

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**  
(Translation of Registrant's Name

**Bermuda**  
(Jurisdiction of Incorporation or

Into English)

Organization)

**16 Raffles Quay #39-01A**

**Hong Leong Building**

**Singapore 048581**

**+65-6220-8411**

(Address and Telephone Number of Principal Executive Offices)

**Leong Kok Ho**

**Chief Financial Officer**

**16 Raffles Quay**

**#39-01A Hong Leong Building**

**Singapore 048581**

**Tel: +65 6220 8411**

**Fax: +65 6221 1172**

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

**Title of Each Class**

Common Stock, par value US\$0.10 per Share

**Name of Each Exchange on Which Registered**

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)

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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

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

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  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  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  Other

by the International Accounting Standards Board

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

(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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**Table of Contents****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 R 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 subsidiaries 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;



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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;

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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.

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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.

	2010 Rmb	2011 Rmb	Year ended December 31,		2014 Rmb	2014 US\$( <sup>1</sup> )
			2012 Rmb (in thousands)	2013 Rmb		
<b>Selected Consolidated Statement of Profit or Loss Data:</b>						
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

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	2010 Rmb	2011 Rmb	As of December 31,		2014 Rmb	2014 US\$( <sup>1</sup> )
			2012 Rmb (in thousands)	2013 Rmb		
<b>Selected Consolidated Statement of Financial Position Data:</b>						
Working capital ( <sup>2</sup> )	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

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

(<sup>1</sup>) 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.

(<sup>2</sup>) Current assets less current liabilities.

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

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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 <sup>(1)</sup> for the fiscal year /in the fiscal year (in thousands)
2010	US\$0.25 <sup>(2)</sup>	Rmb 451,775 (US\$69,213) <sup>(3)</sup>
2011	US\$1.50 <sup>(4)</sup>	Rmb 234,917 (US\$36,829) <sup>(5)</sup>
2012	US\$0.90 <sup>(6)</sup>	Rmb 234,923 <sup>(7)</sup>
2013	US\$0.90 <sup>(8) (9)</sup>	Rmb 343,349 (US\$54,999) <sup>(10)</sup>
2014	US\$1.20 <sup>(11)</sup>	Rmb 325,278 <sup>(12)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

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

<sup>(4)</sup> 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.

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

<sup>(6)</sup> 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.

<sup>(7)</sup> 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.

<sup>(8)</sup> 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.

<sup>(9)</sup>

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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.

<sup>(10)</sup> 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.

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- (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:

Period	Noon Buying Rate <sup>(1)</sup>	
	(Rmb per US\$1.00)	
	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

Period	Noon Buying Rate <sup>(1)</sup>			
	(Rmb per US\$1.00)			
	Period End	Average <sup>(2)</sup>	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 18<sup>th</sup> 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.



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***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.

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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.

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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 Jiushi 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

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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.

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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.

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**Table of Contents*****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.





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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.

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***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 be 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.



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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.



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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

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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.

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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.

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### **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.



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- (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***

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YC6G National III and IV compliant 7.8L, 6-cylinder, 147-199KW, 2000-2200rpm diesel engine uses DELPHI electronic controlled high-pressure 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.

**Table of Contents****(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.

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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.



**Table of Contents***(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	% of	Unit	Revenue	% of	Unit	Revenue	% of	Unit
	Rmb 000	Revenue	Sold	Rmb 000	Revenue	Sold	Rmb 000	Revenue	Sold
Light-duty engines <sup>(1)</sup>	4,612,129	34.4%	250,776	5,419,105	34.1%	296,266	6,060,017	37.0%	303,557
Medium-duty engines <sup>(2)</sup>	3,947,404	29.4%	131,895	4,063,843	25.6%	136,118	3,911,911	23.9%	117,095
Heavy-duty engines <sup>(2)</sup>	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 <sup>(3)</sup>	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

<sup>(1)</sup> Includes passenger car engines.

<sup>(2)</sup> Includes natural gas engines.

<sup>(3)</sup> 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

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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 <sup>(1)</sup>	186,259	56.0%	231,718	57.1%	232,980	60.6%
Medium-duty engines <sup>(2)</sup>	97,900	29.5%	103,090	25.4%	88,591	23.1%
Heavy-duty engines <sup>(2)</sup>	48,228	14.5%	71,129	17.5%	62,681	16.3%
Other products <sup>(3)</sup>	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 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.

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### **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	% of	Unit	Revenue	% of	Unit	Revenue	% of	Unit
	Rmb '000	Revenue	Sales	Rmb '000	Revenue	Sales	Rmb '000	Revenue	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.



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### **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 to 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.

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### *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.

**Table of Contents****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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**Table of Contents****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.

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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.

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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 sales declined by 3.4% to 483,825 units. The decrease was lower than the Chinese commercial vehicle market decline of 10.8%, which was offset by the improved sales in agriculture applications. In 2012, our revenue was Rmb 13.4 billion. In 2013, our revenue increased by 18.2% to Rmb 15.9 billion. This corresponds with the Chinese commercial vehicle market rebound and sales of higher emission standard engines. In 2014, our revenue increased by 3.4% to Rmb 16.4 billion (US\$2.7 billion) despite the drop in our sales units. This was due to higher sales of engines of higher emission standard such as National IV engines. The higher emission standard engines have a higher average sales price.

Our light-duty engine sales, as a percentage of total sales units, increased from 58.1% to 59.2% to 62.7% in 2012, 2013 and 2014, respectively. This change in sales mix and the market competition caused our gross margin to decrease from 21.4% to 20.5% and to 20.0% in 2012, 2013 and 2014, respectively.

As a result, our profit attributable to equity holders were Rmb 567.3 million, Rmb 700.4 million and Rmb 730.3 million (US\$118.6 million) for 2012, 2013 and 2014, respectively.

Uncertainty and adverse changes in the global and Chinese economies could 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. Additionally, any changes in tax legislation in China or adverse findings from the tax authorities could have a material impact on the consolidated financial conditions or results of operations. Our main operating subsidiary, Yuchai, enjoys a preferential corporate tax rate of 15%. See Item 10. Additional Information- Taxation for further details. In the event Yuchai fails to enjoy this preferential tax rate, it will be subject to corporate tax of 25%.



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**Business Expansion and Diversification Plan**

Following the implementation of our business expansion and diversification plan as approved by our Board of Directors in 2005, we looked for new business opportunities to reduce our financial dependence on Yuchai and invested in the following companies:

**Thakral Corporation Ltd**

The first step in implementing this plan occurred in March 2005 when through our wholly-owned subsidiary, Venture Delta, we acquired a 15.0% equity interest in TCL. As of December 2009, our equity interest in TCL was 34.4%

We reduced our equity interest in TCL to 12.2% as of December 31, 2011 and 2012, and further reduced it to 7.7% as of December 31, 2013. As of December 31, 2014 and March 9, 2015, our equity interest in TCL remained at 7.7%, and the market value of our investment in TCL amounted to approximately S\$4.9 million (US\$3.5 million) and S\$4.3 million (US\$3.1 million), respectively.

**HL Global Enterprises Limited**

The second step in the implementation of our business expansion and diversification plan occurred in February 2006 when through our wholly-owned subsidiaries, Grace Star and Venture Lewis, we acquired a 29.1% equity interest in HLGE and certain convertible preference and debt securities for an aggregate consideration of approximately S\$132.0 million. As of December 31, 2014, our equity interest in HLGE was 48.9%. As of March 9, 2015, our equity interest in HLGE remained unchanged. On February 11, 2015, we entered into a loan agreement with HLGE extending the loan of S\$68.0 million for another year from July 2015 to July 2016.

See Item 3. Key Information Risk Factors Risks relating to our investment in HLGE The HLGE Group may be unable to continue as a going concern or raise sufficient funds to repay its debt obligations to us.

**Critical Accounting Policies**

The accounting policies adopted by us are more fully described in Note 2 of our consolidated financial statements appearing elsewhere herein. The preparation of financial statements in accordance with IFRS requires our management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of our assets and liabilities, disclosures of contingent liabilities and the reported amounts of revenues and expenses.

Certain of our accounting policies are particularly important to the portrayal of our financial position and results of operations and require the application of significant assumptions and estimates by our management. We refer to these accounting policies as our critical accounting policies. Our management uses our historical experience and analyses, the terms of existing contracts, historical cost convention, industry trends, information provided by our agents and information available from other outside sources, as appropriate, when forming our assumptions and estimates. However, this task is inexact because our management is making assumptions and providing estimates on matters that are inherently uncertain. On an ongoing basis, management evaluates its estimates. Actual results may differ from those estimates under different assumptions and conditions.

While we believe that all aspects of our consolidated financial statements should be studied and understood in assessing our current expected financial condition and results, we believe that the following critical accounting policies involve a higher degree of estimation and therefore warrant additional attention:

allowances for doubtful accounts;

realization of the carrying value of inventories;

product warranty obligations;

recoverability of the carrying values of equity method investments and other investments;

realization of deferred tax;

impairment of long-lived assets, including goodwill and intangible assets;

determination of fair values of financial assets and liabilities;

de-recognition of bills receivable;

share-based payment;

useful lives of plant and machinery; and

estimation of fair value in business acquisitions.

**Table of Contents****Allowances for doubtful accounts**

Allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Management determines the allowance based on assessment of the recoverability of accounts receivable. Allowances are applied to accounts receivable where events or changes in circumstances indicate that the balances may not be collectible. Judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness, past collection history of each customer and on-going dealings with them. Management reviews its allowance for doubtful accounts on a monthly basis. As of December 31, 2014, the Dongfeng Group accounted for about 42.3% of the gross accounts receivable as compared to approximately 32.4% as of December 31, 2013. Likewise, the top 20 non-Dongfeng Group customers accounted for about 14.4% of the gross accounts receivable at the end of 2014. We analyzed our customer's trends, repayment patterns and ageing analysis in 2014. The balances that were past due over 90 days and over a specified amount are reviewed individually for collectability. All other balances are reviewed on a pooled basis by aging of such balances. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Changes in the allowances for doubtful accounts for each of the years in the two-year period ended December 31, 2014 are summarized as follows:

	2013	December 31, 2014	2014
	Rmb	Rmb	US\$
	(in thousands)		
Balance at beginning of year	43,664	28,533	4,635
Credit to consolidated statements of profit or loss	(12,669)	(2,361)	(384)
Written off	(2,454)	(4,552)	(739)
Acquisition of subsidiaries		312	51
Translation differences	(8)	(5)	(1)
Balance at end of year	28,533	21,927	3,562

While trade accounts decreased by Rmb 23.6 million (US\$3.8 million) as of December 31, 2014 as compared to 2013, allowance for doubtful accounts decreased by Rmb 6.6 million (US\$1.1 million). Bills receivable increased by Rmb 692.2 million (US\$112.4 million) as of December 31, 2014 as compared to 2013 due to reduced discounting activities in 2014.

We believe that the present level of our allowance for doubtful accounts adequately reflects probable losses related to impaired accounts receivable. However, changes in the assumptions used to assess the frequency and severity of doubtful accounts would have an impact on our allowance. If economic or specific industry trends change, we would adjust our allowance for doubtful accounts by recording additional expense or benefit.

**Realization of the carrying value of inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

If market conditions or future product enhancements and developments change, the net realizable values of the inventories may change and result in further inventory write-downs.

**Product warranty obligations**

We recognize a liability at the time the engine is sold, for the estimated future costs to be incurred under the lower of a warranty period or warranty mileage on various engine models, on which we provide free repair and replacement. Warranties extend for a duration (generally 12 months to 36 months) or mileage (generally 50,000 kilometers to 300,000 kilometers), whichever is lower. Provisions for warranty are primarily determined based on 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. Warranty claim may differ from the provision made. If the nature, frequency and average cost of warranty claims change, the accrued liability for product warranty will be adjusted accordingly.

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Changes in the accrued product warranty liability for each of the years in the two-year period ended December 31, 2014 are summarized as follows:

	2013 Rmb	December 31, 2014 Rmb (in thousands)	2014 US\$
Balance at beginning of year	268,006	305,938	49,696
Provision made	385,881	394,940	64,152
Less: Provision utilized	(347,949)	(402,326)	(65,353)
Balance at end of year	305,938	298,552	48,495

We recognize a liability for warranty at the time the product is sold and our estimate of our warranty obligations is evaluated on an annual basis. If the nature, frequency and average cost of warranty claims change, we would adjust our allowances for product warranty by recording additional expense or benefit so as to seek to ensure that accruals will be adequate to meet expected future obligations. A decrease or increase of 5.0% in historical utilization experience over the last two fiscal years average would impact the provision for product warranty by approximately Rmb 18.8 million (US\$3.0 million).

**Recoverability of the carrying values of equity method investments and other investments**

We assess impairment of our investments in affiliates when adverse events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the value of our investment is below its carrying amount and that loss in value is considered other than temporary, an impairment charge is recognized. We typically perform evaluation of the value of our investment using a discounted cash flows projection. The projection will be performed using historical trends as a reference and certain assumptions to project the future streams of cash flows.

In 2013, we performed impairment evaluation of our investments. As a result, we recognized impairment losses for our investments in Yuchai Remanufacturing Services (Suzhou) Co., Ltd. amounting to Rmb 10.4 million and Cophorne Hotel Qingdao Co., Ltd., an investment of HLGE, amounting to Rmb 21.9 million.

In the event when an investment in affiliates is designated for disposal, it will be reclassified to asset held for sale.

**Realization of deferred tax**

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The China tax bureau periodically conducts tax examinations. Our last tax examination was conducted in 2011, when the provincial tax bureau completed an examination of Yuchai's PRC income tax returns for 2006 through to 2010. The tax bureau did not propose any adjustment to Yuchai's tax positions, and no surcharge or penalty was imposed.

Any changes in tax legislations in China or adverse findings from the tax examination could have a material impact on our consolidated financial conditions or results of operations.

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**Table of Contents****Impairment of long-lived assets, including goodwill and intangible assets**

Long-lived assets to be held and used, such as property, plant and equipment and construction in progress goodwill and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any indication exists, or when annual impairment testing for an asset is required, we estimate the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset, if the carrying value is not recoverable from the expected future cash flows. Fair value is the price that would be received to sell the asset on the measurement date in an orderly transaction between market participants in the principal or most advantageous market for the asset. Assets to be disposed off would be separately presented in the consolidated statement of financial position and reported at the lower of the carrying amount or fair value less costs of disposal, and are no longer depreciated.

The carrying amounts of property, plant and equipment as of December 31, 2012, 2013 and 2014 are Rmb 4,016.6 million, Rmb 4,036.2 million and Rmb 4,460.8 million (US\$724.6 million), respectively. We periodically conduct an impairment review on the conditions of our property, plant and equipment. In 2014, an impairment charge of Rmb 10.4 million (US\$1.7 million) (2013: Rmb 9.2 million; 2012: Rmb 8.0 million) was recorded to our consolidated statement of profit or loss under cost of sales, selling, general and administrative expenses for our property, plant and equipment. The impairment charges for 2012, 2013 and 2014 were due to assets that were not in use.

The carrying amounts of intangible assets as of December 31, 2012, 2013 and 2014 are Rmb 135.4 million, Rmb 145.3 million and Rmb 108.5 million (US\$17.6 million), respectively. We periodically conduct an impairment review on the conditions of our intangible assets. In 2014, an impairment charge of Rmb 60.0 million (US\$9.7 million) (2013: Nil; 2012: Nil) was recorded to our consolidated statement of profit or loss under selling, general and administrative expenses. The impairment was related to technology development costs held by Jining Yuchai. See Note 14 to the accompanying consolidated financial statements in Item 18.

The carrying amounts of goodwill as of December 31, 2012, 2013 and 2014 are Rmb 212.6 million, Rmb 212.6 million and Rmb 212.6 million (US\$34.5 million), respectively. We periodically conduct an impairment review on the goodwill. No impairment was made for 2012, 2013 and 2014.

Our market capitalization as of December 31, 2012, 2013 and 2014 based on our closing share price was lower than our consolidated net assets. We performed our annual goodwill impairment tests as of December 31, 2012, 2013 and 2014, respectively, and did not incur any impairment charge. We will continue to monitor the relationship of fair value to the recorded value of our consolidated net assets as economic events and changes to our stock price occur, and we may perform interim impairment tests in the future. If future results are not consistent with our assumptions and estimates and there continues to be decline in our market capitalization, we may be required to record impairment charges at a later date, which could materially and adversely affect our financial results.

**Determination of fair values of financial assets and liabilities**

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 34 to the accompanying consolidated financial statements in Item 18.

**De-recognition of bills receivable**

We sell bills receivable to banks on an ongoing basis. The buyer is responsible for servicing the receivables upon maturity of the bills receivable. This involves management assumptions relating to the transfer of risks and rewards of the bills receivable when discounted. At the time of sale of the bills receivable to the banks, the risks and rewards relating to the bills receivable are substantially transferred to the banks. Accordingly, bills receivable are de-recognized, and a discount equal to the difference between the carrying value of the bills receivable and cash received is recorded. Please refer to Note 19 to the accompanying consolidated financial statements in Item 18.

