel Engines

The 6MK heavy-duty engine family for heavy-duty trucks and passenger buses was developed based on technologies from USA, Japan and Germany in accordance with FEV procedures. The 6MK engine has adopted the common rail injection system technology to meet with the latest emission requirements and the European forced cooling piston technology. It has a 10.34 liter displacement and power ranging from 300 to 400 PS. Yuchai s first commercial sales of 6M engines occurred in 2010.

YC6MJ Heavy Duty Diesel Engines

YC6MJ is an upgraded version of the YC6MK engine with larger piston for power extension and adopting a traditional high pressure injection system. It is an 11.7L engine rated at 450PS and is for use in mining, marine and power generation applications.

YC6K Diesel Engines

The YC6K 6-cylinder diesel engine is National IV and V compliant, has a capacity of between 10L/12L/13L and is rated at 380 550PS. The components and combustion systems of the engine are developed with the latest technology and are suitable for use in heavy-duty trucks and for coaches exceeding 12 meters in length.

The YC6K is the product of a joint venture company which was established in 2009 pursuant to an agreement Yuchai entered into with Jirui United to produce heavy-duty vehicle engines with the displacement range from 10.5L to 14L. For more details on the joint venture company, see Item 3. Key Information Risk Factors Risks relating to our company and our business If we are not able to continuously improve our existing engine products and develop new engine products or successfully enter into other markets, we may become less competitive, and our financial condition, results of operations, business and prospects may be adversely affected.

(d) High Horsepower Marine Diesel Engines and Power Generator Engines

In May 2011, Yuchai commenced construction of a plant at Yuchai s primary manufacturing facilities in Yulin City, Guangxi Province, to increase the annual production capacity of marine diesel engines and power generators to meet increasing demand. The following are our marine diesel and power generation engine models.

YC6T is a 6-cylinder engine rated at 360-600PS and is suitable for construction applications. It was launched in early 2011 and is used in marine propulsion, power generators, construction and mine trucks. The YC6T engine rated 404-440KW at 1500 rpm is for power generation, while those rated 290-396KW at 1500-1800 rpm are for marine applications and those rated 350-540PS at 1350 rpm are for marine propulsion.

YC6C is a 40L, 6-cylinder engine rated at 700-1000 PS. It was launched in early 2011 and is used in marine propulsion, power generators, construction and mine trucks. The YC6C engine rated 680-850KW at 1500 rpm is for power generation and those rated 560-680 KW at 1500 rpm are for marine propulsion.

YC6CL is an upgraded version of the YC6C engine with longer piston stroke for better power output and performance. The YC6CL engine is a 54L engine rated at 800-1200PS. It was launched in 2013.

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YC12VT is derived from the YC6T engines where the V-engine enables the engine to have a compact configuration. The engine is 12 cylinders, 33L rated at 538-645KW at 1500 rpm. The main application is in the power generator, marine and industrial markets. The YC12VT is expected to be launched in 2016.

YC12VC is derived from the YC6C engines where the V-engine enables the engine to extend its power output at similar engine platform. The engine is 12 cylinders, 80L rated at 1400-1650KW at 1500 rpm. The main application is in the power generator, marine and industrial markets. The YC12VC is expected to be launched in 2016.

Other Products and Services

Our other products are YC4W, YC4Y passenger car diesel engines, natural gas engines, diesel power generators, diesel engine parts and remanufacturing services.

(a) YC4W Passenger Car Diesel Engines

The YC4W engines are featured with 1.2L and 1.4L 4-cylinder, 4-valves, 60-90 PS, 4000-4200rpm and are compliant with National IV emission standards. The YC4W diesel engines use DELPHI electronic controlled high pressure common-rail fuel injection technology. The main applications of these engines are in passenger cars, multi-purpose vans, power generators and light-duty special purpose machinery.

(b) YC4Y20 Passenger Car Diesel Engines

YC4Y20 is a 4-cylinder 1.8-2.2L, rated at 90-140PS engine which has been developed to comply with emission standards. The first generation prototype engine passed emission and performance tests and after some initial delays, the second and third generation prototype YC4Y20 diesel engines are currently undergoing developmental tests. The YC4Y20 engine is the product of a joint venture with Geely and Yinlun. For more details on this joint venture, see Item 3. Key Information Risk Factors Risks relating to our company and our business If we are not able to continuously improve our existing engine products and develop new diesel engine products or successfully enter into other markets, we may become less competitive, and our financial condition, results of operations, business and prospects may be adversely affected.

(c) Construction Engines

For the construction equipment market, we have two new engines meeting Tier 3 emission standards. One is the YC6G220L-T31 series with a 7.8L engine featuring a turbocharged inter-cooling system and an electronically controlled fuel injection system to enable quick adjustments to the engine s power and torque. Another is the new diesel engine model YC4FA45-T30 series featuring a mechanical rotary pump, with a faster response and low fuel consumption. This model has been awarded the e-mark certificate allowing for marketing into the European Union.