**Share-based payment**

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The China Yuchai International Limited 2014 Equity Incentive Plan was approved and adopted by the Company on May 10, 2014, and became effective upon approval by the Company's shareholders on July 4, 2014. The Plan permits the grant of share options, restricted stock and stock payments to employees of the Company or its subsidiaries, and will terminate on May 9, 2024 unless earlier terminated. In fiscal year 2014, we issued 570,000 options under the Equity Incentive Plan to certain of our executive officers and Yuchai's employees. See Item 6. Directors, Senior Management and Employees Compensation China Yuchai International Limited 2014 Equity Incentive Plan for more details.



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We measure the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 26 to the accompanying consolidated financial statements in Item 18.

**Useful lives of plant and machinery**

The costs of plant and machinery of the Group are depreciated on a straight-line basis over the useful lives of the plant and machinery. Management estimates the useful lives of the plant and machinery to be within 3 to 20 years. These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of the plant and machinery, therefore future depreciation charges could be revised. The carrying amount of the Group's plant and machinery as of December 31, 2014 is disclosed in Note 11 to the accompanying consolidated financial statements in Item 18. A 5% decrease in the expected useful life of the plant and machinery from management's estimate would decrease the Group's profit before tax approximately Rmb 17.0 million (US\$2.8 million) (2013: Rmb 15.6 million).

**Estimation of fair value in business acquisitions**

The fair value of assets and liabilities identified during acquisition is based on management's assessment of fair values. No contingent liability or material intangible assets were identified and recognized. Fair value is the estimated amount for which these assets and liabilities could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction. The process of estimating fair value involves significant judgment and estimation. The fair values of the acquired assets are disclosed in Note 4 to the accompanying consolidated financial statements in Item 18.

**Results of Operations**

The following table sets forth our consolidated statement of operations as a percentage of our revenue for the last three fiscal years ended December 31, 2012, 2013 and 2014:

	Percentage of Revenue		
	Year Ended December 31,		
	2012	2013	2014
Revenue	100.0%	100.0%	100.0%
Cost of sales	-78.6%	-79.5%	-80.0%
Gross profit	21.4%	20.5%	20.0%
Other income, net	1.0%	1.0%	0.6%
Research and development costs	-2.8%	-2.9%	-3.0%
Selling, distribution and administrative costs	-11.0%	-9.8%	-9.7%
Operating profit	8.6%	8.8%	7.9%
Finance costs	-1.6%	-1.0%	-1.0%
Share of profit of associates	0.0%	0.0%	0.0%
Share of results of joint ventures	-0.2%	-0.5%	-0.2%
Gains arising from acquisitions			0.6%
Profit before tax	6.8%	7.3%	7.3%
Income tax expense	-1.1%	-1.4%	-1.1%
Profit for the year	5.7%	5.9%	6.2%
Attributable to:			
Equity holders of the Parent	4.2%	4.4%	4.4%
Non-controlling interests	1.5%	1.5%	1.8%

**2014 compared to 2013**

Revenue for 2014 was Rmb 16,436.1 million (US\$2,669.8 million) compared with Rmb 15,902.4 million in 2013, an increase of 3.4%. The total number of diesel engines sold by Yuchai during 2014 was 483,825 units compared with 500,756 units in 2013, representing a decrease of 16,931

units, or 3.4%. Revenue increased despite a decrease in total engine units sold primarily due to higher sales of National IV emission standard engines in 2014. The higher emission standard engines such as National IV engines have a higher average selling price than lower emission standard engines. The decline in units sold was consistent with the general market trend. In 2014, the commercial vehicle market in China declined compared to 2013, especially in the truck segment. CAAM reported that commercial vehicle engine sales (excluding gasoline-powered vehicles) had declined by 10.8% in 2014 compared to 2013. The truck market declined in 2014 because of the strict enforcement of National IV emission standards beginning on January 1, 2015, which created a strong pre-buying effect in the preceding year ending December 31, 2013.

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Cost of sales was Rmb 13,145.2 million (US\$2,135.2 million) in 2014, an increase of 4.0% from Rmb 12,637.5 million in 2013, and an increase of 0.5 percentage points as a percentage of revenue to 80.0% from 79.5% in 2013, in line with the growth in our revenue. The increase in cost of sales is largely attributed to the increased quantity of National IV emission standard engines sold in 2014 with higher cost of sales compared to lower emission standard engines. Cost of materials consumed was Rmb 11,781.0 million (US\$1,913.6 million) in 2014, an increase of 4.4% from Rmb 11,283.3 million in 2013. This was 71.7% of revenue compared with 71.0% in 2013. Factory overheads (which do not include depreciation and direct labor) were Rmb 693.5 million (US\$112.6 million) in 2014, an increase of 2.9% from Rmb 673.6 million in 2013. Factory overheads were 4.2% of revenue in 2014 and 2013. Depreciation and amortization was Rmb 299.8 million (US\$48.7 million) in 2014, an increase of 6.4% from Rmb 281.7 million in 2013. This was 1.8% of revenue in 2014 and 2013.

Gross profit was Rmb 3,291.0 million (US\$534.6 million) compared with Rmb 3,264.9 million in 2013, reflecting a 0.8% increase. Gross profit margin was 20.0% in 2014 compared with 20.5% in 2013. The lower gross margin was attributable to change in the sales mix to higher engine sales for light-duty engines that are lower margin products compared to heavy-duty engines, and a more competitive commercial vehicle market.

Other income, net was Rmb 94.9 million (US\$15.4 million) compared with Rmb 156.4 million in 2013. This decrease was mainly due to lower interest income from bank deposits and a decrease in government grant. The main sources of other income in 2014 were (i) interest income of Rmb 45.8 million (US\$7.4 million) and (ii) government grant income of Rmb 26.2 million (US\$4.2 million).

Research and development ( R&D ) expenses were Rmb 494.6 million (US\$80.3 million) in 2014 compared to Rmb 468.6 million in 2013, an increase of Rmb 26.0 million or 5.5%. As a percentage of revenue, R&D spending was 3.0% in 2014 compared with 2.9% in 2013. In 2014, R&D expenses were mainly related to ongoing research and development of new and existing engine products, especially for the natural gas engine, as well as continued initiatives to improve engine quality. See Item 4. Information On The Company Research and Development.

Selling, general and administrative ( SG&A ) expenses were Rmb 1,598.7 million (US\$259.7 million) compared to Rmb 1,550.2 million in 2013, an increase of Rmb 48.5 million or 3.1%. SG&A expenses represented 9.7% and 9.8% of revenue in 2014 and 2013, respectively. Warranty expenses were Rmb 394.9 million (US\$64.2 million) in 2014 compared to Rmb 385.9 million in 2013. These were 2.4% of revenue, for 2014 and 2013. Advertising expenses were Rmb 40.0 million (US\$6.5 million) in 2014 compared to Rmb 47.6 million in 2013. As a percentage of revenue, these were 0.2% and 0.3% for 2014 and 2013, respectively.

As a result, operating profit decreased 7.8% to Rmb 1,292.6 million (US\$210.0 million) from Rmb 1,402.4 million in 2013, mainly due to lower other income, and higher expenses for SG&A and R&D, which was partially offset by an increase in gross profit. The operating margin was 7.9% for 2014, compared with 8.8% in 2013.

Finance costs declined to Rmb 156.7 million (US\$25.4 million) from Rmb 161.2 million in 2013, a decrease of Rmb 4.5 million or 2.8%. The decline in finance costs was mainly due to lower interest expenses from the outstanding medium-term notes and less bills discounting in 2014 compared to the outstanding short and medium-term notes and bills discounting expenses in 2013.

The gains arising from acquisitions were Rmb 95.2 million (US\$15.5 million). This was due to Yuchai increasing its shareholding interest in Yuchai Remanufacturing Services (Suzhou) Co., Ltd., a formerly jointly controlled entity, from 51% to 100% which resulted in a fair value gain and negative goodwill of Rmb 64.8 million. The remaining gain was due to HLGE increasing its shareholding interest in a jointly controlled entity involved in the hotel business, from 45% to 100%.

The share of joint ventures was a loss of Rmb 30.7 million (US\$5.0 million) as compared with a loss of Rmb 79.2 million in 2013. The loss decreased by Rmb 48.5 million, which was mainly due to reduction of the loss in the joint ventures of Yuchai. In 2013, there were impairments of investment in joint ventures of our subsidiaries of Rmb 32.3 million, related to a joint venture in remanufacturing service and a joint venture hotel in Qingdao owned by our subsidiary, HLGE.

Profit before tax was Rmb 1,201.4 million (US\$195.1 million) in 2014 compared with Rmb 1,162.1 million in 2013.

Income tax expense in 2014 was Rmb 179.6 million (US\$29.2 million) compared with Rmb 222.1 million in 2013. Our effective tax rates were 15.0% and 19.1%, for 2014 and 2013, respectively.

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As a result of the foregoing factors, profit for the year was Rmb 1,021.7 million (US\$166.0 million) in 2014 compared with Rmb 940.0 million in 2013, representing an increase of 8.7%.

Profit attributable to us was Rmb 730.3 million (US\$118.6 million) in 2014 compared with Rmb 700.4 million in 2013, representing an increase of 4.3%. Profit attributable to non-controlling interests was Rmb 291.5 million (US\$47.3 million) compared with Rmb 239.5 million in 2013, representing an increase of 21.7%.

**2013 compared to 2012**

Revenue for 2013 was Rmb 15,902.4 million compared with Rmb 13,449.5 million in 2012, an increase of 18.2%. The total number of diesel engines sold by Yuchai during 2013 was 500,756 units compared with 431,350 units in 2012, representing an increase of 69,406 units, or 16.1%. This increase was mainly attributable to an increase in sales of engines to the truck and bus market as well as for agriculture applications. In 2013, the commercial vehicle market in China improved compared to 2012, especially in the heavy-duty truck segment. CAAM reported that diesel power commercial vehicle engine sales had increased by 5.6% in 2013 compared to 2012. The pre-buying of commercial vehicles prior to the implementation of National IV emission standards on July 1, 2013 and the uneven enforcement of these standards after July 1, 2013 was a main contributor to increased sales in 2013.

Cost of sales was Rmb 12,637.5 million in 2013, an increase of 19.6% from Rmb 10,569.6 million in 2012, and an increase of 0.9 percentage points as a percentage of revenue to 79.5% from 78.6% in 2012, in line with the growth in our revenue. Cost of materials consumed was Rmb 11,283.3 million in 2013, an increase of 19.1% from Rmb 9,477.8 million in 2012. This was 71.0% of revenue compared with 70.5% in 2012. Factory overheads (which do not include depreciation and direct labor) were Rmb 673.6 million in 2013, an increase of 27.4% from Rmb 528.9 million in 2012. This was 4.2% of revenue compared with 3.9% in 2012. Depreciation and amortization was Rmb 281.7 million in 2013, an increase of 10.7% from Rmb 254.5 million in 2012. This was 1.8% of revenue compared with 1.9% in 2012.

Gross profit was Rmb 3,264.9 million compared with Rmb 2,879.9 million in 2012, reflecting a 13.4% increase. Gross profit margin was 20.5% compared with 21.4% in 2012. The lower gross margin was attributable to higher sales discounts in 2013 due to higher sales volume. We negotiate with the customers on the sales discount arrangement so as to obtain better payment terms and to encourage sales. It was also partially due to shift in sales mix to more agriculture applications with lower gross profit margin.

Other income, net was Rmb 156.4 million compared with Rmb 132.4 million in 2012. This increase was mainly due to higher income from government grant. The main sources of other income in 2013 were (i) interest income of Rmb 78.9 million and (ii) government grant income of Rmb 51.0 million.

Research and development ( R&D ) expenses were Rmb 468.6 million in 2013 compared to Rmb 373.7 million in 2012, an increase of 25.4%. As a percentage of revenue, R&D spending was 2.9% in 2013 compared with 2.8% in 2012. In 2013, R&D expenses were mainly related to the development of a complete suite of gas engines for both on-road and off-road applications, and the development of products compliant with Tier 3 emission standards for construction and industrial applications.

Selling, general and administrative ( SG&A ) expenses were Rmb 1,550.2 million, up from Rmb 1,475.0 million in 2012, an increase of Rmb 75.2 million or 5.1%. SG&A expenses represented 9.8% of revenue in 2013 compared with 11.0% in 2012. The decrease in SG&A percentage was mainly due to higher sales and better cost management. Warranty expenses were Rmb 385.9 million in 2013 compared to Rmb 322.4 million in 2012. These were 2.4% of revenue, for 2013 and 2012. Advertising expenses were Rmb 47.6 million in 2013 compared to Rmb 43.4 million in 2012. As a percentage of revenue, these were 0.3% for 2013 and 2012.

As a result, operating profit increased 20.5% to Rmb 1,402.4 million from Rmb 1,163.5 million in 2012, mainly due to an increase in gross profit partially offset by higher R&D and SG&A expenses. The operating margin was 8.8% for 2013, compared with 8.6% in 2012.

Finance costs declined to Rmb 161.2 million from Rmb 213.0 million in 2012, a decrease of Rmb 51.8 million or 24.3%. The decline in finance costs was mainly due to lower interest costs as a result of lower interest rate and lower amount of borrowings and less bills discounting in 2013.

The share of joint ventures was a loss of Rmb 79.2 million as compared with a loss of Rmb 39.2 million in 2012. This was mainly due to impairments of investment in joint ventures of our subsidiaries of Rmb 32.3 million. These impairments were related to a joint venture in remanufacturing service and a joint venture hotel in Qingdao owned by our subsidiary, HLGE.

Profit before tax was Rmb 1,162.1 million in 2013 compared with Rmb 913.6 million in 2012.

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Income tax expense in 2013 was Rmb 222.1 million compared with Rmb 142.2 million in 2012. Our effective tax rates were 19.1% and 15.6%, for 2013 and 2012, respectively.

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As a result of the foregoing factors, profit for the year was Rmb 940.0 million in 2013 compared with Rmb 771.3 million in 2012, representing an increase of 21.9%.

Profit attributable to us was Rmb 700.4 million in 2013 compared with Rmb 567.3 million in 2012, representing an increase of 23.5%. Profit attributable to non-controlling interests was Rmb 239.5 million compared with Rmb 204.0 million in 2012, representing an increase of 17.4%.

### **Inflation**

The general annual inflation rate in China was 2.6% in 2013 dropping to 2% in 2014 according to the National Bureau of Statistics. Our results of operations may be affected by inflation, particularly rising prices for parts and components, labor costs, raw materials and other operating costs. 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. 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 to our customers and this may adversely affect our profitability or cause us to suffer operating losses.

### **Seasonality**

Yuchai's results of operations in the first and second quarters of recent calendar years have generally been marginally higher than in the third and fourth quarters of the corresponding year, due to slightly better production and sales performance in the first half compared to the second half of such calendar years. However, any change in economic or market conditions may affect this pattern as it has occurred in the past. As a result, cash generated from operations may also be subject to some seasonal variation. See also Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

### **Liquidity and Capital Resources**

Our primary sources of cash are funds from operations generated by Yuchai, as well as debt financing obtained by us. Our revenues are substantially generated by Yuchai and its subsidiaries, our Chinese operating companies, and are denominated in Renminbi. The Renminbi is currently freely convertible under the current account which includes dividends, trade and service related foreign exchange transactions; however, it is not currently freely convertible under the capital account which includes, among other things, foreign direct investment and overseas borrowings by Chinese entities. Some of the conversions between Renminbi and foreign currency under the capital account are subject to the prior approval of the State Administration for Foreign Exchange. As a result, there is no material restriction on the ability of the Chinese subsidiaries to transfer funds to Yuchai. However, certain funds transfers from Yuchai to us may be subject to the approval of the State Administration for Foreign Exchange.

Our primary cash requirements are for working capital, capital expenditures to complete the expansion of production capacity, dividend payments and other operational requirements. We believe that our sources of liquidity are sufficient for our operational requirements over the next twelve months from the date of this Annual Report. However, under the current market conditions there can be no assurance that our business activity will be maintained at the expected level to generate the anticipated cash flows from operating activities. If the current market conditions deteriorate, we may experience a decrease in demand for our products, resulting in our cash flows from operating activities being lower than anticipated. If our cash flows from operations are lower than anticipated, we may need to obtain additional financing which may not be available on favorable terms, or at all. Other factors which may affect our ability to generate funds from operations include increased competition, fluctuations in customer demand for our products, our ability to collect and control our level of accounts receivable, the status of our investment in Yuchai under Chinese law and the implementation of the Reorganization Agreement and the Cooperation Agreement. See Item 4. Information on the Company History and Development Reorganization Agreement. Our cash and cash equivalents are held in accounts managed by third party financial institutions. While we monitor the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subjected to other adverse conditions in the financial markets. As of the date of this filing, we have experienced no loss or lack of access to cash in our operating accounts.

As of December 31, 2014, we had approximately Rmb 2,509.0 (US\$407.6 million) in cash and bank balances on a consolidated basis. We believe that if we are considered on a stand-alone basis without our investment in Yuchai, we would find it difficult to raise new capital (either debt or equity) on our own.