(d) Natural Gas Engines

Yuchai has a new facility at its primary manufacturing facility in Yulin City, Guangxi Province, to develop and produce a full portfolio of natural gas powered engines to complement its existing suite of diesel engines. The main applications of Yuchai s natural gas engines are in large buses, mid-to heavy-duty trucks, industrial and power generation applications and the marine sector.

Yuchai natural gas engines are designed to work with both CNG and LNG fuel systems, and they are generally constructed using similar major components as Yuchai s diesel engines. Yuchai currently offers natural gas engines in the following models: YC4DN, YC4GN, YC6BN, YC6JN, YC6GN, YC6LN and YC6MKN, and YC6KN ranging from 120hp to 440hp.

(e) Plug in hybrid engine

Yuchai also introduced its second-generation hybrid engine; model YCHPT II, to address the growing customer demand for advanced hybrid engines. The engine adopts plug-in systems to charge the vehicles batteries, and it features an upgraded gearbox with an interchangeable 5-speed

automatic and manual system. This hybrid engine meets the national energy vehicle policy conditions set out in the Chinese government s 12th Five-Year plan, qualifying it for energy subsidies.

(f) Diesel Power Generators

Yuchai has a history of more than 40 years for producing the diesel generator set, with wide application in the civil, military and marine sectors. Yuchai produces diesel power generators which are primarily used in the construction and mining industries. The diesel power generators offer a rated power of 24 kilowatts to 160 kilowatts. Yuchai s diesel power generators use diesel engines from YC4FA up to YC6T as their power source. The generator set includes an intelligent digital controlling system, remote control, generators group control, remote monitoring, automatic parallel operation, and automated protection against breakdowns.

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(g) Diesel Engine Parts

Yuchai supplies diesel engine parts to its nationwide chain of customer service stations in China. Although sales of diesel engine parts do not constitute a major percentage of Yuchai s revenue, the availability of such parts to its customers and to end-users through its nationwide chain of customer service stations is an important part of Yuchai s customer service program. Yuchai is continuously improving its spare parts distribution channel services to maintain its competitive position.

(h) Remanufacturing Services

On December 11, 2009, Yuchai entered into a joint venture agreement with Caterpillar (China) Investment Co., Ltd. (Caterpillar China) to establish a new joint venture company in China to provide remanufacturing services for and relating to Yuchai s diesel engines and components and certain Caterpillar diesel engines and components. The new joint venture company, Yuchai Remanufacturing Services (Suzhou) Co., Ltd., (YRC) was incorporated on April 7, 2010 in Suzhou, Jiangsu province. Operations at a temporary workshop commenced in 2011. The permanent factory located in the Suzhou Industrial Park was inaugurated on July 13, 2012. On June 12, 2014, Yuchai entered into an equity transfer agreement with Caterpillar China to acquire its 49% equity ownership in YRC. On September 4, 2014, Yuchai completed the acquisition resulting in YRC becoming its wholly owned subsidiary.

Sales

In 2014, according to CAAM, engine sales for commercial vehicles (excluding gasoline-powered vehicles) in China was approximately 2.9 million units, a reduction of 10.8% compared to 2013. Yuchai s total engine sales in 2014 were 483,825 units, a decrease of 3.4% compared with 500,756 units in 2013.

Light-duty engine sales in 2014 was 303,557 units, or 62.7% of total unit sales, which was an increase of 3.5 percentage points compared to 2013, when light-duty engine sales were 296,266 units, or 59.2% of total unit sales. Medium-duty engine sales was 117,095 units, or 24.2% of total unit sales, compared to 2013 where sales were 136,118 units or 27.2% of total unit sales. Heavy-duty engine sales was 63,168 units, or 13.1% of total sales units, compared to 2013 where sales were 68,366 units, or 13.6% of total sales units.

In 2014, Yuchai sold approximately 36,400 natural gas engine units compared with approximately 32,400 units sold in fiscal year 2013. The following table sets forth a breakdown of Yuchai s sales by major product category for fiscal years 2012, 2013 and 2014:

	2012			2013			2014		
	Revenue Rmb 000	% of Revenue	Unit Sold	Revenue Rmb 000	% of Revenue	Unit Sold	Revenue Rmb 000	% of Revenue	Unit Sold
Light-duty engines [1]	4,612,129	34.4%	250,776	5,419,105	34.1%	296,266	6,060,017	37.0%	303,557
Medium-duty engines [2]	3,947,404	29.4%	131,895	4,063,843	25.6%	136,118	3,911,911	23.9%	117,095
Heavy-duty engines [2]	2,709,313	20.2%	48,665	3,598,832	22.7%	68,366	3,630,395	22.1%	63,168
Other products and services [3]	2,142,538	16.0%	14	2,788,600	17.6%	6	2,785,033	17.0%	5
	13,411,384	100.0%	431,350	15,870,380	100.0%	500,756	16,387,356	100.0%	483,825

(1) Includes passenger car engines.
(2) Includes natural gas engines.
(3) Includes only power generator sets.

Production

Yuchai s primary manufacturing facilities are located in Yulin City in the Guangxi Zhuang Autonomous Region. The principal production land area currently occupies approximately 1.8 million square meters, including the existing production factory for all light-duty, medium-duty and heavy-duty engine models, the new natural gas production facility, the new high horse power marine diesel engine and power generator plant, phases 1 and 2 of the new foundry and various testing and supporting facilities. Construction of phases 1 and 2 of a new foundry at Yuchai s

primary manufacturing facilities has been completed and it is fully operational. Yuchai also has another production facility in Xiamen, Fujian province in China. In December 2006, Yuchai established a wholly-owned subsidiary called Xiamen Yuchai Diesel Engines Co., Ltd. (Xiamen Yuchai). This subsidiary was established to facilitate the construction of a new diesel engine assembly factory in Xiamen, mainly for 6-cylinder heavy-duty diesel engines. Commercial production at Xiamen Yuchai commenced on September 2, 2009.

As of December 31, 2014, Yuchai s total production capacity was approximately 652,500 units as compared with 622,500 units as of December 31, 2013, based on a 2.5 shift five-day week at 80% utilization rate.

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We typically outsource approximately 10% to 20% of our annual sales requirements to third party manufacturers. In fiscal year 2014, we sold 483,825 units, of which 384,260 units were produced at Yuchai s Yulin facility, and the remaining units sold were either produced by Xiamen Yuchai or third party manufacturers or taken from existing inventory. Yuchai s production at the Xiamen facility was 28,700 units, 33,664 units and 25,344 units, in fiscal years 2012, 2013 and 2014, respectively.

The following table sets forth the breakdown of Yuchai s production at the Yulin facility by major product category for fiscal years 2012, 2013 and 2014:

	2012		2013		2014	
	Units	% of Units	Units	% of Units	Units	% of Units
Light-duty engines [1]	186,259	56.0%	231,718	57.1%	232,980	60.6%
Medium-duty engines [2]	97,900	29.5%	103,090	25.4%	88,591	23.1%
Heavy-duty engines [2]	48,228	14.5%	71,129	17.5%	62,681	16.3%
Other products [3]	9	0.0%	3	0.0%	8	0.0%
	332,396	100.0%	405,940	100.0%	384,260	100.0%

(1) Includes passenger car engines.
(2) Includes natural gas engines.
(3) Includes only power generator sets.

Procurement

Yuchai manufactures engine blocks, cylinder heads, crankshaft, camshaft and certain other key parts. Third party suppliers provide the remaining engine parts. The production process involves the complete assembly and testing of the finished product.

Engine Block

Yuchai cast and molded more than 432,000 units of engine blocks in 2014, which represent a large portion of its engine blocks used in production.

Raw Materials

Yuchai purchases raw materials, principally scrap steel and cast iron, from domestic suppliers. An increase in the prices of these raw materials would generally increase our costs of production. See Item 3. Key Information Risk Factors Risks relating to our company and our business If China s inflation increases or the prices of energy or raw materials increase, we may not be able to pass the resulting increased costs on to our customers and this may adversely affect our profitability or cause us to suffer operating losses.

Imports

Certain engine components are imported from foreign suppliers, such as the electronic combustion system and its software, and the exhaust after-treatment system. A majority of the remaining parts are purchased from domestic suppliers. Yuchai has progressively reduced its reliance on imported parts and components since 2006 and intends to continue to do so. Yuchai has a policy of practicing sound procurement policy by requiring the same product procurement from at least two distinct sources. The same practice applies to all other externally procured engine parts. Yuchai is continually seeking to improve its procurement strategy by seeking new suppliers with competitive prices and quality. For contingency supply of engine blocks, Yuchai has a long-term purchase agreement with a domestic foundry.

Quality Assurance, Control and Safety

All raw materials, external supplied parts and components are checked for conformity with the required quality and specifications. Each stage of the production process is monitored by a quality control procedure and the final product undergoes standard conformity and specification testing using an automated testing laboratory. To promote the safety of its workers, Yuchai has established a safety department to supervise the proper use of equipment to prevent fire and explosions and promote safe practices and procedures in the workplace.

Manufacturing Capacity Expansion

Yuchai believes that the current production capacity of all engine lines will meet the expected demand. Yuchai is continuously assessing the market demand and devising production strategies to secure and meet these market opportunities.