We expect that cash generated from operations should provide us with sufficient financial flexibility to satisfy future bank obligations, capital expenditures and projected working capital requirements. However, at certain times, cash generated from operations is subject to seasonal

fluctuations. As our business continues to grow, we will also require additional funds for increased working capital requirements and to finance increased trade accounts receivable. We expect to fund our working capital and trade accounts receivable requirements primarily from funds from operations generated by Yuchai and, to the extent that is insufficient, from bank borrowings, issuance of short-term financing bonds ( STFBs ), discounting of bills receivable, accounts receivable factoring or other financing activities by Yuchai and us. Yuchai has established banking relationships with a number of domestic Chinese banks, each of which will review Yuchai's loan applications on a case-by-case basis. In addition, we have obtained credit facilities from certain banks in Singapore.

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As of December 31, 2014, we had outstanding borrowings of Rmb 2,286.7 million (US\$371.4 million), including Yuchai's borrowings of Rmb 2,218.4 million (US\$360.3 million).

The securities issued by Yuchai since 2012 are as follow:

On August 28, 2012 we announced that Yuchai had received approval from NAFMII for the issuance of RMB-denominated unsecured STFBs amounting to Rmb 1 billion. The bonds were issued on August 28, 2012 and matured on August 29, 2013. The bonds bore a fixed annual interest rate of 4.45%, and all the proceeds from the issuance of the bonds were used by Yuchai as working capital.

On May 28, 2013, upon the receipt of approval from its board of directors, shareholders and NAFMII to issue medium-term notes ( MTNs ) amounting to Rmb 1.6 billion with a term of three years, Yuchai issued the first tranche of the MTNs amounting to Rmb 1 billion. The MTNs bear a fixed annual interest rate of 4.69% will mature on May 30, 2016. All the proceeds from the issuance of the MTNs are to be used by Yuchai as working capital.

On April 8, 2015, upon the receipt of approval from its board of directors, shareholders and NAFMII to issue ultra short-term bonds ( USTB ) amounting to RMB 2 billion with a term not exceeding 270 days, Yuchai issued the first tranche of the USTB amounting to Rmb 400 million. The first tranche of the USTBs bear a fixed annual interest rate of 4.9% and will mature on May 9, 2015. All the proceeds from the issuance of the USTBs are to be used by Yuchai as working capital and repayment of loans.

In addition, we have other credit facilities granted by banks in Singapore as follows:

On March 30, 2007, we entered into an unsecured multi-currency revolving credit facility agreement with Sumitomo Mitsui Banking Corporation, Singapore Branch for an aggregate of US\$40.0 million to refinance the S\$60.0 million facility from another bank that matured on July 26, 2007. The facility was for a period of three years from the date of the facility agreement and was utilized by us to finance our long-term general working capital requirements. The terms of the facility required, among other things, that Hong Leong Asia retained ownership of the special share and that we remained a principal subsidiary (as defined in the facility agreement) of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) as at June 30 and December 31 of each year not being less than US\$120 million and the ratio of our total net debt (as defined in the agreement) to tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. As of June 12, 2007, we had fully drawn down on the US\$40.0 million facility. On March 25, 2010, we entered into a supplemental agreement with the bank to refinance the existing US\$40.0 million credit facility that matured on March 30, 2010. The new unsecured, multi-currency revolving credit facility had a committed aggregate value of US\$30.0 million and was for a one-year duration. The financial covenant with respect to our consolidated tangible net worth as at June 30 and December 31 of each year was revised from not less than US\$120 million to not less than US\$200 million, but the other terms remained similar. On March 18, 2011, we entered into an agreement on similar terms with the bank to refinance the existing US\$30.0 million credit facility that matured on March 25, 2011. This unsecured multi-currency revolving credit facility has a committed aggregate value of US\$30.0 million and is for a three-year duration. On March 12, 2014, we entered into a supplemental agreement with the bank to renew the existing US\$30.0 million facility that matured on March 18, 2014. The new unsecured multi-currency revolving credit facility has a committed aggregate value of US\$30.0 million and is for a three-year duration. The terms and conditions of this facility remained similar to the facility agreement dated March 18, 2011.

On March 20, 2008, we entered into a facility agreement with the Bank of Tokyo Mitsubishi UFJ, Ltd., Singapore Branch, to refinance the existing US\$25.0 million credit facility which matured on March 20, 2009. The unsecured, multi-currency revolving credit facility had a committed aggregate value of S\$21.5 million with one-year duration. The facility was used to finance our long-term general working capital requirements. Among other things, the terms of the facility required that Hong Leong Asia retains ownership of the special share and that we remained a consolidated subsidiary of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) as at June 30 and December 31 of each year, not being less than US\$120 million, and the ratio of our total net debt (as defined in the agreement) to tangible net worth as at June 30 and December 31 of each year not exceeding 2.0 times, as well as negative pledge provisions and customary drawdown requirements. On March 19, 2009, we refinanced the existing revolving credit facility that matured on March 20, 2009 by entering into a new credit facility agreement with the



bank for a committed aggregate value of S\$16.5 million with one-year duration. On March 17, 2010, we entered into a one-year facility agreement with the bank on similar terms to refinance the existing S\$16.5 million credit facility that matured on March 19, 2010. On March 11, 2011 we entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility that matured on March 18, 2011. The new unsecured multi-currency revolving credit facility has a committed aggregate value of S\$30.0 million and is for a three-year duration. On March 13, 2014, we entered into a new agreement with the bank on similar terms to refinance the existing revolving credit facility that matured on March 18, 2014. The new unsecured multi-currency revolving credit facility has a committed aggregate value of S\$30.0 million and is for a three-year duration. The terms and conditions of this facility remained similar to the facility agreement dated March 11, 2011.

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On August 21, 2009, we entered into a new short-term loan agreement for up to S\$50 million for a twelve month duration with DBS Bank Ltd. of Singapore, to refinance our existing bridging credit facility with the bank which expired on September 4, 2009. The facility was used to finance our long-term general working capital requirements. The terms of the facility included certain financial covenants as well as negative pledge and default provisions. On September 1, 2010, we entered into a new short-term loan agreement with the bank for up to S\$10 million with a twelve month duration. Among other things, the terms of the facility required that Hong Leong Asia retains ownership of the special share and that we remained a consolidated subsidiary of Hong Leong Asia. The terms of the facility also included certain financial covenants with respect to our tangible net worth (as defined in the agreement) not being less than US\$350 million, and the ratio of our total net debt (as defined in the agreement) to tangible net worth not exceeding 1.0 times. On November 10, 2011, we entered into a three year revolving credit facility agreement with the bank with a committed aggregate value of S\$30.0 million. This arrangement was used to finance our general working capital requirements and was repaid in full upon expiration of the facility on November 10, 2014. Yuchai's unutilized facilities amounted to Rmb 3,803.6 million (US\$617.8 million) as of December 31, 2014. We believe that should there be a need for further loans from banks, Yuchai could seek to borrow additional amounts through its established banking relationships with a number of domestic Chinese banks or to obtain financing from the discounting of bills receivable or factoring of accounts receivables. However, no assurance can be given that such additional borrowings would be approved by such banks.

The following table summarizes the key elements of our cash flows for the last three years:

	For Year ended December 31,			
	2012 Rmb	2013 Rmb	2014 Rmb	2014 US\$
	(in thousands)			
Net cash from operating activities	1,512,192	589,642	535,686	87,015
Net cash used in investing activities	(506,135)	(553,591)	(523,019)	(84,956)
Net cash used in financing activities	(2,010,937)	(553,179)	(314,749)	(51,127)
Effect of foreign currency exchange on cash and cash equivalents	7,706	(13,938)	(3,109)	(506)
Net decrease in cash and cash equivalents	(997,174)	(531,066)	(305,191)	(49,574)

In 2014, net cash from operating activities was an inflow of Rmb 535.7 million (US\$87.0 million). The inflow was mainly derived from profit before tax of Rmb 1,201.4 million offset by changes in working capital such as lower trade and other payables. In 2013, net cash from operating activities was an inflow of Rmb 589.6 million. The inflow was mainly derived from profit before tax of Rmb 1,162.1 million offset by higher working capital such as trade receivables and inventories. In 2012, net cash from operating activities was an inflow of Rmb 1,512.2 million. The inflow was mainly derived from profit before tax of Rmb 913.6 million and reduction of working capital such as decrease in inventories of Rmb 428.7 million.

In 2014, net cash used in investing activities was an outflow of Rmb 523.0 million (US\$85.0 million). The outflow was mainly due to purchase of property, plant and equipment of Rmb 660.9 million and offset by net withdrawal of fixed deposits with banks of Rmb 100.4 million and inflow from interest received of Rmb 50.1 million. In 2013, net cash used in investing activities was an outflow of Rmb 553.6 million. The outflow was mainly due to purchase of property, plant and equipment of Rmb 441.4 million and net placement of fixed deposits with banks of Rmb 295.5 million offset by inflow from interest received of Rmb 70.6 million and proceeds from disposal of assets classified as held for sale of Rmb 84.5 million. In 2012, net cash used in investing activities was an outflow of Rmb 506.1 million. The outflow was mainly due to purchase of property, plant and equipment of Rmb 643.5 million offset by inflow from interest received of Rmb 99.7 million.

In 2014, net cash used in financing activities was an outflow of Rmb 314.7 million (US\$51.1 million). The outflow was mainly due to payment of dividend of Rmb 315.4 million. In 2013, net cash used in financing activities was an outflow of Rmb 553.2 million. The outflow was mainly due to payment of dividend of Rmb 280.5 million and interest paid of Rmb 159.5 million. In 2012, net cash used in financing activities was outflow of Rmb 2,010.9 million. The outflow was mainly due to net reduction in borrowing of Rmb 1,252.8 million, dividend paid of Rmb 288.2 million and interest paid of Rmb 231.5 million.

In relation to cash management, it is our practice to consider various financing options so as to minimize financing costs. The cash generated from operations is used for working capital, capital expenditures, dividend payments and other operational requirements.

Our working capital as of December 31, 2014 was Rmb 4,925.9 million (US\$800.1 million) compared to Rmb 4,333.9 million as of December 31, 2013.

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As of December 31, 2014, we had long-term interest-bearing loans and borrowings totaling Rmb 1,077.7 million (US\$175.1 million) and current interest-bearing loans and borrowings totaling Rmb 1,209.0 million (US\$196.4 million).

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As part of our business strategy, we seek opportunities from time to time to invest in China domestic manufacturers of diesel engine parts and components, as well as in other related automotive businesses, including truck manufacturers, and insurance, warranty servicing and credit support for diesel engine customers. We may make such investments and acquisitions with funds provided by operations, future debt or equity financing or a combination thereof. The following table sets forth information on our material contractual obligation payments for the periods indicated as of December 31, 2014:

Contractual Obligations	Total Rmb	Payments Due by Period			
		Less than 1 Year Rmb	2-3 Years Rmb	4-5 Years Rmb	More than 5 Years Rmb
		(in millions)			
Short-term debt <sup>(1)</sup>	1,330.4	1,330.4			
Long-term debt <sup>(1)</sup>	1,138.7		1,103.8	3.7	31.2
Purchase obligations regarding capital expenditures <sup>(2)</sup>	989.1	989.1			
Operating lease commitments	22.1	12.1	9.4	0.5	0.1
<b>Total</b>	<b>3,480.3</b>	<b>2,331.6</b>	<b>1,113.2</b>	<b>4.2</b>	<b>31.3</b>

<sup>(1)</sup> Includes contractual interest payments

<sup>(2)</sup> The timing of the payment will depend on the actual progress of work.

**Capital Expenditures**

Our capital expenditures were Rmb 736.7 million, Rmb 429.6 million and Rmb 683.9 million (US\$111.1 million) in 2012, 2013 and 2014, respectively. These expenditures are primarily used for upgrading existing facilities and building new facilities. We funded these capital expenditures primarily from funds from operations generated by Yuchai and, to the extent that was insufficient, from bank loans and other financing activities by Yuchai and us.

Capital expenditures for upgrading of existing facilities are used to improve production flow, improve safety measures, improve testing capability, improve environment control, increase warehousing capacity and other routine upgrading and replacement. Capital expenditures for building new facilities are part of Yuchai's ongoing efforts to develop new products and improve the quality of existing products.

As our business continues to grow, we will also require additional funds for capital expenditures. As of December 31, 2014, we had committed capital expenditures for upgrading existing facilities and building new facilities in the amount of Rmb 989.1 million (US\$160.7 million). We expect to continue funding our capital expenditures primarily from funds from operations generated by Yuchai and, to the extent that is insufficient, from bank loans and other financing activities by Yuchai and us. Yuchai's ability to obtain financing is limited by government regulation in China. Also, certain additional capital we contribute to Yuchai would require, among other things, the approval of the Ministry of Commerce which has broad discretion with respect to such approval.

**Off-Balance Sheet Arrangements**

As of December 31, 2013 and 2014, in order to facilitate customer and supplier arrangements, Yuchai had issued irrevocable letter of credits of Rmb 84.1 million and Rmb 50.7 million (US\$8.2 million), respectively. These were issued for purchase of production materials, machinery and equipment.

As of December 31, 2013 and 2014, outstanding bills receivable discounted with banks for which Yuchai had retained a recourse obligation totaled Rmb 1,243.4 million and Rmb 730.7 million (US\$118.7 million), respectively. These bills receivables were received from customers in settlement for their purchases. Yuchai discounted these bills receivables to fund the operation, as and when required.

As of December 31, 2013 and 2014, outstanding bills receivable endorsed to suppliers for which Yuchai had retained a recourse obligation totaled Rmb 1,043.2 million and Rmb 812.5 million (US\$132.0 million), respectively. The bills receivables received from customers can be

endorsed to suppliers as a form of settlement of Yuchai's purchase for production materials.

Management has assessed the fair value of the recourse obligation arising from these discounted bank bills and endorsed bank bills to be immaterial based on the Company's default experience and the credit status of the issuing banks.

**Research and Development**

See Item 4. Information on the Company Research and Development.

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The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they are effective.

**IFRS 9 *Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 is expected to have an effect on the classification, measurement and impairment of the Group's financial assets, but no impact on the classification, measurement and impairment of the Group's financial liabilities.

**IFRS 14 *Regulatory Deferral Accounts***

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

**IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

**Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments address the conflict between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, when accounting for the sale or contribution of a subsidiary to a joint venture or associate (resulting in the loss of control of the subsidiary). The amendments are required to be applied for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendments have no impact on the Group's financial position or performance.

**Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception***

The amendments address the following issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements:

Exemption from preparing consolidated financial statements: the amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Subsidiary that provides services that support the investment entity's investment activities: the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an

investment entity are measured at fair value.

Application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity: the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments have no impact on the Group's financial position or performance.

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### **Amendments to IAS 1 *Disclosure Initiative***

The amendments clarify that:

Entities must not reduce the understandability of its financial statements by aggregating items that have different characteristics or by overwhelming useful information with immaterial information

The materiality guidance applies to the financial statements as a whole, including the primary statements and the notes and disclosures are only required if the information is material

The presentation requirements for the list of line items presented in the statement of financial position or the statement of profit or loss and other comprehensive income may be fulfilled by disaggregating a specific line item and introduces the requirements for an entity when presenting subtotals

Entities should consider understandability and comparability of its financial statements by introducing flexibility when designing the structure of the notes to the financial statements

Entities present their share of items of other comprehensive income (OCI) arising from associates and joint ventures accounted for by using equity method separately from the rest of OCI

The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments have no impact on the Group's financial position or performance.

### **Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

### **Annual improvements 2010-2012 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

#### **IFRS 2 *Share-based Payment***

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

A performance condition must contain a service condition

A performance target must be met while the counterparty is rendering service



A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group

A performance condition may be a market or non-market condition

If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

**IFRS 3 *Business Combinations***

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

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### ***IFRS 8 Operating Segments***

The amendments are applied retrospectively and clarify that:

An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are similar

The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

### ***IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets***

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

### ***IAS 24 Related Party Disclosures***

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

### ***Annual improvements 2011-2013 Cycle***

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

### ***IFRS 3 Business Combinations***

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

Joint arrangements, not just joint ventures, are outside the scope of IFRS 3

This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

### ***IFRS 13 Fair Value Measurement***

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

### ***IAS 40 Investment Property***

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

### ***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests***

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The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

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### **Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

### **Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants***

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

### **Amendments to IAS 27: *Equity Method in Separate Financial Statements***

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### **Directors and Executive Officers of the Company**

Our Bye-Laws require that our Board of Directors shall consist of eleven members so long as the special share is outstanding. As of March 9, 2015, there are eight members elected to and serving on our Board of Directors. Pursuant to the rights afforded to the holder of the special share, Hong Leong Asia had designated Messrs. Gan Khai Choon, Kwek Leng Peck and Hoh Weng Ming as its nominees. Mr. Yan Ping and Mr. Han Yi Yong are nominees of Coomber Investments Limited. Our directors are appointed or elected, except in the case of casual vacancy, at the annual general meeting or at any special general meeting of shareholders and hold office until the next annual general meeting of shareholders or until their successors are appointed or their office is otherwise vacated.