Research and Development

Yuchai has committed substantial resources to continually improve the technology of its products and maintain the competitiveness of its products. Yuchai s internal development effort focuses primarily on designing new products, improving manufacturing processes and adapting foreign technology to the Chinese market. Yuchai has committed to continually improve the technology of its products by acquiring advanced technology from Chinese research institutes, foreign engine design consulting firms and foreign diesel engine and engine parts manufacturers. In 2012, 2013 and 2014, Yuchai spent approximately Rmb 373.7 million, Rmb 468.6 million and Rmb 494.6 million (US$80.3 million) respectively, on research and development. Yuchai believes that it has been able to control to some extent, the increase of research and development expenses due to the relatively stable salary levels of engineers in China. In 2012, Yuchai s research and development efforts was focused on the development of both new engine products such as YC4S, YC6MJ and YC6L and continuing development and testing of National V and VI compliant products, as well as continuing development of natural gas engines for use in both CNG and LNG applications. In 2013, Yuchai s research and development efforts was focused on the development of a complete suite of gas engines for both on-road and off-road applications, and development of products compliant with Tier 3 emission standards for construction and industrial applications. In 2014, Yuchai s research and development efforts were focused on the development of high horsepower marine diesel engines and power generator engines on power extension for both YC6T and YC6C engines, and the upgrading of engine electronic control system for both heavy-duty and natural gas engines as well as finalization of the technology of Tier 3 compliant engines for off-road applications.

As a result of its research and development efforts, Yuchai has a large patent portfolio with over one thousand patents registered in China since 2004. The types of patents that Yuchai has registered are invention patents, utility model patents and design patents. The term of patent protection is 10 or 20 years from the filing date depending on the type of patent registered.

Future Products

Yuchai believes that its long-term business prospects will largely depend upon its ability to develop and introduce new or improved products with higher quality and competitive pricing. Future products may utilize different technologies and may require knowledge of markets that Yuchai does not currently possess.

Yuchai intends to continue to work with foreign engine design consulting firms and foreign engine manufacturers for technological assistance in improving its products and developing new products, and expects such cooperation to continue. The introduction of new engine products will also require significant capital expenditures, such as purchases of foreign manufacturing equipment and technologies. See Item 3. Key Information Risk Factors Risks relating to our company and our business Competition in China from other diesel engine manufacturers may adversely affect our financial condition, results of operations, business or prospects.

Sales, Marketing and Services

Sales and Marketing

Yuchai distributes most of its engines directly to auto plants and agents from its primary manufacturing facilities in Yulin City. In addition, Yuchai operates a number of regional offices in major geographic regions in China. With a sales force of approximately 917 persons nationwide in China, Yuchai provides a comprehensive range of services to its customers, including dispatching engineers to provide on-site assistance to major customers in the resolution of technical problems.

Yuchai promotes its products primarily through television commercials, outdoor sign boards, advertisements in newspapers and industry journals. Since 1993, Yuchai has been sponsoring an annual program during which Yuchai provides its customer service stations with information brochures, customer suggestion cards for the improvement of Yuchai s service. In connection with this promotion, Yuchai s customer service stations also perform routine maintenance checks and minor repairs on end-users diesel engines free of charge. Yuchai believes that its promotional efforts are unusual for an automotive component company in China and lead to greater brand name recognition among end-users. Yuchai further believes that it leads its competitors in providing high quality after-sales services by its 2,912 authorized service stations. The service stations are independently owned and are able to provide emergency services to its end-users within a 40-km radius in the central, eastern and southern parts of China.

Yuchai has continued to focus its sales efforts on retailers and end-users of diesel engines. Yuchai seeks to encourage end-users of gasoline engine trucks to replace their gasoline engines with Yuchai diesel engines by advertising the advantages of diesel engines. With the advent of a natural gas refuelling network across the nation, customers have the additional option of using Yuchai s natural gas engines. Such sales of replacement engines are generally made through customer service centers at a retail price which is higher than the sales price to truck manufacturers.

Yuchai believes that proximity to its factories in Yulin City is an important factor in the geographical make-up of its customers. Due in part to transportation and shipping costs, a substantial majority of Yuchai s engines are sold to customers in southern and central eastern China. Customers geographical make-up is segmented by Guangxi, Henan, Sichuan, Hubei, Fujian, East and North East China.

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Yuchai s sales are concentrated among the Dongfeng Group, one of the largest state-owned automobile companies in China, and other major diesel truck manufacturers controlled by or affiliated with the Dongfeng Group. In 2013, sales to the Dongfeng Group accounted for approximately 20.8% of Yuchai s total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Commercial Vehicle Co., Ltd., accounted for 8.9%. In 2014, sales to the Dongfeng Group accounted for approximately 22.5% of Yuchai s total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Commercial Vehicle Co., Ltd., accounted for 10.4%. The Dongfeng Group is also a major competitor of Yuchai. Our sales to our top five customers including sales to the Dongfeng Group accounted for 36.3% of our total revenue in 2014. See Item 4. Information on the Company History and Development Competition.

Customers orders with Yuchai can be cancelled either by Yuchai or its customers prior to delivery in accordance with the sales contracts. As part of Yuchai s credit procedures to control and manage its trade receivables, Yuchai may hold shipments for delivery if customers credit positions are not satisfactory or if customers have not made payments for earlier deliveries. There can be no assurance that such cost-controlling measures will successfully control Yuchai s trade receivable balance, or that they will not adversely affect the future purchasing decisions of Yuchai s customers. As of December 31, 2013, Yuchai had net trade and bills receivables of Rmb 7,437.6 million, representing 54.7% of our consolidated current assets as of the same date. As of December 31, 2014, Yuchai had net trade and bills receivables of Rmb 8,111.4 million (US$1,317.6 million), representing 62.9% of our consolidated current assets as of the same date.

Export Sales

Yuchai exports a very small percentage of its products directly outside China, as the following table indicates:

	2012			2013			2014		
	Revenue Rmb 000	% of Revenue	Unit Sales	Revenue Rmb 000	% of Revenue	Unit Sales	Revenue Rmb 000	% of Revenue	Unit Sales
Total Domestic Sales	13,379,387	99.8%	430,433	15,824,764	99.7%	499,617	16,336,831	99.7%	483,013
Total Direct Export Sales	31,997	0.2%	917	45,616	0.3%	1,139	50,525	0.3%	812
	13,411,384	100.0%	431,350	15,870,380	100.0%	500,756	16,387,356	100.0%	483,825

Most of Yuchai s products that are exported outside of China are sold indirectly through third party distributors who purchase them from Yuchai and resell them on to end-users in subsequent and separate transactions. All of these distributors are separate legal entities in which Yuchai has no equity interest in or control over and Yuchai relies on self-reporting by these distributors in relation to their sales. In 2014, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through third party distributors were Vietnam, Myanmar, Saudi Arabia, Philippines and Russia. In 2013, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through third party distributors were Vietnam, Russia, Myanmar, Peru and Cuba. In 2012, the top five export markets of Yuchai (in descending order) comprising both direct sales as well as sales through the third party distributors were Vietnam, Saudi Arabia, Ghana, Russia and Philippines.

In May 2012, Yuchai appointed Anglo Asian Trading Co. LLC, a company based in the United Arab Emirates on an exclusive basis for three years, to promote and expand the sales of Yuchai s products into the Middle East region, including the United Arab Emirates, Iran and Kuwait. As of March 9, 2015, no engines had been sold pursuant to this arrangement.

In February 2014, Yuchai appointed China Automotive Industry Import and Export Co., Ltd., a company based in China, on an exclusive basis for two years to export Yuchai s products into Cuba. The agreement requires China Automotive Industry Import and Export to use best efforts to export more than 1,500 units (whole engines or parts) per year. From the period March 8, 2014 to March 9, 2015, 504 engines had been sold pursuant to this agreement.

Customer Service

Yuchai believes that customer service is an important part of maintaining its market competitiveness. In addition to various services provided initially at its sales offices, Yuchai has a nationwide network of authorized service stations in China that provide repair and maintenance services, spare parts, retrofitting services and training to Yuchai s customers. To ensure a consistently high level of service, Yuchai trains the

technicians at regional training centres or selected service stations. In addition, Yuchai also owns and operates repair training centers. The costs of any warranty-related services or repairs are borne by Yuchai, and all non-warranty activities are charged to customers. Yuchai s customer service program emphasizes a fast turnaround time on repair requests. As part of this policy, Yuchai supplies authorized service stations with spare parts for repairs and require these service stations to provide on-site assistance at the customer s place of business generally within 3 to 12 hours, depending on the customer s location.

Yuchai s warranty obligations vary depending upon the warranty type and such provisions are determined at fiscal year end based upon historical warranty cost per unit of engines sold adjusted for specific conditions that may arise and the number of engines under warranty at each fiscal year end. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Product warranty obligations.

Trademarks

The State Holding Company owns and maintains Chinese trademark registrations of its principal trademarks. Yuchai has entered into trademark license agreements with the State Holding Company according it the right to use these trademarks at no charge. Yuchai believes that the Yuchai logo is well recognized as a quality brand in China.

Competition

The diesel engine industry in China is highly competitive. Yuchai believes it faces intense competition in the engine manufacturing industry across all of its engine platforms. The diesel engine market is fragmented and very price sensitive. Yuchai believes, based on internal studies, that competition is based primarily on performance, quality compliance with emission standards, price and after-sales service, and secondarily on noise, size and weight. Yuchai believes that its engines have a strong reputation among truck manufacturers and consumers for leading performance and reliability. In addition, Yuchai believes that its after-sales service to end-users of Yuchai engines, conducted through a nationwide network of authorized service stations and repair training centers in China, gives Yuchai a competitive advantage over other diesel engine producers.

Most of Yuchai s major China domestic competitors are either state-owned enterprises or entities controlled by state-owned enterprises. The Dongfeng Group, which is a major competitor of Yuchai and which controls one of Yuchai s largest competitors, is also one of Yuchai s major customers and controls some of Yuchai s other major customers. In 2014, sales to the Dongfeng Group accounted for 22.4% of our total revenue, of which our two largest customers, Dongfeng Liuzhou Motor Co., Ltd. and Dongfeng Commercial Vehicle Co., Ltd., accounted for 10.4% in total. Our sales to our top five customers including sales to the Dongfeng Group accounted for 36.3% of our total revenue in 2014. Some of Yuchai s competitors have formed joint ventures with, or have technology assistance arrangements with, foreign diesel engine manufacturers or engine design consulting firms, and use foreign technology that is more advanced than Yuchai s technology. Yuchai expects competition to intensify as a result of, among other things, improvements in competitors products, increased production capacity of competitors, increased utilization of unused capacity by competitors and price competition. Yuchai believes production capacity in the diesel engine industry has increased over the years which have further intensified competition. See Item 3. Key Information Risk Factors Risks relating to our company and our business Competition in China from other diesel engine manufacturers may adversely affect our financial condition, results of operations, business or prospects.