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Our directors and executive officers are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
HOH Weng Ming <sup>(1)(4)</sup>	President and Director	2011
GAN Khai Choon <sup>(1)(4)</sup>	Director	1995
KWEK Leng Peck <sup>(1)(2)</sup>	Director	1994
YAN Ping <sup>(1)</sup>	Director	2012
WU Qi Wei <sup>(1)</sup>	Alternate Director to YAN Ping	2012
NEO Poh Kiat <sup>(1)(2)(3)</sup>	Director	2005
TAN Aik-Leang <sup>(1)(3)</sup>	Director	2005
HAN Yi Yong <sup>(1)</sup>	Director	2010
HO Chi-Keung Raymond <sup>(2)(3)</sup>	Director	2013
LEONG Kok Ho	Chief Financial Officer	2012
FOO Shing Mei Deborah	General Counsel	2007
Codan Services Limited	Secretary	2015

Mr. Ira Stuart Outterbridge III passed away on January 3, 2015. In his place, Codan Services Limited was appointed Secretary of the Company.

(1) Also a Director of Yuchai.

(2) Member of the Compensation Committee.

(3) Member of the Audit Committee.

(4) Also a Director of HLGE.

Mr. Hoh Weng Ming was appointed President and a Director of the Company on July 17, 2013 and November 11, 2011 respectively. He was the Chief Financial Officer of the Company from May 1, 2008 to November 10, 2011. He is also a Director of Yuchai and HLGE with effect from December 26, 2008 and February 16, 2011 respectively. Mr. Hoh has more than 25 years of working experience in accounting and financial management positions with extensive regional experience in Singapore, Malaysia, New Zealand, Hong Kong and China. He has worked in various finance roles with companies including Johnson Electric Industrial Manufactory Limited as well as Henan Xifei Electric Co., Ltd., a subsidiary of Hong Leong Asia. Previously, he held the position of Financial Controller of the Company from 2002 to 2003. Mr. Hoh has a Bachelor of Commerce Degree majoring in Accountancy from the University of Canterbury, Christchurch, New Zealand and an M.B.A. degree from Massey University, New Zealand. He is a Chartered Accountant in New Zealand and Malaysia and a Fellow Member of the Hong Kong Institute of Certified Public Accountants.

Mr. Gan Khai Choon is a Director of the Company, Yuchai, Grace Star, Venture Lewis, Venture Delta and Safety Godown Company Limited. He is also the non-executive Chairman of HLGE, an Executive Director of City e-Solutions Limited and Managing Director of Hong Leong International (Hong Kong) Limited. He has extensive experience in the banking, real estate investment and development sectors and has been involved in a number of international projects for the Hong Leong group of companies, which include the management and development of the Grand Hyatt Taipei and the Beijing Riviera. He holds a Bachelor of Arts Degree (Honors) in Economics from the University of Malaya. Mr. Gan is related to Mr. Kwek Leng Peck.

Mr. Kwek Leng Peck is a Director of the Company. He is a member of the Kwek family which controls the Hong Leong Investment Holdings group of companies. He is an Executive Director of Hong Leong Asia and Hong Leong Investment Holdings Pte. Ltd. and the non-executive Chairman of Tasek Corporation Berhad. He also sits on the boards of HL Technology, Hong Leong China, Yuchai, City Developments Limited, Hong Leong Finance Limited and Millennium & Copthorne Hotels Plc, as well as other affiliated companies. He holds a Diploma in Accountancy and has extensive experience in trading, manufacturing, property investment and development, hotel operations, corporate finance and management.

Mr. Yan Ping is a Director of the Company and the Chairman of the Board of Directors of Yuchai. He is also the Chairman of the State Holding Company. The State Holding Company which is owned by the City Government of Yulin in Guangxi Zhuang Autonomous Region, China, is a

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22.1% shareholder in Yuchai. Prior to his above appointments, Mr. Yan held various China-government related positions, including as Deputy Secretary-General of the Yulin Municipal Government, as Director of the Yulin Municipal Development and Reform Commission and as Deputy General Manager of Guangzhou-Shenzhen Railway Company, Ltd. Mr. Yan holds a Bachelor of Engineering Degree from Dalian Railway College and a Masters degree in Statistics from the Dongbei University of Finance and Economics.

Mr. Wu Qi Wei is an Alternate Director of the Company to Mr. Yan Ping and the General Manager and a director of Yuchai. He previously served as one of the Deputy General Managers of Yuchai and was in charge of sales and marketing. He holds a Bachelor of Engineering Degree from Hunan University, an MBA degree from the Huazhong University of Science and Technology and a Doctorate in Marine Engineering from Wuhan University of Technology.

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Mr. Neo Poh Kiat is a Director of the Company and Yuchai. He is the Managing Director of Octagon Advisors (Shanghai) Co. Ltd and a managing director of Octagon Advisors Pte. Ltd., a financial advisory firm in Singapore. Between 1976 and January 2005, he held various senior managerial positions with companies in the DBS Bank group and United Overseas Bank Ltd. Mr. Neo is currently a director of Asia Airfreight Terminal Co Ltd, Value Partners Goldstate Fund Management Co Ltd and Cambodia Post Bank Plc. He holds a Bachelor of Commerce Degree (Honors) from Nanyang University, Singapore. Our Board of Directors has determined that Mr. Neo is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Tan Aik-Leang is a Director of the Company and Yuchai. He had held various senior executive and managerial positions over an aggregate period of more than 25 years at the Dao Heng Bank Group in Hong Kong, the National Australia Bank Group in Australia and Asia, and The Bank of Nova Scotia in Canada. Mr. Tan is currently also a Director of the Risk Management Association, Hong Kong Chapter. He is a Fellow member of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Financial Services Institute of Australasia (formerly known as Australasian Institute of Banking and Finance) and the Institute of Canadian Bankers. Our Board of Directors has determined that Mr. Tan is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Ho Chi-Keung Raymond was previously a director of the Company from June 2004 to September 2006 and was re-appointed as an independent director on April 30, 2013. He was in private practice as a solicitor in Hong Kong, Mainland China and Canada between 1983 and 2006. He is now practicing independently as an arbitrator. Mr. Ho was the Secretary General of the Law Society of Hong Kong from 2008 to 2011 and prior to that between 1999 and 2006, he was a partner of Fred Kan & Co., a law firm based in Hong Kong with operations in Tokyo, Japan and China. He holds the degrees of Bachelor of Laws and Master of Social Sciences from the University of Hong Kong, as well as a Master of Laws degree from the University of London. He is a Fellow of the UK Chartered Institute of Arbitrators and is currently listed on the HKIAC's panel of arbitrators. He is a non-practising member of the Law Society of Hong Kong, The Law Society of England & Wales, The Law Society of British Columbia and The Law Society of the Australian Capital Territory. Mr. Ho currently is a director of Cheer Moon Development Limited and Power Rich Investment Limited. Our Board of Directors has determined that Mr. Ho is independent within the meaning of the NYSE's corporate governance standards, on the basis that the Company has no material relationship with him.

Mr. Han Yi Yong is a Director of the Company and Yuchai. He is also the Chairman and a director of Coomber as well as the Company Secretary to Yuchai's Board of Directors. He holds a Bachelor's Degree in Vehicle Engineering from the Shandong University of Technology and a Master's Degree in Power Machinery and Engineering from Guangxi University.

Mr. Leong Kok Ho was appointed Chief Financial Officer of the Company on January 9, 2012. He was appointed a Director of Yuchai with effect from November 17, 2014. Mr. Leong's previous positions were Regional Controller (Asia Pacific) for Parker Drilling Company, a company listed on the New York Stock Exchange (NYSE-PKD) and Chief Financial Officer of KS Energy Services Limited, a company listed on the Main Board of the Singapore Exchange. Mr. Leong also has China working experience when he served as Finance Manager and Operation Manager for the Kuok Group of Companies in China. Mr. Leong holds a Bachelor of Accountancy from the National University of Singapore and an MBA from the University of Southern Queensland in Australia in 1999. He is a Fellow Certified Accountant of Singapore.

Ms. Foo Shing Mei Deborah was appointed General Counsel of the Company with effect from December 10, 2007. Ms. Foo has more than 15 years of commercial and corporate experience gained from various in-house positions in Singapore and Hong Kong. Prior to joining the Company, she held the positions of Vice President of Group Legal and Company Secretary at NASDAQ-listed Pacific Internet Limited. She holds a BA (Hons) in Law and History from the University of Keele, UK and a Masters of Law Degree in Commercial and Corporate law from the University of London, UK. She is a Barrister-at-Law (Middle Temple) and is admitted as an Advocate and Solicitor in Singapore.

Codan Services Limited was appointed Secretary of the Company on January 28, 2015 to replace Mr. Ira Stuart Outerbridge III.

## **Audit Committee**

The Audit Committee comprises of three independent non-executive directors, namely Messrs. Tan Aik-Leang (Chairman), Neo Poh Kiat and Ho Chi-Keung Raymond. The Audit Committee oversees the performance of our internal audit function and our independent registered public accountants. It also reviews our quarterly financial statements and effectiveness of our financial reporting process and material internal controls including financial, operational and compliance controls. The Board has designated Mr. Tan Aik-Leang as our Audit Committee Financial Expert.

**Table of Contents****Compensation Committee**

The members of the Compensation Committee are Messrs. Kwek Leng Peck (Chairman), Neo Poh Kiat and Ho Chi-Keung Raymond. The Compensation Committee reviews our general compensation structure as well as reviews, recommends or approves executive appointments and remuneration, subject to ratification by our Board of Directors and supervises the administration of our employee benefit plans, including our Equity Incentive Plan.

**Directors and Executive Officers of Yuchai**

According to Yuchai's Articles of Association, the Board of Directors of Yuchai shall consist of 13 members. Currently, there are 12 members elected to and serving on Yuchai's Board of Directors. Yuchai's Articles of Association entitle us (as the indirect holder of the Foreign Shares), through our six wholly-owned subsidiaries, to designate nine Directors and entitle the Chinese shareholders to designate four Directors. These nomination rights were acknowledged and confirmed by Yuchai as part of the terms of the Reorganization Agreement. Pursuant to the terms of the Reorganization Agreement, Yuchai's Board of Directors has been reconstituted with the Company entitled to elect 9 of Yuchai's 13 directors, again reaffirming the Company's right to effect all major decisions relating to Yuchai. Pursuant to and subject to the conditions in the Shareholders Agreement described under Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions, and by virtue of the special share, Hong Leong Asia is entitled to designate five of the nine Yuchai Directors designated by us.

Pursuant to the Shareholders Agreement and our Bye-Laws, the Yuchai Directors designated by us will vote as a block in accordance with the vote of the majority of such Directors. As part of the terms of the Reorganization Agreement, Yuchai affirmed our continued rights, as Yuchai's majority shareholder, to direct the management and policies of Yuchai through Yuchai's Board of Directors. The directors and executive officers of Yuchai as of March 9, 2015 are identified below.

Name	Position	Year First Elected or Appointed Director or Officer
YAN Ping <sup>(1)</sup>	Chairman of the Board of Directors	2005
HOH Weng Ming <sup>(1)</sup>	Deputy Chairman of the Board of Directors	2008
WU Qiwei <sup>(2)</sup>	Director and General Manager	2011
GAN Khai Choon <sup>(1)</sup>	Director	2007
KWEK Leng Peck <sup>(1)</sup>	Director	2005
NEO Poh Kiat <sup>(1)</sup>	Independent Director	2008
TAN Aik-Leang <sup>(1)</sup>	Independent Director	2005
LU Yuming	Director and Chief Accountant	2014
LEONG Kok Ho	Director	2014
HAN Yi Yong <sup>(1)</sup>	Director and Company Secretary	2010
GU Tangsheng	Director	2005
LAI Tak Chuen Kelvin <sup>(3)</sup>	Director and Chief Business Controller	2011
TAY Hui Boon Kelly <sup>(3)</sup>	Financial Controller seconded to Yuchai	2008
LIU Hung Derek <sup>(3)</sup>	Deputy General Manager	2012
CHEN Ningbin	Deputy General Manager	2011
ZHONG Yu Wei	Deputy General Manager	2010
WANG Limin	Deputy General Manager	2013
LIANG Qingyan	Deputy General Manager	2009
LIN Zhiqiang	General Engineer	2011

Mr. Leong Kok Ho and Mr. Lu Yuming were both appointed Directors of Yuchai on November 10, 2014. Mr. Gao Jia Lin resigned as a Director of Yuchai on November 7, 2014. Mr. Zhang Xiao Yu passed away on November 12, 2014.



- (1) Also a Director of the Company.
- (2) Also an Alternate Director of the Company to Mr. Yan Ping.
- (3) Seconded of the Company, whose salaries and expenses are paid by the Company.

For information about Messrs. Yan Ping, Gan Khai Choon, Neo Poh Kiat, Kwek Leng Peck, Tan Aik-Leang, Hoh Weng Ming, Leong Kok Ho, Wu Qi Wei and Han Yi Yong, see Item 6. Directors, Senior Management and Employees Directors and Executive Officers of the Company.

Mr. Wu Qi Wei is the General Manager and a Director of Yuchai and an Alternate Director of the Company to Mr. Yan Ping. He previously served as one of the Deputy General Managers of Yuchai and was in charge of sales and marketing. He holds a Bachelor of Engineering Degree from Hunan University, an MBA degree from the Huazhong University of Science and Technology and a Doctorate in Marine Engineering from Wuhan University of Technology.

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Mr. Leong Kok Ho was appointed as a Director of Yuchai on 10 November, 2014. Before that he was appointed Chief Financial Officer of the Company on January 9, 2012. Mr. Leong's previous positions were Regional Controller (Asia Pacific) for Parker Drilling Company, a company listed on the New York Stock Exchange (NYSE-PKD) and Chief Financial Officer of KS Energy Services Limited, a company listed on the Main Board of the Singapore Exchange. Mr. Leong also has China working experience when he served as Finance Manager and Operation Manager for the Kuok Group of Companies in China. Mr. Leong holds a Bachelor of Accountancy from the National University of Singapore and an MBA from the University of Southern Queensland in Australia in 1999. He is a Fellow Certified Accountant of Singapore.

Mr. Lu Yuming was appointed the Chief Accountant of Yuchai with effect from February 3, 2015 after serving as Deputy Chief Accountant from November 25, 2013. He holds a Bachelor's degree in Financial Management from Zhejiang University and has worked in Yuchai's finance department since 2001.

Mr. Gu Tangsheng is a Director of Yuchai and a Director and President of the State Holding Company. He holds a PhD in physics from Zhongshan University.

Mr. Lai Tak Chuen Kelvin was appointed Vice President of Operations of the Company on June 7, 2010. He was appointed Chief Business Officer and a Director of Yuchai on March 11, 2011 and June 28, 2013 respectively. Mr. Lai holds a Bachelor of Business Administration in Management from the Open University of Hong Kong as well as a Postgraduate Certificate in Engineering Business Management from the University of Warwick, UK. He worked for 10 years as a marine engineer on ocean going vessels and later as a Port Engineer at the International Maritime Corporation. He has also worked for Rolls-Royce International Ltd in their power generation and industrial power business in China and Taiwan, and worked for Cummins Hong Kong Ltd as General Manager in their diesel engine distribution and aftermarket business.

Ms. Tay Hui Boon Kelly is the Financial Controller of the Company seconded to Yuchai. She has been assigned by us to assist Yuchai in its financial accounting, reporting and compliance with local and statutory requirements, and the implementation of financial policies, procedures, financial budgeting and review of investments. Ms. Tay holds a Bachelor degree in Accounting and Financial and Information Management from the University of Sheffield, United Kingdom. She has over ten years of experience in management costing and accounting and gained substantial experience from working in various parts of China.

Mr. Liu Hung Derek is the Assistant Vice President of International Sales of the Company, Deputy General Manager of the international department and Deputy General Manager of the Marine and G-drive Engine Department of Yuchai. He has 15 years experience in the diesel generator business from FG Wilson (Engineering) HK Ltd. He holds a Bachelor degree of Science in Applied Chemistry from the Hong Kong Baptist University and he holds a Master's Degree in Marketing from the University of New South Wales in Australia.

Mr. Chen Ningbin was appointed a Deputy General Manager of Yuchai on March 1, 2011. He is a Business Management Major from Yongjiang University and holds a Master's Degree in Business Administration from the University of South Australia.

Mr. Wang Limin was appointed a Deputy General Manager of Yuchai on January 1, 2013 and he holds a Bachelor's degree in Vehicle Engineering from Hubei Automotive Industrial College.

Mr. Liang Qingyan was appointed as a Deputy General Manager of Yuchai on July 30, 2009 and he holds a Bachelor's degree in Mechanical Manufacture Technology and Equipment from Guangxi University.

Mr. Zhong Yuwei was appointed as Deputy General Manager of Yuchai on February 1, 2010. He is the chief product planner of Yuchai. Mr. Zhong holds a Bachelor degree in Internal Combustion Engine from the Tsinghua University.

Mr. Lin Zhiqiang was appointed General Engineer of Yuchai in 2011. Mr. Lin Zhiqiang is responsible for all matters relating to engine design, testing and quality control. He spent over 10 years as a technician in technology center of Yuchai. He holds a Master's degree in Engineering Thermal Physics from Harbin Industrial University, a doctorate degree in Power Machinery and Engineering and a post-doctorate degree in Chemical Engineering and Technology from Tianjin University.