The HLGE group

As of March 9, 2015, we had a 48.9% interest in the outstanding ordinary shares of HLGE. See Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan. HLGE is listed on the Main Board of the Singapore Exchange. HLGE s share price on the Singapore Exchange closed at S$0.03 on March 9, 2015. The core businesses of the HLGE group are that of hospitality operations and property development.

The HLGE group, through its joint venture company, manages the Equatorial Hotel Shanghai and owns a Copthorne hotel in Qingdao, PRC. The HLGE group also owns a serviced apartment, Elite Residences, in Shanghai, and a Copthorne hotel in Cameron Highlands, Malaysia. In addition, the HLGE group manages, among other things, these hotels and apartment in Shanghai and Qingdao and Cameron Highlands. A more detailed description of the various hotel properties is set out below:

Equatorial Hotel Shanghai

Equatorial Hotel Shanghai is managed by a joint venture of the HLGE Group, and located in the heart of Shanghai. The property has 507 guest rooms which have all been fully refurbished and a new lounge. As described above, a share transfer agreement was entered into to dispose of HLGE s indirect shareholding interest in the joint venture company that owns Hotel Equatorial Shanghai and completion of the disposal occurred in June 2013. See Item 3. Key Information Risk Factors Risks relating to our investment in HLGE.

Copthorne Hotel Qingdao

The property is located in the commercial district of Qingdao. The property has approximately 455 guest rooms.

Elite Residences

The property comprises a 16-storey building located in downtown Shanghai. The property has 106 apartment units, meeting rooms and a business centre.

Copthorne Hotel Cameron Highlands

In July 2014, HLGE completed the acquisition by its wholly owned subsidiary, of the remaining 55% equity interest in Augustland Hotel Sdn Bhd (AHSB) that owns Copthorne Hotel Cameron Highlands. The property is a Tudor styled resort comprising self-contained low-rise and high-rise apartment suites. Each suite is equipped with a living room, a kitchenette and a balcony. The hotel tower comprises 269 guest rooms and suites.

Renovation and maintenance.

To maintain the competitiveness of its hotels, HLGE carries out renovation programs at its hotels from time to time as required.

HLGE owes debt obligations to us. For more information on our loan to HLGE and risks relating to our investment in HLGE, see Item 3. Key Information Risk Factors Risks relating to our investment in HLGE. We believe that as of December 31, 2014 the market value of HLGE s main operating assets was higher than the book value in the financial statement of HLGE.

The TCL group

As of March 9, 2015, we had a 7.7% interest in the outstanding ordinary shares of TCL. See Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan. We are currently considering our options in relation to our investment in the TCL group including disposing of our entire shareholding in TCL. TCL is listed on the Main Board of the Singapore Exchange. TCL s share price on the Singapore Exchange closed at S$0.021 on March 9, 2015. As a result of the introduction of the minimum-trading-price of S$0.20 by the Monetary Authority of Singapore and the Singapore Stock Exchange for issuers listed on the Main Board of the Singapore Exchange which took effect from March 2, 2015 as a continuing listing requirement, TCL announced on April 2, 2015 that it proposed to undertake a share consolidation exercise. This would involve the consolidation of every twenty existing ordinary shares in the share capital of TCL into one ordinary share subject to shareholders and the Singapore Stock Exchange approvals. On April 8, 2015, TCL announced that it had received in-principle approval from the Singapore Stock Exchange for the proposed share consolidation.

The TCL group invests in real estate and other investment opportunities which include property-backed financial instruments and in direct property. The TCL group s lifestyle division is engaged in the distribution of lifestyle products including beauty and health and enviro-care products in China (including Hong Kong), Southeast Asia and India.

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Organizational Structure

The following chart illustrates the organizational structure of the Company and Yuchai as of March 31, 2015 and is based on information generally known to the Company or otherwise disclosed in filings made with the SEC and the Singapore Exchange (see also Item 7. Major Shareholders and Related Party Transactions Major Shareholders). This chart depicts the Company s significant subsidiaries only.

Regulatory and Related Matters

Governance, Operation and Dissolution of Yuchai

Governance, operation and dissolution of Yuchai are governed by laws and regulations of China relating to Sino-foreign joint stock companies, as well as by Yuchai s Articles of Association. Yuchai is subject to the relevant PRC labor laws and regulations with respect to labor management, which is overseen by the Ministry of Human Resources and Social Security. In accordance with these laws and regulations, management may hire and discharge employees and make other determinations with respect to wages, welfare, insurances and employee discipline. Chinese laws and regulations applicable to a Sino-foreign joint stock company require that, before Yuchai distributes profits, it must: (i) satisfy all tax liabilities; (ii) recover losses in previous years; and (iii) make contributions to statutory reserve fund in an amount equal to at least 10% of net income for the year determined in accordance with generally accepted accounting principles in China, or PRC GAAP. However, the allocation of statutory reserve fund will not be further required once the accumulated amount of such fund reaches 50% of the registered capital of Yuchai.

Pursuant to Chinese law and Yuchai s Articles of Association, Yuchai may be dissolved upon the occurrence of certain events, including *force majeure*, severe losses, lack of supply of necessary materials or other events that render Yuchai unable to continue its operations. Upon dissolution, Yuchai will form a liquidation committee. Final dissolution is subject to government review and approval.

During 2003, we believe affiliates of the State Holding Company caused various Chinese government agencies to raise allegations of irregularities regarding the status of our ownership of land rights of control over Yuchai, which we believe was intended to try to limit our rights to exercise control over Yuchai. We further believe that such allegations were based on an inaccurate understanding of the structure of our ownership of Yuchai. We also believe that Yuchai s ownership structure has been validly approved by the relevant Chinese authorities, and that the shares of Yuchai held by our six wholly-owned subsidiaries are legally and validly held under Chinese law. We have obtained legal opinions from two Chinese law firms confirming these matters (see the reports on Form 6-K filed by the Company with the SEC on April 1, 2005). We have also taken steps to communicate to the relevant Chinese government agencies the reasons for our position with respect to these matters. We believe the July 2003 Agreement, the Reorganization Agreement, as amended, and the Cooperation Agreement, when fully implemented will resolve the issues raised by the various Chinese governmental agencies relating to our share ownership in Yuchai and the continued corporate governance and other difficulties which we have had from time to time with respect to Yuchai. Based upon the above-mentioned legal opinions, we believe that in the event of a future dispute with the Chinese stakeholders at Yuchai, we expect to pursue as appropriate legal remedies in appropriate jurisdictions to seek to enforce our legal rights as the majority shareholder with a controlling financial interest in Yuchai to protect our investment for our benefit and the benefit of our shareholders. See also Item 3. Key Information Risk Factors.

Property, Plant and Equipment

Yuchai s headquarters and primary manufacturing facilities are located in Yulin City in the Guangxi Zhuang Autonomous Region. Yuchai has the right to use approximately 2 million square meters of land, which is currently used primarily for the production of diesel engines, natural gas engines and employee housing. The principal production land area for the manufacture of diesel and natural gas engines currently occupies approximately 1.8 million square meters, including the existing production factories for all light-duty, medium-duty and heavy-duty engine models, a new natural gas testing facility, a high horse power marine diesel engine and power generation engine plant, phases 1 and 2 of a new foundry and various testing and supporting facilities. Construction of phase 3 of the foundry, consisting of a large casting foundry, is underway. In addition, Yuchai leases a number of regional sales offices in China. As of December 31, 2014, 2013 and 2012, Yuchai s total production capacity was approximately 652,500 units, 622,500 units and 622,500 units, based on a 2.5 shift five-day week at 80% utilization rate. We typically outsource approximately 10% to 20% of our annual sales requirements to third party manufacturers. Yuchai performs periodic maintenance and upgrading of production facilities. Yuchai also commits a significant portion of its annual capital expenditure for maintenance and upgrading to meet safety and production requirements. Yuchai is potentially exposed to varying environmental or natural disaster risks and could experience business interruptions, damage to its facilities and loss of life, all of which could have a material adverse effect on Yuchai s business, financial condition and results of operations. See Item 4. Information on the Company History and Development Products and Product Development Yuchai Production.

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Environmental Matters

China adopted its Environmental Protection Law in 1989, and the State Council and the Ministry of Environmental Protection promulgate regulations as required from time to time. The Environmental Protection Law addresses issues relating to environmental quality, waste disposal and emissions, including air, water and noise emissions. On August 11, 2013, the new Chinese government released a guideline titled Opinions of the State Council on Accelerating the Development of Energy-Saving and Environmental Protection Industries. According to the document, the government is upgrading the environmental sector to a key industry by 2015 and the sector is expected to grow at the rate of 15% annually. The government announced that it would fund through investments, tax breaks and direct subsidies, environmental protection industries across a range of technologies addressing air, water and soil pollution including energy saving products, electrical vehicles and pollution monitoring. On November 19, 2014, the State Council unveiled a new Energy Development Strategy Action Plan (2014-2020) focusing on the development of renewables and limiting its primary energy consumption growth rate to 3.5% per year until 2020. Premier Li Keqiang in his 2015 annual policy report acknowledged the concern over environmental pollution and stated that the Chinese government would implement an action plan to conserve energy, reduce emissions and improve the environment such as promoting the use of new-energy vehicles, improving the quality of fuel and prohibiting the use of commercial vehicles registered prior to the end of 2005.