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Pursuant to Yuchai's Articles of Association, Yuchai's shareholders have authority over all matters of importance relating to Yuchai, including (i) the review and approval of reports submitted by the Board of Directors of Yuchai; (ii) the approval of Yuchai's plans for distribution of profits and recovery of losses; (iii) the approval of Yuchai's annual capital, operating budget and year-end financial statements of final accounts, balance sheet, profit and loss statements and other accounting statements; (iv) the issuance of new shares or other securities, the expansion of the scope of any subscription of shares, the conversion of Yuchai from a company with privately placed shares into a company with publicly offered shares in or outside of China, and the transfer procedures for Yuchai's share certificates; (v) the nomination, election, dismissal and compensation of members of the Board of Directors; (vi) significant sales or purchases of assets, or any division, merger, acquisition, termination, liquidation or other major corporate action of Yuchai; (vii) amendment to Yuchai's Articles of Association; (viii) motions presented by shareholders holding 10% or more of the outstanding shares of Yuchai; and (ix) other matters required to be resolved by the shareholders meeting. Yuchai's shareholders are entitled to preemptive rights to subscribe pro rata in accordance with their ownership percentage for any new Yuchai shares or other equity interests offered by Yuchai at a price and on terms at least equivalent to those offered to new subscribers.

Yuchai's Board of Directors reports directly to the shareholders of Yuchai and is the principal executive authority responsible for major decisions relating to Yuchai, mainly including (i) the execution of resolutions adopted by the shareholders; (ii) the formulation and review of Yuchai's development plans; (iii) the review of and decision on Yuchai's annual business plans; (iv) the review of Yuchai's financial budget, final accounts, dividend distribution plan, plans for issuances of Yuchai shares and plans for merger, division and transfer of assets; (v) to fill vacancies on the Board provided the selected replacement is nominated by and represents the same shareholders as his or her predecessor; (vi) the adoption of various corporate policies and rules; (vii) the appointment of senior executive officers as recommended by the Chief Executive Officer and their dismissals and the appointment of senior advisers to the Board; (viii) major external matters; (ix) sales, purchases, transfers and leases of material assets with a value in excess of US\$3 million but less than US\$6 million and which are not contemplated in Yuchai's approved budgets; and (x) any other matters that may be determined by the Board of Directors in accordance with Yuchai's Articles of Association.

In order to further strengthen our level of corporate governance, we have continued to seek to cause Yuchai to adopt comprehensive corporate governance guidelines to put procedures in place to improve the management and governance of Yuchai. The 2007 version of corporate governance guidelines of Yuchai were approved and adopted by Yuchai's Board of Directors and shareholders' meeting on July 27, 2007 and August 16, 2007, respectively. The corporate governance guidelines and practices adopted by Yuchai continue to be fine-tuned on an ongoing basis such that Yuchai follows international best practices and which are in line with the Company Law in the PRC. Various board committees (inter alia, an Audit Sub-Committee, a Remunerations Sub-Committee, a Nominations Sub-Committee and a Financial Sub-Committee) have been established and are currently functioning in accordance with their charters. The Financial Sub-Committee is responsible for reviewing the necessity and feasibility of new projects and making recommendations to Yuchai's board of directors. Yuchai and the Company are audited by the same firm of independent auditors.

The Board of Directors of Yuchai shall consist of 13 directors appointed for three-year terms pursuant to Yuchai's current Articles of Association. A total of nine directors shall be elected from nominees of holders of Foreign Shares (including at least two independent directors) and a total of four directors shall be elected from nominees of holders of State Shares and Legal Person Shares. Actions generally may be taken by a majority vote of the directors present at a meeting at which a quorum is present. Attendance of at least seven directors (four representing holders of Foreign Shares and three representing holders of State Shares or Legal Person Shares) constitutes a quorum.

We are entitled under Yuchai's Articles of Association to elect nine of Yuchai's 13 directors, thereby entitling us to effect all major decisions relating to Yuchai. As part of the terms of the Reorganization Agreement and the Cooperation Agreement, Yuchai affirmed our continued rights, as Yuchai's majority shareholder, to direct the management and policies of Yuchai through Yuchai's Board of Directors. A two-thirds vote of the outstanding shares at a shareholders' meeting at which a quorum is present is required for major corporate actions, such as an amendment to Yuchai's Articles of Association, significant sales or purchases of assets or a division, merger, acquisition or liquidation of Yuchai, or issuances of new common shares or other securities of Yuchai. Attendance of shareholders representing at least two-thirds of the outstanding Yuchai shares constitutes a quorum for shareholder meetings considering such major corporate actions.

However, although our nominees constitute a majority of the Board of Directors of Yuchai, there have, on various occasions in the past, been periods of time when no board meetings have been held, despite Yuchai's Articles of Association at the time requiring the Board of Directors to meet at least once every six months as well as upon repeated requests by us. Prior to the execution of the Reorganization Agreement, Yuchai's Articles of Association provided that a quorum for a board meeting was at least five Directors, three representing holders of Foreign Shares and two representing holders of State Shares or Legal Person Shares. However, subsequent to the execution of the Reorganization Agreement, these quorum requirements have been amended in Yuchai's new Articles of Association as approved by the Guangxi Department of Commerce on December 2, 2009. Under the new Articles of Association, a quorum for a board meeting shall be at least seven directors, four representing holders of Foreign Shares and three representing holders of State Shares or Legal Person Shares. If the quorum cannot be met for two consecutive times, then any seven directors present shall constitute the quorum for the third meeting. In addition, under Yuchai's new Articles of Association, board meetings are to be convened at least three times a year.



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Yuchai's management consists of a Chairman, a General Manager and several Deputy General Managers, other senior officers designated by its Board of Directors and senior managers and officers designated by us. Yuchai's management handles daily operations and implements the corporate policies under the direction and guidance of its Board of Directors.

As a general matter, we require access to certain financial books and records of Yuchai so as to be able to monitor our investment in Yuchai and to prepare our consolidated financial statements. In early 2004, Yuchai temporarily denied us such access. In response, we initiated dialogue with representatives of Yuchai and shortly thereafter agreed with Yuchai to resume allowing us full access to the financial books and records of Yuchai. Moreover, and as disclosed elsewhere in this Annual Report, we require the cooperation of Yuchai and its Chinese shareholders and have from time to time experienced certain problems in obtaining such cooperation. In response to such problems, we entered into dialogue with representatives of Yuchai and its Chinese shareholders and thereafter executed the Reorganization Agreement, which we believe addresses these problems. 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. However, no assurances can be given regarding implementation of the terms of the Reorganization Agreement. We provide certain management, financial planning, internal audit services, internal control testing, IFRS training, business enhancement consulting and other services to Yuchai and, as of March 9, 2015, we 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, 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. See also Item 3. Key Information Risk Factors Risks relating to our company and our business 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.

## **Compensation**

### **Service Fees**

Pursuant to the Amended and Restated Shareholders Agreement of the Company dated November 9, 1994, Hong Leong Asia is entitled to receive no less than US\$500,000 from either Yuchai or the Company for management services as long as Hong Leong Asia remains the controlling shareholder and provided that the services include those of the President and Chief Financial Officer. With effect from January 2008, further to agreements entered into between the Company and Yuchai, Yuchai pays the Company, instead of Hong Leong Asia, consultancy and management services fee of US\$1,000,000 per annum. Hong Leong Asia has agreed to waive its right to be paid any fees as set out in the Amended and Restated Shareholders Agreement of November 9, 1994.

In fiscal year 2014, and subject to shareholders' approval at the annual general meeting, we will pay an annual service fee of US\$50,000 for all directors (pro-rated accordingly if a director resigns or assumes the position during the year) other than the President of the Company. For fiscal year 2014, and subject to shareholders' approval at the annual general meeting, we will pay an annual service fee of US\$60,000 and US\$40,000 to the Chairman and each of the members of the Audit Committee, respectively. See Item 7. Major Shareholders and Related Party Transactions.

### **Share Ownership**

The directors and executive officers of the Company and Yuchai do not currently own any shares of Common Stock but certain executive officers have been awarded share options under our Equity Incentive Plan.

#### ***China Yuchai International Limited 2014 Equity Incentive Plan***

The China Yuchai International Limited 2014 Equity Incentive Plan (the "Equity Incentive Plan") was approved and adopted by the Company on May 10, 2014, and became effective upon approval by the Company's shareholders on July 4, 2014. The purpose of the Equity Incentive Plan is to provide an incentive to attract, retain and motivate eligible employees of the Company by offering them an opportunity to participate the Group's future performance through the grant of Awards (as defined in the Equity Incentive Plan, including options, restricted stock and stock payments).

The following paragraphs describe the principal terms of the Equity Incentive Plan.

**Table of Contents***Plan Administration*

The Compensation Committee has full power and authority, in its sole discretion, to administer, implement and carry out the Equity Incentive Plan, including, without limitation, (i) selecting grantees from the individuals eligible to receive Awards, the time when Awards will be granted, the number of Awards and the number of shares of common stock covered by each Award; (ii) determining the terms and conditions of each award grant; (iii) approving the forms of agreement for use under the Equity Incentive Plan; (iv) establishing, adopting, or revising any rules and regulations to administer the Equity Incentive Plan; and (v) taking any and all other action as it deems necessary or advisable for the operation or administration of the Equity Incentive Plan and the Awards thereunder.

*Shares Reserved for the Equity Incentive Plan*

Subject to certain adjustments set forth in the Equity Incentive Plan, the total number of our shares available for grant and issuance pursuant to the Equity Incentive Plan from time to time will be 1,800,000 shares of common stock. If any shares subject to an Award are forfeited, canceled or expire or such Award is settled for cash (in whole or in part) for any reason, such shares will, to the extent of such forfeiture, cancellation, expiration or cash settlement, again become available for grant and issuance in connection with future Awards under the Equity Incentive Plan. Under the terms of the Equity Incentive Plan, the maximum number of shares of common stock that may be subject to one or more awards to any one person during any calendar year is 300,000.

*Eligibility*

Subject to the conditions set forth in the Equity Incentive Plan, any person, including officers and directors, employed by the Company or any of its subsidiaries who are in positions of substantial responsibility and whose contributions are important to the successful conduct of the Group's business are eligible to be granted Awards.

*Options*

The grant of share options is to be at an exercise price not less than 100% of the fair market value of the common stock subject to the option on the date the option is granted and the par value of the Common Stock. The options may vest based on performance or other criteria and, at any time after the grant of an option, the Compensation Committee may, in its sole discretion, accelerate the vesting of such option. Repricing of share options are prohibited without the approval of shareholders. The grant of restricted stock and stock payments must be at a purchase price to be established by the Compensation Committee but in any event, no less than US\$1.00 per award. The term of options may not exceed 10 years from the date of grant. As of December 31, 2014, there were 570,000 options outstanding under the Equity Incentive Plan and vest in three equal installments over a three year term. The number of share options that the Company has granted to its executive officers and Yuchai's employees as of March 9, 2015 is set out in the following table and as of March 9, 2015, all of these share options were outstanding:

Name	Option Award	Exercise Price (US\$/Share)	Grant Date	Expiration Date
YAN Ping	200,000	\$ 21.11	29 July 2014	28 July 2024
HOH Weng Ming	150,000	\$ 21.11	29 July 2014	28 July 2024
WU Qi Wei	80,000	\$ 21.11	29 July 2014	28 July 2024
LEONG Kok Ho	40,000	\$ 21.11	29 July 2014	28 July 2024
LAI Tak Chuen Kelvin	40,000	\$ 21.11	29 July 2014	28 July 2024
FOO Shing Mei Deborah	40,000	\$ 21.11	29 July 2014	28 July 2024
TAY Hui Boon Kelly	20,000	\$ 21.11	29 July 2014	28 July 2024

570,000

*Restricted Stock*

The Compensation Committee is authorized to grant shares subject to various restrictions, including restrictions concerning voting rights and transferability, and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Compensation Committee. Subject to the conditions set forth in the Equity Incentive Plan, upon issuance of restricted stock, the holder shall have, unless otherwise provided by the Compensation Committee, all the rights of a shareholder with respect to said

shares, subject to the restrictions in each individual award agreement, including the right to receive all dividends and other distributions paid or made with respect to the shares; provided, however, that, in the sole discretion of the Compensation Committee, any extraordinary or special dividends or distributions with respect to the shares shall be subject to the restrictions set forth in the Equity Incentive Plan.

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### *Stock Payments*

The Compensation Committee is authorized to make stock payments, which may, but are not required to, be made in lieu of base salary, bonus, fees or other cash compensation otherwise payable. The terms and conditions (including, without limitation, the number or value of shares) of any stock payment shall be determined by the Compensation Committee and may be based on the holder's duration of employment or service with Company, the Company's performance, individual performance or other criteria selected by the Compensation Committee, at one time or from time to time, periodically or otherwise. Unless otherwise provided by the Compensation Committee, a holder of a stock payment shall have no rights as a shareholder with respect to such stock payment until such time as the shares underlying the Award have been issued.

### *Non-transferability*

Awards granted under our Share Incentive Plan are generally not transferable during the lifetime of the award holder.

### *Amendment, Suspension and Termination*

The Compensation Committee or the Board of Directors of the Company may, at any time terminate, and from time to time may amend or modify the Equity Incentive Plan; provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the shareholders of the Company if (a) shareholder approval is required to enable the Equity Incentive Plan to satisfy any applicable statutory or regulatory requirements or (b) the Company, on the advice of counsel, determines that shareholder approval otherwise is necessary or desirable. No amendment, modification or termination of the Equity Incentive Plan shall in any manner adversely affect any Awards theretofore granted under the Equity Incentive Plan without the consent of the holders or the permitted transferee(s) of such Awards, subject always to applicable laws. No Awards may be granted or awarded during any period of suspension or after termination of the Equity Incentive Plan.

### *Duration of the Plan*

The Equity Incentive Plan shall terminate on May 8, 2024 unless earlier terminated. Awards outstanding at the time of the Equity Incentive Plan's termination may continue to be exercised in accordance with their terms and shall continue to be governed by and interpreted consistent with the terms of the Equity Incentive Plan.

## **Benefits**

The aggregate amount of compensation paid to all directors and executive officers of the Company and Yuchai during 2014 was approximately Rmb 68.2 million (US\$11.1 million).

There are no benefits provided to the directors of the Company or Yuchai upon their termination of employment.

## **Employees**

As of December 31, 2014, 2013 and 2012, Yuchai employed approximately 11,404, 11,976 and 11,496 people, respectively, nationwide in China.

Yuchai provides its employees with a fixed base salary and a bonus that is determined by the employees' performance and productivity and participates in defined contribution retirement plans organized by the Guangxi regional government and Beijing city government. See Note 8.5 to the accompanying consolidated financial statements in Item 18 for more details. Yuchai also provides its employees meal subsidies and medical insurance, and certain employees receive further subsidies for housing. For fiscal year 2014, the total annual salary and bonus paid to Yuchai's employees was Rmb 812.4 million (US\$132.0 million). Yuchai, on an annual basis, enters into a collective labor agreement with the union which represents all of its employees. Yuchai has not experienced any material work stoppages and considers employee relations to be good.



**Table of Contents****ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

The following table sets forth certain information regarding beneficial ownership of our shares of Common Stock as of March 9, 2015 by all persons who are known to us to own 5% or more of the outstanding shares of Common Stock.

Beneficial ownership is determined in accordance with rules of the SEC, which generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and includes equity shares issuable pursuant to the exercise of stock options or warrants that are immediately exercisable or exercisable within 60 days. These shares are deemed to be outstanding and to be beneficially owned by the person holding those options or warrants for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, all information with respect to the beneficial ownership of any principal shareholder has been furnished by such shareholder and, unless otherwise indicated, we believe that persons named in the table have sole voting and sole investment power with respect to all the equity shares shown as beneficially owned. The share numbers and percentages listed below are based on 38,195,706 shares of Common Stock outstanding as of March 9, 2015.

Identity of Person or Group	Number	Percentage (%)
Hong Leong Asia Ltd <sup>(1)</sup>	14,137,961	37.02%
The Yulin City Government <sup>(2)</sup>	7,028,151	18.40%
Shah Capital Management <sup>(3)</sup>	2,513,797	6.58%

- <sup>(1)</sup> Information based upon an announcement by Hong Leong Asia on the Singapore Exchange on December 26, 2014 and a report on Schedule 13D jointly filed by Hong Leong Asia and its wholly-owned subsidiaries, Hong Leong China, HL Technology, Flite Technology Industries Pte Ltd and Lydale Pte Ltd, with the SEC on July 19, 2002, as amended from time to time, most recently on July 14, 2014. Hong Leong Asia is currently the beneficial owner of and exercises control over the special share and the 14,137,961 shares of Common Stock or approximately 37.02% of the total number of shares of Common Stock held by its wholly-owned subsidiaries, HL Technology and Well Summit Investments Limited, having increased its holdings from 28.2% to 34.9% during the period from May 23, 2011 to November 22, 2011, from 34.9% to 35.5% during the period from March 11 to 26, 2014, and from 35.5% to 37.02% during the period July 14 to December 26, 2014. See also Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Shareholders Agreement. Other than as described under Item 3. Key Information Risk Factors Risks relating to our shares and share ownership We may experience a change of control as a result of sale or disposal of shares of our Common Stock by our controlling shareholders and Item 7. Major Shareholders And Related Party Transactions The Special Share, we are not aware of any arrangement which may, at a subsequent date, result in a change of control of the Company.
- <sup>(2)</sup> Information based on a report on Schedule 13D filed by Coomber, Goldman, Zhong Lin and the State Holding Company, with the SEC on December 16, 2002, as amended from time to time, most recently on March 23, 2012. Based on Amendment No. 2 to the Schedule 13D filed by Coomber and others with the SEC on June 23, 2003, Coomber is a wholly-owned subsidiary of Goldman, which is indirectly owned and controlled by Yulin City Municipal Government, or Yulin City Government, in Guangxi Zhuang Autonomous Region, China. Accordingly, the Yulin City Government is the ultimate beneficial owner of the 7,028,151 shares of the Company's Common Stock held of record by Coomber. Based on Amendment No. 11 to the Schedule 13D filed by Coomber and others with the SEC on March 23, 2012, Goldman pledged all of its shares in Coomber to a third party in connection with a loan transaction entered into on March 19, 2012. Based on Amendment No. 12 to the Schedule 13D filed by Coomber and others with the SEC on December 18, 2012, a Deed of Release was entered into between Goldman and the third party on December 12, 2012 pursuant to which the latter released the pledge by Goldman described in Amendment No. 11.
- <sup>(3)</sup> Information based on a report on Schedule 13F filed by Shah Capital Management with the SEC on April 1, 2015 for the first quarter ended March 31, 2015.

As of February 28, 2015, there were 24,497,065 shares of Common Stock, or 64.1% of the total number of shares of Common Stock, held of record by 17 persons with registered addresses in the United States.

**The Special Share**

The special share entitles the holder thereof to elect a majority of our Directors. In addition, no shareholders resolution may be passed without the affirmative vote of the special share, including any resolution to amend the Memorandum of Association or our Bye-Laws. The special share is not transferable except to Hong Leong Asia, Hong Leong China or any of its affiliates. In 1994, we issued the special share to Diesel Machinery, a holding company of the Company then controlled by Hong Leong China. During 2002, following the decision of the shareholders of Diesel Machinery to dissolve Diesel Machinery, Diesel Machinery redeemed all of the redeemable stock issued by it to its shareholders. According to the Diesel Machinery shareholders, Diesel Machinery transferred all of the shares of our Common Stock held by it to its shareholders, which included Hong Leong China and its wholly-owned subsidiaries.

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Because Coomber, a wholly-owned subsidiary of China Everbright Holdings, was the shareholder of Diesel Machinery which gave notice of the dissolution of Diesel Machinery, the special share was transferred by Diesel Machinery to HL Technology, an affiliate of Hong Leong Asia, pursuant to the terms of the Diesel Machinery Shareholders Agreement described below.

Our Bye-Laws provide that the special share shall cease to carry any rights in the event that, if Hong Leong Asia and its affiliates own the special share, Hong Leong Asia and its affiliates cease to own, directly or indirectly, at least 7,290,000 shares of Common Stock (or such equivalent number upon a consolidation or subdivision of the shares of Common Stock), or if China Everbright Holdings and its affiliates own the special share, China Everbright Holdings and its affiliates cease to own, directly or indirectly, at least 6,570,000 shares of Common Stock (or such equivalent number upon a consolidation or subdivision of the shares of Common Stock). The Bye-Laws also provide for circumstances in which Diesel Machinery holds the special share. However, Diesel Machinery was dissolved in 2003. HL Technology, an affiliate of Hong Leong Asia, holds the special share in addition to 7,831,169 shares of Common Stock, which is greater than the number stipulated in the provisions of our Bye-Laws set forth above.

**Related Party Transactions****Shareholders Agreement**

Hong Leong China, China Everbright Holdings, Cathay Investment Fund Limited, or Cathay, GS Capital Partners L.P., or GSCP, 14 shareholders who initially invested in us through Sun Yuan BVI, or the Sun Yuan Shareholders, and the Company in 1994 entered into an amended and restated Shareholders Agreement, or the Shareholders Agreement, which provides for certain matters relating to the management of our company and Yuchai and the ownership of our Common Stock. The Shareholders Agreement provides that our Board of Directors will consist of eleven directors, the controlling shareholder (as described below) will be entitled to designate six directors, the major shareholder (as described below) will be entitled to designate two directors, and each of Cathay and GSCP will be entitled to designate one director and the chief executive officer of Yuchai will initially be the other director. The Shareholders Agreement also provides that the controlling shareholder will be entitled to designate five of the nine Yuchai directors that we are entitled to designate, the major shareholder will be entitled to designate two such directors and each of Cathay and GSCP will be entitled to designate one such director. Under the Shareholders Agreement, the nine Yuchai directors designated by us will vote as a block in accordance with the vote of the majority of such nine directors. The Shareholders Agreement provides that the controlling shareholder will be the person holding the special share, provided that at all times the controlling shareholder will be either Hong Leong Asia or China Everbright Holdings, and the other will be the major shareholder. Since our initial public offering in 1994, Hong Leong Asia has been the controlling shareholder and China Everbright Holdings has been the major shareholder. However, in October 2002, China Everbright Holdings sold all of its shares in Coomber to Goldman in October 2002 and is no longer our major shareholder. The Shareholder Agreement provides that if any shareholder (other than the controlling shareholder) ceases to own at least 4% of our Common Stock, such shareholder will no longer be entitled to designate any directors. Accordingly, China Everbright Holdings no longer has director designation rights. The Shareholders Agreement also provides that, so long as Hong Leong Asia is the controlling shareholder, Yuchai or us will pay Hong Leong Asia an annual management fee of not less than US\$500,000 for management services provided by Hong Leong Asia, including the services of our president and chief financial officer. With effect from January 2008, further to agreements entered into between the Company and Yuchai, Yuchai has paid to the Company, instead of Hong Leong Asia, consultancy and management services fee of US\$1,000,000 per annum. Hong Leong Asia has agreed to waive its right to be paid any fees as set out in the Shareholders Agreement. The Shareholders Agreement will terminate upon the occurrence of an event resulting in the special share ceasing to carry any rights.

In addition to the Shareholders Agreement, Hong Leong Asia, China Everbright Holdings and Diesel Machinery had entered into a Subscription and Shareholders Agreement on November 9, 1994, as amended on January 21, 2002 and May 17, 2002, or the Diesel Machinery Shareholders Agreement, which provided for certain matters relating to the management of Diesel Machinery, the Company, Yuchai and the ownership of Diesel Machinery stock. The Diesel Machinery Shareholders Agreement provided that Hong Leong Asia would control Diesel Machinery, provided, however, that if Hong Leong Asia and its affiliates ceased to own directly or through Diesel Machinery at least 7,290,000 shares of Common Stock when China Everbright Holdings and its affiliates own directly or through Diesel Machinery at least 6,570,000 shares of Common Stock, China Everbright Holdings would control Diesel Machinery. The Diesel Machinery Shareholders Agreement provided that all rights of the special share held by Diesel Machinery would be exercised as directed by the shareholder that controls Diesel Machinery. With the dissolution of Diesel Machinery and the sale by China Everbright Holdings of all of its shares in Coomber to Goldman in October 2002, the Diesel Machinery Shareholders Agreement no longer directly affects us.

**Registration Rights Agreement**

Pursuant to a registration rights agreement, or the Registration Rights Agreement, we have granted two demand registration rights to each of Hong Leong China, China Everbright Holdings, Cathay, GSCP and the Sun Yuan Shareholders, or collectively the Selling Stockholders, requiring us, subject to certain conditions, to use our best efforts to prepare and file a registration statement on behalf of such shareholders under the Securities Act, and to use our best efforts to qualify the shares for offer and sale under any applicable US state securities laws. Expenses incurred in connection with one demand registration for each such shareholder will be borne by us, and we and Yuchai will be required to indemnify the underwriters in connection with any demand registration. The Registration Rights Agreement also grants each such shareholder certain piggyback registration rights entitling each shareholder to sell Common Stock in any registered offerings of our equity securities, for our account or on behalf of our security holders. China Everbright Holdings, Cathay, GSCP and the Sun Yuan Shareholders are no longer our shareholders. In March 2004, HL Technology and Coomber each registered shares for offer and sale from time to time on a shelf registration statement on Form F-3 which we filed on their behalf pursuant to a registration rights agreement. The shelf registration statement was rendered ineffective as we were not eligible to use the Form F-3 as a result of the delay in our filing of our previous periodic reports required under the Exchange Act. However, we are now compliant with our reporting obligations as required under the Exchange Act and are eligible to use the Form F-3. We have not received any instructions from either HL Technology or Coomber pursuant to the registration rights agreement, to take any further action in relation to the shelf registration statement.

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### **Reorganization Agreement and Cooperation Agreement**

On April 7, 2005, we entered into the Reorganization Agreement with Yuchai and Coomber, which is intended to be in furtherance of the terms of the July 2003 Agreement. On November 30, 2006, certain provisions of the Reorganization Agreement were amended, including extending the implementation deadline to June 30, 2007.

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, which is intended to be in furtherance of certain terms of the Reorganization Agreement, as amended. The Cooperation Agreement amends certain terms of the Reorganization Agreement, as amended, among CYI, Yuchai and Coomber, and as so amended, incorporates certain terms of the Reorganization Agreement. See Item 4. Information on the Company History and Development Cooperation Agreement.

### **Other Transactions**

We provide certain management, financial planning, internal audit services, internal control testing, IFRS training, business enhancement consulting and other services to Yuchai and, as of March 9, 2015, we 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. During fiscal year 2014, pursuant to a management services agreement and a consulting services agreement, we charged a total of US\$1.0 million to Yuchai for these services.

During fiscal year 2014, certain affiliates of Hong Leong Asia charged us Rmb 7.1 million (US\$1.2 million) for certain general and administrative expenses such as corporate secretarial services, office rental, professional and consultancy fees and miscellaneous office expenses.

During fiscal year 2014, certain subsidiaries and affiliates of the State Holding Company supplied raw materials and delivery services to Yuchai and acted as sales agents for Yuchai's products. The State Holding Company also purchased scraps from Yuchai. Yuchai considers that these transactions were entered into in the normal course of business and expects that these transactions will continue on normal commercial terms. During fiscal year 2012, a subsidiary of the State Holding Company purchased one of Yuchai's subsidiaries, namely Yuchai Express Guarantee Co. Ltd, for approximately Rmb 85.8 million.

For further details on these transactions, please see Note 29 to our consolidated financial statements appearing elsewhere herein.

On February 11, 2015, we entered into a loan agreement with HLGE extending the loan for another year from July 2015 to July 2016. During the period from January 1, 2014 to March 9, 2015, the largest amount outstanding under the loan was S\$68 million, and, as of March 9, 2015, S\$68 million was outstanding under the loan. For more details, see Item 3. Key Information Risk Factors Risks relating to our investment in HLGE The HLGE Group may be unable to continue as a going concern or raise sufficient funds to repay its debt obligations to us. We have undertaken other significant business transactions with related parties during the fiscal year ended December 31, 2014, as set forth under Note 29 to our consolidated financial statements appearing elsewhere herein.

## **ITEM 8. FINANCIAL INFORMATION**

### **Consolidated Financial Statements**

See Item 18. Financial Statements.

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### **Legal Proceedings**

Other than as set forth below, neither we nor any of our consolidated subsidiaries is currently involved in any material legal proceedings that we believe would, individually or taken as a whole, adversely affect our financial condition or results of operations.

#### **Proceedings with Yuchai**

We have previously encountered difficulties in obtaining the cooperation of the State Holding Company and Mr. Wang Jianming in the daily management and operation of Yuchai. The State Holding Company is a minority shareholder of Yuchai and is wholly-owned by the municipal government of Yulin City in the Guangxi Zhuang Autonomous Region. Until December 3, 2005, Mr. Wang was the Chairman, legal representative and Chief Executive Officer of Yuchai, as well as the Vice-Chairman and legal representative of the State Holding Company.

In response to earlier difficulties with respect to corporate governance measures and certain dividends declared by Yuchai, we initiated legal and arbitration proceedings in New York, London and Singapore against Yuchai, Mr. Wang and other related parties in May 2003. We subsequently discontinued these proceedings as a result of the execution of the July 2003 Agreement. Among other things, the July 2003 Agreement led to the resolution at that time of previous disagreements with respect to the payment of dividends by Yuchai to us and the re-appointment of Mr. Wang Jianming as Chief Executive Officer and Chairman of the Board of Directors of Yuchai in September 2003. We and Yuchai also agreed to work together to implement corporate governance procedures and to promote plans to enhance shareholder value. However, from time to time, we have continued to face difficulties in obtaining the cooperation of the Chinese shareholders of Yuchai in the daily management and operation of Yuchai and to fully exercise our controlling interest in Yuchai. Following the execution of the July 2003 Agreement, disagreements among the parties continued to recur. For example, representatives of the Chinese shareholders of Yuchai alleged that resolutions passed by our six wholly-owned subsidiaries at Yuchai's shareholders' meeting in December 2004 were invalid, allegations with which we disagreed.

In April 2005, we, Yuchai and Coomber agreed on steps relating to the adoption of corporate governance practices at Yuchai and a broad framework for the restructuring of our ownership of Yuchai, and entered into the Reorganization Agreement. The Reorganization Agreement is intended to be in furtherance of the July 2003 Agreement. In December 2005 and November 2006, the parties amended certain provisions of the Reorganization Agreement, including extending the implementation deadline to June 30, 2007. In June 2007, we, Yuchai, Coomber and the State Holding Company entered into the Cooperation Agreement which amends certain 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 from Yuchai. Although the parties to the Cooperation Agreement are expected to work towards its implementation as expeditiously as possible, no assurance can be given as to when the transactions contemplated therein will be fully consummated, or that implementation of the Cooperation Agreement will effectively resolve all of the difficulties faced by us with respect to its investment in Yuchai.

#### **Other Legal Proceedings**

In 2011, Guangxi Yulin Yuchai Accessories Manufacturing Company Limited ( YAMC ), a subsidiary of Yuchai, initiated a contractual claim against Guangxi Yuchai Automobile Spare Parts Manufacturing Company Limited ( Qipei ) for a sum of Rmb 29.2 million. On October 14, 2011, the trial court issued a judgment in favor of YAMC and ordered that Qipei should repay the outstanding payables amounting to Rmb 22.0 million to YAMC. As of March 8, 2013, Yuchai has proceeded to execute the judgment and applied for an injunction to freeze the defendants' assets prior to settlement of the judgment sum. As of May 28, 2013, Yuchai had executed the court order and the sum of Rmb 22.0 million has been fully repaid by the defendant.

### **ITEM 9. THE OFFER AND LISTING**

Since December 16, 1994, the Common Stock has been listed and traded on the NYSE under the symbol CYD. The Common Stock is not listed on any other exchanges within or outside the United States.

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The high and low sales prices for shares of the Common Stock on the NYSE for the periods indicated were as follows:

<b>Period</b>	<b>US\$ High</b>	<b>US\$ Low</b>
2010	32.45	12.30
2011	33.50	12.63
2012	18.52	11.70
2013	26.39	13.43
2014	24.94	16.60

<b>Period</b>	<b>US\$ High</b>	<b>US\$ Low</b>
2012 Second Quarter	15.96	11.70
2012 Third Quarter	13.91	12.10
2012 Fourth Quarter	16.20	12.64
2013 First Quarter	18.51	14.72
2013 Second Quarter	18.35	13.43
2013 Third Quarter	24.86	16.48
2013 Fourth Quarter	26.39	20.15
2014 First Quarter	24.94	19.40
2014 Second Quarter	22.46	19.87
2014 Third Quarter	21.94	18.45
2014 Fourth Quarter	20.00	16.60
2015 First Quarter	20.18	18.09

<b>Period</b>	<b>US\$ High</b>	<b>US\$ Low</b>
October 2014	18.60	16.94
November 2014	18.86	16.98
December 2014	20.00	16.60
January 2015	20.10	18.11
February 2015	19.99	18.09
March 2015	20.18	18.83

**ITEM 10. ADDITIONAL INFORMATION**

Our company's objects are to perform all the functions of a holding company and to coordinate the policy and administration of any subsidiary company. See paragraphs 6 and 7 of our company's Memorandum of Association for further information on the objects and powers of our company. Please see Exhibit 1.1 to this Annual Report.

**Memorandum of Association and Bye-Laws****Corporate Governance**

We are an exempted company incorporated in Bermuda and are subject to the laws of that jurisdiction. The legal framework in Bermuda which applies to exempted companies is flexible and allows an exempted company to comply with the corporate governance regime of the relevant jurisdiction in which the company operates or applicable listing standards. Under Bermuda law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company and to exercise their powers and fulfill the duties of their office honestly. In addition, the Bermuda company legislation imposes a duty on directors and officers of an exempted company to act honestly and in good faith with a view to the best interests of the company and requires them to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Bermuda legislation also imposes certain specific duties and obligations on companies and directors, both directly and indirectly, including duties and obligations with respect to matters such as (a) loans to directors and related persons; and (b) limits on indemnities for directors and officers. Bermuda law does not impose specific obligations in respect of corporate governance, such as those prescribed by NYSE listing standards, requiring a company to (i) appoint independent directors to their boards; (ii) hold regular meetings of non-management directors; (iii) establish audit, nominating and governance or compensation committees;

(iv) have shareholders approve equity compensation plans; (v) adopt corporate governance guidelines; or (vi) adopt a code of business conduct and ethics.