Amendments to the 1989 Environmental Protection Law were proposed in order to achieve these aims which were passed by China s Standing Committee of the National People s Congress on April 24, 2014. The effective date of the new amendments which provide for increased fines against polluting companies, detention of negligent executives, protection for whistleblowers and penalties for officials who fail to enforce laws, is on January 1, 2015. Environmental regulations have not had a material impact on Yuchai s results of operations. Yuchai delivers, on a regular basis, burned sand and certain other waste products to a waste disposal site approved by the local government and makes payments in respect thereof. Yuchai expects that environmental standards and their enforcement in China will, as in many other countries, become more stringent over time, especially as technical advances make achievement of higher standards more feasible. Yuchai has built an air filter system to reduce the level of dust and fumes resulting from its production of diesel engines.

As of July 2013, the National IV emission standards for diesel engines was effective throughout China, and strict enforcement of the standards commenced nationwide on January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government has mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively.

Yuchai produces diesel engines compliant with National IV and V emission standards, and natural gas engines compliant with National V emission standards, and also has the ability to produce certain diesel and natural gas engines compliant with National VI emission standards, as well as develop alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. Yuchai also produces diesel engines compliant with Tier 2 emission standards and has the ability to produce diesel engines compliant with Tier 3 emission standards for use in non-road machinery. See Item 3. Key Information Risk Factors Risks relating to our company and our business We may be adversely affected by environmental regulations. We are subject to Chinese national and local environmental protection regulations which currently impose fees for the discharge of waste substances, require the payment of fines for pollution, and provide for the closure by the Chinese government of any facility that fails to comply with orders requiring us to cease or improve upon certain activities causing environmental damage. Due to the nature of our business, we produce certain amounts of waste water, gas, and solid waste materials during the course of our production. We believe our environmental protection facilities and systems are adequate for us to comply with the existing national, provincial and local environmental protection regulations. However, Chinese national, provincial or local authorities may impose additional or more stringent regulations which would require additional expenditure on environmental matters or changes in our processes or systems.

ITEM 4A. UNRESOLVED STAFF COMMENTS

As of the date of filing of this Annual Report, we have no unresolved comments from the SEC.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Annual Report. Our consolidated financial statements and the financial information discussed below have been prepared in accordance with IFRS. We adopted IFRS effective as of and for the fiscal year ended December 31, 2009 by applying IFRS 1: First Time Adoption of International Reporting Standards.

During the fiscal years ended December 31, 2012, 2013 and 2014, our main business has been our 76.4% ownership interest in Yuchai. As a result, our financial condition and results of operations have depended primarily upon Yuchai s financial condition and results of operations.

Overview

The China economy is expected to grow at a slower pace in 2015. The pace of economic growth in China slowed from 7.8% in 2012 to 7.7% in 2013 to 7.4% in 2014, according to China s National Bureau of Statistics. On March 5, 2015, at the National People s Congress in Beijing, Premier Li Keqiang in his annual policy report announced the lowering of the growth target for China in 2015 to 7%, acknowledging that China s economic development had entered a new normal.

The Chinese commercial vehicle market is a highly competitive market. The Chinese commercial vehicle market (excluding gasoline powered vehicles) recorded sales of 3.5 million units in China in 2010, as reported by CAAM. In 2011, it declined by 5.4%. This decline was due to a variety of factors including the phasing out of government incentives for car purchases, the introduction of policies to restrict automotive growth in Beijing and other major cities to curb emissions and ease traffic congestion and a slowdown in China s economy. In 2012, the market continued to be weak. Commercial vehicle sales decreased by 8.2% compared to 2011. This was due to the decrease in sales units for trucks of 10.1%, offset by the increase in sales units for buses of 7.0%. In 2013, the commercial vehicle market rebounded and sales increased by 6.6% compared to 2012. This was due to the increase in sales units for trucks by 6.9%, especially in the heavy-duty truck segment. This was partially due to the pre-buy effect ahead of the Chinese government s implementation of the National IV emission standards on July 1, 2013. In 2014, the market softened and commercial vehicle sales were 2.9 million units, declined by 10.8% compared to 2013. This was mainly due to the decline in sales units for trucks of 13.0%, offset by the increase in sales for buses of 4.2%.

The change in emission standards in China presents a growth opportunity for us. The National IV emission standards for diesel engines were implemented throughout China on July 1, 2013 and have been strictly enforced nationwide since January 1, 2015. In an effort to combat increasing air pollution, the National V emission standards for natural gas engines were implemented throughout China on January 1, 2013. In addition, the Chinese government has mandated that all new registrations in Beijing of diesel engine vehicles for use in public transit and light-duty gasoline powered engine vehicles must comply with the National V emission standards with effect from February 1, 2013 and March 1, 2013, respectively. In 2014, we recorded significant growth in the sale of our National IV engines.

In 2012, Yuchai recorded engine sales of 431,350 units which decreased by 15.6% as compared with 2011. In 2013, engine sales rebounded to 500,756 units or 16.1% increase as compared with 2012. In 2014, engine s