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We are also subject to the NYSE listing standards, although, because we are a foreign private issuer, those standards are considerably different from those applied to US companies. Under the NYSE rules, we need only (i) establish an independent audit committee that has specified responsibilities as described in the following table; (ii) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules; (iii) provide periodic written affirmations to the NYSE with respect to our corporate governance practices; and (iv) provide a brief description of significant differences between our corporate governance practices and those followed by US companies.

The following table compares the Company's principal corporate governance practices, which are in compliance with Bermuda law, to those required of US companies.

**Standard for US Domestic Listed Companies  
Director Independence**

A majority of the board must consist of independent directors.

Independence is defined by various criteria including the absence of a material relationship between director and the listed company. Directors who are employees, are immediate family of the chief executive officer or receive over \$120,000 per year in direct compensation from the listed company are not independent. Directors who are employees of or otherwise affiliated through immediate family with the listed company's independent auditor are also not independent.

The non-management directors of each company must meet at regularly scheduled executive sessions without management.

**Audit Committee**

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act. The rule requires that the audit committee (i) be comprised entirely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent auditor; (iii) adopt procedures for the receipt and treatment of complaints with respect to accounting, internal accounting controls or auditing matters; (iv) be authorized to engage independent counsel and other advisors it deems necessary in performing its duties; and (v) be given sufficient funding by the company to compensate the independent auditors and other advisors as well as for the payment of ordinary administrative expenses incurred by the committee.

The audit committee must consist of at least three members, and each member meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.

The audit committee must have a written charter that addresses the committee's purpose and responsibilities.

At a minimum, the committee's purpose must be to assist the board in the oversight of the integrity of the company's financial statements, the company's compliance with legal and regulatory requirements, the independent auditor's qualifications and independence and the performance of the company's internal audit function and independent auditors. The audit committee is also required to review the independent auditing firm's annual report describing the firm's internal quality control procedures, any material issues raised by the most recent internal quality control review or peer review of the firm, or by any recent

**China Yuchai International Limited's Practice**

Three of our eight directors, Messrs. Neo Poh Kiat, Tan Aik-Leang and Ho Chi-Keung Raymond are independent within the meaning of the NYSE standards.

As a foreign private issuer, our non-management directors are not required to meet periodically without management directors.

Our audit committee meets the requirements of Rule 10A-3 under the Exchange Act.

Our audit committee currently consists of three members, all of whom meets the independence requirements of both the NYSE rules and Rule 10A-3 under the Exchange Act.

Our audit committee has a charter outlining the committee's purpose and responsibilities, which are similar in scope to those required of US companies.

Our audit committee's charter outlines the committee's purpose and responsibilities which are similar in scope to those required of US companies.

governmental inquiry or investigation, and any steps taken to address such issues.

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**Standard for US Domestic Listed Companies**

The audit committee is also required to assess the auditor's independence by reviewing all relationships between the company and its auditor. It must establish the company's hiring guidelines for employees and former employees of the independent auditor. The committee must also discuss the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It must also meet separately, periodically, with management, the internal auditors and the independent auditors.

Each listed company must disclose whether its board of directors has identified an Audit Committee Financial Expert, and if not the reasons why the board has not done so.

Each listed company must have an internal audit function.

**China Yuchai International Limited's Practice**

Our audit committee assesses the auditor's independence on an ongoing basis by reviewing all relationships between the company and its auditor. It has established the company's hiring guidelines for employees and former employees of the independent auditor. The committee also discusses the company's annual audited financial statements and quarterly financial statements with management and the independent auditors, the company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, and policies with respect to risk assessment and risk management. It also meets separately, periodically, with management, the internal auditors and the independent auditors.

The Board of Directors has identified Mr. Tan Aik-Leang as our Audit Committee Financial Expert.

We are a holding company and the majority of business is done at our main subsidiary, Yuchai. Our group transactions, fees and expenses are reviewed by the Internal Audit Department of Hong Leong Asia. In addition, Yuchai maintains an independent internal audit function, and the Head of Internal Audit reports to the Audit Committee of Yuchai's Board which approves the audit plans, reviews significant audit issues and monitors corrective actions taken by management.

**Compensation Committee**

Listed companies must have a compensation committee composed entirely of independent board members as defined by the NYSE listing standards.

The committee must have a written charter that addresses its purpose and responsibilities.

These responsibilities include (i) reviewing and approving corporate goals and objectives relevant to CEO compensation; (ii) evaluating CEO performance and compensation in light of such goals and objectives for the CEO; (iii) based on such evaluation, reviewing and approving CEO compensation levels; (iv) recommending to the board non-CEO compensation, incentive compensation plans and equity-based plans; and (v) producing a report on executive compensation as required by the SEC to be included in the company's annual proxy statement or annual report. The committee must also conduct an annual performance self-evaluation.

Our compensation committee currently has three members, two of whom are independent within the meaning of the NYSE standards.

Our compensation committee reviews among other things the Company's general compensation structure, and reviews, recommends or approves executive appointments, compensation and benefits of directors and executive officers, subject to ratification by the Board of Directors, and supervises the administration of our employee benefit plans, if any.

**Nominating/Corporate Governance Committee**

Listed companies must have a nominating/corporate governance committee composed entirely of independent board members.

We do not have a nominating/corporate governance committee. However, certain responsibilities of this committee are undertaken by our Compensation Committee, such as the review and approval of executive appointments and all other functions are performed by the Board of Directors.

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**Standard for US Domestic Listed Companies**

The committee must have a written charter that addresses its purpose and responsibilities, which include (i) identifying qualified individuals to become board members; (ii) selecting, or recommending that the board select, the director nominees for the next annual meeting of shareholders; (iii) developing and recommending to the board a set of corporate governance principles applicable to the company; (iv) overseeing the evaluation of the board and management; and (v) conducting an annual performance evaluation of the committee.

**China Yuchai International Limited's Practice**

We intend to have our shareholders approve equity-compensation plans.

**Equity-Compensation Plans**

Shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions.

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines.

We have formally adopted various corporate governance guidelines, including Code of Business Conduct and Ethics (described below); Audit Committee Charter; Whistle-blowing Policy; Insider Trading Policy; and Disclosure Controls and Procedures.

**Code of Business Conduct and Ethics**

All listed companies, US and foreign, must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any amendment to or waivers of the code for directors or executive officers.

We adopted a Code of Business Conduct and Ethics Policy in May 2004, which was revised on December 9, 2008. A copy of the Code is posted on our internet website at <http://www.cyilimited.com>. We intend to promptly disclose any amendment to or waivers of the Code for directors or executive officers.

**Directors**

***Director Interests and Voting***

A Director of the Company cannot vote or be counted in the quorum with regard to any contract or arrangement or any other proposal in which he has any interest or in respect of which he has any duty which conflicts with his duty to the Company. The restriction from voting and being counted in the quorum does not apply if the only interest the Director has is included in the following list:

- (a) a resolution regarding granting any security or indemnity for any money lent or obligation incurred by such Director at the request, or for the benefit, of the Company or any of our subsidiaries (or a company of which we are a beneficially wholly-owned subsidiary);
- (b) a resolution regarding granting any security or indemnity to any third party for a debt or obligation which is owed by the Company or any of our subsidiaries (or a company of which we are a beneficially wholly-owned subsidiary) to the third party, for which such Director has assumed responsibility in whole or in part under a guarantee or indemnity;
- (c) a resolution about an offer of shares, debentures or other securities of the Company or any of its subsidiaries (or a company of which we are a beneficially wholly-owned subsidiary) for subscription or purchase in which such Director is to be a participant in the underwriting or sub-underwriting of the offer;
- (d) a resolution about any proposal involving any other company in which such Director is interested, whether directly or indirectly and whether as an officer or shareholder or otherwise, provided that such Director is not the holder of, or directly or indirectly beneficially interested in, 5% or more of (i) any class of the equity share capital of such company or in any third company through which such Director's interest is derived or (ii) the voting rights in that company;

- (e) any contract, arrangement or proposal for the benefit of our employees under which such Director benefits in a similar manner as the employees and does not receive any privileges or advantages not provided to the employees; or

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(f) any proposal in which such Director is interested in the same manner as other holders of our shares or our debentures or our other securities or any of our subsidiaries by virtue only of such Director's interest in our shares or our debentures or our other securities or any of our subsidiaries.

If our Board of Directors is considering proposals about appointing two or more Directors to offices or employments with the Company or any company in which we are interested, each such Director (if not disqualified from voting under proviso to item (d) above) can vote and be included in the quorum for each resolution, except the one concerning such Director.

### ***Remuneration and Pensions***

The total fees paid to the Directors (other than Directors appointed to an executive office) for performing their services as Directors must not exceed US\$250,000 each year or such lesser amount as our Board of Directors may determine. The Directors may decide such sum to be divided among them, except that any Director holding office for part of a year shall unless otherwise agreed be entitled to any proportionate part of the remuneration. Our shareholders may by ordinary resolution increase the amount of the fees payable to the Directors. Our shareholders approved the increase in the limit of the Directors' fee from US\$250,000 to US\$590,000 for fiscal year 2012 at our annual general meeting held on July 1, 2013 and from US\$250,000 to US\$518,905 for fiscal year 2013 at our annual general meeting held on July 4, 2014.

Our Board of Directors may grant special remuneration to any Director who shall render any special or extra services to or at our request. Such special remuneration may be paid to such Director in addition to or in substitution for his ordinary remuneration as a Director and may be payable by way of a lump sum, participation in profits or as otherwise determined by our Board of Directors.

Our Board of Directors may provide pensions or other benefits to any Director, officer or former Director and officer, or any of their family members or dependents.

### ***Borrowing Powers***

Our Board of Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures and other securities.

### ***Qualification of Directors***

No Director is required to hold any shares of the Company.

### **Rights of Holders of shares of Common Stock**

The holders of shares of Common Stock shall:

be entitled, on a show of hands, to one vote and, on a poll, to one vote per share;

be entitled to such dividends as the Board of Directors of the Company may from time to time declare;

in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of the reorganization or otherwise or upon any distribution of capital, be entitled to a return of the amount paid up on the Common Stock and thereafter to the surplus assets of the Company; and

generally, be entitled to enjoy all the rights attaching to shares.

All unclaimed dividends or distributions out of contributed surplus account may be invested or otherwise made use of by the Board of Directors of the Company for the benefit of the Company until claimed and the payment of any such dividend or distribution into a separate account or the investment of such dividend shall not constitute the Company a trustee in respect thereof. No dividend or distribution shall bear interest against the Company. Any dividend or distribution which has remained unclaimed for a period of 12 years from the due date for payment thereof shall

at the expiration of that period be forfeited and shall belong to the Company absolutely.

**Rights of Holder of the Special Share**

The holder of the special share shall be entitled to the following rights:

to elect six Directors of the Company and to remove Directors so appointed; and

no shareholder resolution, whether ordinary or special resolution, may be passed without the affirmative vote of the holder of the special share.

The holder of the Special Share shall not be entitled to any other rights or to any dividends and in the event of a winding up or dissolution of the Company, the holder of the special share shall be entitled only to a return of the amount paid up on the special share.

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The special share is not transferable except to Hong Leong Asia and its affiliates or to China Everbright Holdings and its affiliates. The special share shall cease to carry any rights in the event that, if Hong Leong Asia and its affiliates own the special share, Hong Leong Asia and its affiliates cease to own, directly or indirectly, at least 7,290,000 shares of Common Stock (or such equivalent number upon a consolidation or subdivision of shares of Common Stock), or if China Everbright Holdings and its affiliates own the special share, China Everbright Holdings and its affiliates cease to own, directly or indirectly, at least 6,570,000 shares of Common Stock (or such equivalent number upon a consolidation or subdivision of shares of Common Stock).

### **Modification of Shareholders Rights**

The rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be varied, modified or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of an ordinary resolution passed at a separate general meeting of the holders of the shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

### **Annual General and Special General Meetings**

We must hold an annual general meeting each year. Our Directors decide where and when it will be held. Not more than fifteen months may elapse between the date of one annual general meeting and the next. At least 14 clear days written notice must be given for every annual general meeting and for every special general meeting. The notice for any annual general meeting must state the date, place and time at which the meeting is to be held, and the business to be conducted at the meeting, including, if applicable, any election of Directors. The notice for any special general meeting must state the time, place and the general nature of the business to be considered at the meeting and shall state that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him. In the case of a meeting convened for passing a special resolution, the notice shall specify the intention to propose the resolution as a special resolution.

Shareholders holding not less than one-tenth in value of the paid up share capital of the Company and having the right to attend and vote at general meetings of the Company shall have the right, by written request to the Chairman or President (as applicable), Deputy Chairman or Vice President (as applicable) or Secretary of the Company, to require that a special general meeting be convened by the Directors for the transaction of any business specified in the request. Such meeting shall be held within two months after the request has been made. If within 21 days of such deposit of the request, the Board fails to convene the meeting, such shareholders may convene the meeting themselves in accordance with Section 74(3) of the Companies Act of 1981 of Bermuda.

### **Limitations on Rights to Own Securities**

There are no limitations under Bermuda law or our Memorandum of Association and Bye-Laws on the rights of non-Bermuda owners of shares of the Company to hold or vote their shares.

We are exempt from the laws of Bermuda which restrict the percentage of share capital that may be held by non-Bermudians, but as an exempted company we may not participate in certain business transactions, including (i) the acquisition or holding of land in Bermuda (except that required for its business held by way of lease or tenancy for a term not exceeding 50 years or, with the consent of the Minister of Finance of Bermuda, land by way of lease or tenancy for a term not exceeding 21 years in order to provide accommodation or recreational facilities for its employees); (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of 50,000 Bermuda dollars without the prior consent of the Minister of Finance of Bermuda; (iii) the acquisition of any bonds or debentures secured by any land in Bermuda other than those issued by the Government of Bermuda or a public authority; or (iv) the carrying on of business of any kind or type whatsoever in Bermuda either alone or in partnership or otherwise except, *inter alia*, carrying on business with persons outside Bermuda, in furtherance of the business of the Company carried on outside Bermuda or under a license granted by the Minister of Finance of Bermuda.

In accordance with our Bye-Laws, share certificates are only issued to members of the Company (i.e., persons registered in the register of members as holders of shares in the Company). We are not bound to investigate or incur any responsibility in respect of the proper administration or execution of any trust to which any of our shares are subject. We will take no notice of any trust applicable to any of its shares whether or not it had notice of such trust.



**Exchange Controls**

**Bermuda Exchange Controls**

We have been designated as a non-resident for exchange control purposes by the Bermuda Monetary Authority. We have received the permission of the Bermuda Monetary Authority under the Exchange Control Act of 1972 and regulations thereunder for the transfer of shares of common stock to and between persons regarded as resident outside Bermuda for exchange control purposes and the issue of shares within the existing authorized capital of the Company to such persons for so long as such shares are listed on the NYSE. The Bermuda Monetary Authority has also granted to all Bermuda companies with voting shares listed on an appointed stock exchange (as defined in the Companies Act 1981 of Bermuda), a general permission for the issue and subsequent transfer of any securities of such companies from and to a non-resident of Bermuda. The NYSE is an appointed stock exchange under the Companies Act 1981 of Bermuda. Issues and transfers of shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Exchange Control Act of 1972.

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Because we have been designated as a non-resident for Bermuda exchange control purposes, there are no restrictions on our ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of the shares of common stock, other than in respect of local Bermuda currency.

**China Exchange Controls**

The Renminbi currently is not a freely convertible currency. SAFE, under the authority of the PBOC, controls the conversion of Renminbi into foreign currency. Prior to January 1, 1994, Renminbi could be converted to foreign currency through the Bank of China or other authorized institutions at official rates fixed daily by SAFE. Renminbi could also be converted at swap centers, or Swap Centers, open to Chinese enterprises and foreign invested enterprises, or FIEs, subject to SAFE's approval of each foreign currency trade, at exchange rates negotiated by the parties for each transaction. In the year ended December 31, 1993, as much as 80% by value of all foreign exchange transactions in China took place through the Swap Centers. The exchange rate quoted by the Bank of China differed substantially from that available in the Swap Centers. Effective January 1, 1994, a unitary exchange rate system was introduced in China, replacing the dual-rate system previously in effect. In connection with the creation of a unitary exchange system, the China Foreign Exchange Trading System, or CFETS, inter-bank foreign exchange market was established. Under the unitary foreign exchange system, PBOC sets daily exchange rates, or the PBOC Rates, for conversion of Renminbi into US dollars and other currencies based on the CFETS interbank market rates, and the Bank of China and other authorized banks may engage in foreign exchange transactions at rates that vary within a prescribed range above or below PBOC Rates.

Yuchai, as a FIE, is permitted to retain its foreign currency earnings and maintain foreign currency accounts at designated foreign exchange banks. However, there can be no assurance that the current authorizations for FIEs to retain their foreign exchange to satisfy foreign exchange liabilities in the future will not be limited or eliminated or that Yuchai will be able to obtain sufficient foreign exchange to satisfy their foreign exchange requirements. Foreign exchange transactions under the capital account and the foreign debt account continue to be subject to limitations and require registrations with the reviews from the designated foreign exchange banks and SAFE, which could affect the ability of Yuchai to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from the Company.

In the event of shortages of foreign currencies, Yuchai may be unable to convert sufficient Renminbi into foreign currency to meet its foreign currency obligations or to pay dividends in foreign currency. Yuchai requires foreign currency to purchase a substantial portion of the manufacturing equipment required for the planned expansion of its manufacturing facilities and to meet foreign currency-denominated debt payment obligations. Yuchai will also require foreign currency for payment of its imported engine components.

The value of the Renminbi is subject to changes in Chinese government policies and to international economic and political developments. During the few years prior to 1994, the Renminbi experienced a devaluation against most major currencies, and a devaluation of approximately 50% of the Renminbi against the US dollar occurred on January 3, 1994 in connection with the adoption of the new unitary exchange rate system. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. From July 21, 2005 to December 31, 2005, this change in policy resulted in an approximately 2.5% appreciation of the Renminbi against the US dollar. From December 31, 2005 to June 30, 2008, the Renminbi appreciated 15.0% against the US dollar. From July 2008 until June 2010, however, the Renminbi traded stably within a narrow range against the US dollar. Since June 2010, the PRC government has allowed the Renminbi to appreciate slowly against the US dollar again, though there have been periods when the US dollar has appreciated against the Renminbi as well. In sum, from July 20, 2006 to December 31, 2014, the Renminbi appreciated about 28.8% against the US dollar. It is difficult to predict how market forces or government policy may impact the exchange rate between the Renminbi and the US dollar in the future.

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.

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On April 28, 2013, SAFE issued the Administrative Measures for Foreign Debt Registration, which took effect on May 13, 2013 and set forth the procedures for the registration of foreign debt borrowings. With the effectiveness of such Measures, the Notice on Relevant Issues for Improving Foreign Debt Administration was abolished on May 13, 2013.

On May 10, 2013, SAFE issued the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China, which further simplified certain operating procedures for foreign direct investments.

On January 10, 2014, SAFE issued the Notice on further Improving and Adjusting the Foreign Exchange Administration on Capital Accounts, which simplified the foreign exchange operating procedures for certain capital accounts.

On July 4, 2014, SAFE issued the Notice on the Administration of Foreign Exchange Involved in Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (the Notice 37 ), which became effective on July 4, 2014 and requires registration with SAFE (such registration will be conducted with relevant designated banks as specified by the Notice 13 (as defined below)) by the PRC resident shareholders of any foreign holding company of a PRC entity.

On February 13, 2015, SAFE issued the Notice on Further Simplifying and Improving the Foreign Exchange Administration Policies on Direct Investments (the Notice 13 ), which shall become effective on June 1, 2015. According to Notice 13, the banks are designated to directly review and deal with the foreign exchange registration for foreign direct investment in China Mainland and outbound direct investment. SAFE shall supervise the registration activities indirectly through banks. Certain operating procedures for direct investments are also simplified.

## **Taxation**

### **Bermuda Taxation**

There is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by shareholders of the Company other than by shareholders ordinarily resident in Bermuda. Neither the Company nor its shareholders (other than shareholders ordinarily resident in Bermuda) are subject to stamp or other similar duty on the issue, transfer or redemption of Common Stock. The Company has received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts any legislation imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, the imposition of such tax shall not be applicable to the Company or to any of its operations, shares, debentures or other obligations of the Company, until March 31, 2035. This assurance does not, however, prevent the imposition of any such tax or duty on such persons as are ordinarily resident in Bermuda and holding such shares, debentures or obligations of the Company or on land in Bermuda leased or let to the Company.

As an exempted company, the Company is required to pay a registration fee in Bermuda based upon its authorized share capital and the premium on the issue of its shares, at rates calculated on a sliding scale not exceeding US\$31,120 per annum.

### **People's Republic of China Taxation**

The following discussion summarizes the taxes applicable to the Company's investment in Yuchai and applicable to Yuchai under Chinese law.

#### ***Taxation of Dividends from Yuchai***

Under the formal Foreign Investment and Foreign Enterprises Law (the FEIT Law ), any dividends payable by foreign-invested enterprises to non-PRC investors were exempt from any PRC withholding tax. This exemption is only applicable for revenues accumulated up to December 31, 2007.

In 2007, the PRC National People's Congress adopted a new tax law, China Unified Enterprise Income Tax Law (the CIT Law ) and the State Council adopted the related implementation rules, or the Implementation Rules, which became effective on January 1, 2008. In accordance with the CIT Law and the Implementation Rules, dividends derived from the revenues accumulated from January 1, 2008 and are paid by PRC companies to non-resident enterprises are generally subject to a PRC withholding tax levied at a rate of 10% unless exempted or reduced pursuant to an applicable double-taxation treaty or other exemptions. Dividends paid by PRC companies to resident enterprises, including enterprises established under the laws of non-PRC jurisdictions but whose de facto management body is located in the PRC, are not subject to any PRC withholding tax, unless the dividends are derived from the publicly traded shares which have not been held continuously by the resident enterprises for twelve months.

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On February 20, 2009, the State Administration of Taxation promulgated the Notice on Relevant Issues of Implementing Dividend Clauses under Tax Treaties, or the Notice. According to the Notice, the transaction or arrangement, the major purpose for which is to obtain preferential tax treatment, shall not justify the application of preferential treatment stipulated in dividend clauses under tax treaties. Should the tax payer improperly enjoy the treatment under tax treaties as a result of such transaction or arrangement, the tax authorities in charge shall have the right to adjust. We have recognized a provision for withholding tax payable for profits accumulated after December 31, 2007 for the earnings that we do not plan to indefinitely reinvest in the PRC enterprises.

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### ***Taxation of Disposition of Yuchai Shares***

In the event the Company, through its subsidiaries, transfers any of its current holding of the Yuchai Shares, the amount received in excess of its original capital contribution would be subject to Chinese withholding tax at a rate of 10%.

In the event that Yuchai is liquidated, the portion of the balance of its net assets or remaining property, after deducting undistributed profits, various funds and liquidation expenses, that exceeds Yuchai's paid-in capital would be subject to withholding tax at a rate of 10%.

On December 10, 2009, the Chinese State Administration of Taxation issued the Circular concerning Strengthening the Administration of Enterprise Income Tax on Income Derived from Transfer of Equity of Non-resident Enterprises ( Circular 698 ), which is effective retroactively to January 1, 2008. On February 3, 2015, the Chinese State Administration of Taxation further issued the Circular on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises ( Circular 7 ), which became effective on the same date. Pursuant to Circular 698, income tax may be imposed on the sale of a PRC resident enterprise by a non-resident enterprise (excluding the sale on a public securities market of the equity in a PRC resident enterprise by a non-resident enterprise, where the equity was also acquired on a public securities market by the non-resident enterprise) and, in some cases, on the sale of an offshore intermediary holding company owning a Chinese resident enterprise. The tax authority can adjust the taxable income using reasonable methods, provided that the taxable income is reduced as a result of an equity transfer of a Chinese resident enterprise by a non-resident enterprise to its related parties not applying the arm's length principle. Pursuant to Circular 7, the parties involved in the indirect transfer of Chinese taxable properties and the Chinese resident enterprises whose equity is transferred indirectly may report the equity transfer matters to the competent tax authority and shall provide certain documents and materials including but not limited to, equity transfer contract or agreement, enterprise's equity structure prior to and after the equity transfer, the financial and accounting statements in the previous two years of the enterprises abroad and their subordinate enterprises who directly or indirectly hold Chinese taxable properties. The competent tax authority may also require the parties involved in and planning for the indirect transfer of Chinese taxable properties and the Chinese resident enterprises whose equity is transferred indirectly to provide the aforementioned materials and other relevant materials. Where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any justifiable business purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise.

### ***Income Tax***

Under the FEIT Law, Sino-foreign joint stock companies generally are subject to an income tax at a rate of 33% comprising a national tax of 30% and a local tax of 3%. Prior to January 1, 2008, notwithstanding the FEIT Law prescribed tax rate of 33%, Yuchai was subject to a preferential income tax rate at 15% since January 1, 2002, based on certain qualifications imposed by the state and local tax regulations.

In 2007, the National People's Congress approved and promulgated a new tax law, the CIT Law, which became effective from January 1, 2008. Under the CIT Law, foreign invested enterprises and domestic companies are subject to a uniform corporate tax rate of 25%. The CIT Law provides a five-year transition period from its effective date for those enterprises, such as Yuchai, which were established before January 1, 2008 and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. During the transition period from 2008 to 2012, a transitional graduated tax rate will be applied from the existing preferential corporate tax rate to the uniform corporate tax rate of 25%.

Notwithstanding the CIT Law prescribed tax rate of 25%, Yuchai may continue to enjoy the reduced corporate tax rate of 15% if it qualifies under the Western Development Tax Incentive Scheme or High Technology Incentive Scheme.

The Western Development Incentive Scheme was first introduced in 2001 to encourage investment in the Western region of China. Companies operating in the Western region who fulfill certain criteria and upon approval enjoy a reduced corporate tax rate of 15%. This scheme was applicable from 2001 to 2010. In 2011, the scheme was extended to 2020. In August 2014, the catalogue of qualifying industries for the Western Development Incentive Scheme was published. As engine manufacturing is one of the qualifying industries, Yuchai has applied to the tax authorities to qualify under this scheme. In the event that Yuchai's application is not successful, we may not be able to enjoy the preferential tax treatment offered under this scheme.

The High Technology Incentive was introduced in 2008. Companies that are high technology companies who fulfill certain criteria and upon approval enjoy a reduced corporate tax rate of 15%. The reduced corporate tax rate took effect from January 1, 2008. In 2011, Yuchai was certified as a high technology company with effect from 2011 to 2013, so it may qualify for this scheme if certain other criteria are met. In 2014, Yuchai was certified as a high technology company with effect from 2014 to 2016, so it may qualify

for this scheme if certain other criteria are met.

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From 2008 to 2010, Yuchai was subject to the reduced corporate tax of 15% as it qualified under the Western Development Incentive Scheme. Since Yuchai operates in the Guangxi Zhuang Autonomous Region and had previously qualified under the Western Development Incentive Scheme, Yuchai believes that it still qualifies under this scheme. In addition, since 2011, Yuchai has been filing corporate tax returns at the reduced corporate tax rate of 15%, subject to final approval by the local tax authority. In the event that Yuchai is not able to qualify for any of these incentive schemes, it would be subject to corporate tax at a rate of 25% as prescribed under the CIT Law.

The China tax bureau periodically conducts tax examinations. Our last tax examination was conducted in 2011, when the provincial tax bureau completed an examination of Yuchai's PRC income tax returns for 2006 through to 2010. The tax bureau did not propose any adjustment to Yuchai's tax positions, and no surcharge or penalty was imposed. However, any adverse findings or change in the tax legislation in China could have a material adverse impact to our consolidated financial conditions or results of operations.

Furthermore, pursuant to the CIT Law, if an enterprise incorporated outside the PRC has its de facto management organization located within the PRC in accordance with the New Income Tax Law, such enterprise may be recognized as a PRC tax resident enterprise and thus may be subject to enterprise income tax at the rate of 25% on their worldwide income. The Implementation Rules specify that a de facto management organization means an organization that exercises material and full management and control over matters including the enterprise's production and operations, personnel, finance and property. Although the Implementation Rules provide a definition of de facto management organization, such definition has not been tested and there remains uncertainty as to when a non-PRC enterprise's de facto management organization is considered to be located in the PRC. If we or any of our subsidiaries registered outside China are treated as tax resident enterprise under the CIT Law, our income tax expenses may increase and our profitability could decrease.

***Withholding Tax***

On January 9, 2009, the State Administration of Taxation promulgated the Interim Measures for the Administration of Withholding of the Source of Enterprise Income Tax for Non-resident Enterprises, or the Interim Measures, which took effect retroactively on January 1, 2009. In accordance with the Interim Measures, if a non-resident enterprise obtains the income originating from the PRC, or the taxable income, including equity investment income such as dividend and bonus, interest, rental and royalty income, income from property transfer and other income, the payable EIT on the taxable income shall be withheld at the source by the enterprise or individual who is directly obligated to make relevant payment to the non-resident enterprise under relevant laws or contracts, or the withholding agent.

The withholding agent shall make the withholding registration with the competent tax authority within 30 days after it has signed the first business contract or agreement involving the taxable income with the non-resident enterprise. Thereafter, whenever contracts involving the taxable income are signed, amended, or renewed by the withholding agent and the non-resident enterprise, the withholding agent shall, within 30 days of such signing, amendment or renewal, submit a Contract Filing and Registration Form for EIT Withholding, a copy of the contract and other relevant documents to the competent tax authority for record. In the event that a transfer of domestic equity between non-resident enterprises takes place outside the PRC, the domestic enterprise whose equity is transferred shall file a copy of the equity transfer contract with the competent tax authority when it applies for change of tax registration according to the law. In the event that a non-resident enterprise fails to file and pay the EIT to the Tax authority in manner or within the time frame required by the Interim Measures, it will be ordered by the tax authority to pay the EIT within a limited period of time. If the non-resident enterprise fails to pay the EIT within such period of time, the tax authority may collect and verify information of other PRC income sources and relevant payers of the non-resident enterprise, and issue a tax notice to the relevant payers to pursue the due EIT and fine by the non-resident enterprise from the amount payable by the relevant payers to the non-resident enterprise.

***Value-Added Tax***

In addition to Chinese income tax, Yuchai is subject to tax on its sales. With effective from January 1, 2009, the amended Value-Added Tax Provisional Regulations subject all goods produced or processed in China, other than real property and goods produced or processed for export, to a value-added tax or VAT at each stage or sale in the process of manufacture, processing, distribution and sale to the ultimate consumer. The basic VAT rate is 17% of the sale price of the item, although certain goods are assessed at a preferential 13% VAT rate.

The seller of the goods adds 17% to the sale price of the item. The VAT amount is separately listed in the normal invoice (except in the case of retail sales), and the seller collects the applicable amount of VAT through the sale of the item. The amount of the seller's VAT liability to the Taxation Bureau is calculated as the amount of sales multiplied by the applicable VAT rate. The amount of the seller's VAT liability may be reduced by deducting the VAT included in the fixed assets (excluding those used exclusively in non-VAT taxable, VAT exempted and welfare activities, or for personal consumption, or their combination), materials, parts and other items purchased by the seller and used in producing the goods.





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### **United States Federal Income Taxation**

This section describes the material United States federal income tax consequences of owning and disposing of Common Stock. It applies to a US Holder (as defined below) that holds the Common Stock as capital assets for tax purposes. This section does not apply to a US Holder that is a member of a special class of holders subject to special rules, including:

a financial institution,

a dealer in securities,

a trader in securities that elects to use a mark-to-market method of accounting for its securities holdings,

a real estate investment trust,

a regulated investment company,

U.S. expatriates,

persons who acquired Common Stock pursuant to the exercise of any employee share option or otherwise as compensation,

a tax-exempt organization,

an insurance company,

a person liable for alternative minimum tax,

a person that actually or constructively owns 10% or more of the voting stock of the Company,

a person that owns Common Stock through a partnership or other pass-through entity,

a person that holds Common Stock as part of a straddle or a hedging or conversion transaction, or

a person whose functional currency is not the US dollar.

This section is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. There is currently no comprehensive income tax treaty between the United States and Bermuda.

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This section does not describe any tax consequences arising out of the tax laws of any state, local or non-U.S. jurisdiction, any estate or gift tax consequences or the recently enacted Medicare tax on certain net investment income. If an entity or arrangement that is treated as a partnership for United States federal income tax purposes, holds the Common Stock, the treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. Partners in such partnerships should consult with their tax advisors.

For purposes of this discussion, a US Holder is a beneficial owner of Common Stock that is:

a citizen or resident of the United States,

a US domestic corporation (or other entity taxable as a US domestic corporation for United States federal income tax purposes),

an estate the income of which is subject to United States federal income tax regardless of its source, or

a trust, if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a United States person.

*US Holders should consult their own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of shares in their particular circumstances.*

### ***Taxation of Dividends***

Under the United States federal income tax laws, and subject to the passive foreign investment company (PFIC) rules discussed below, US Holders will include in gross income the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes). The amount of dividends will include any cash distributions and the fair market value of certain stock distributions and distributions of other property. In this regard, if the distribution is at the election of any stockholder, payable either in cash or in shares, the receipt of shares by the US Holders would generally be treated as a taxable distribution in an amount equal to the fair market value of such shares as of the date of the distribution. The dividend is ordinary income that the US Holder must include in income when the dividend is actually or constructively received. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the US Holder's basis in the shares and thereafter as capital gain. We currently do not, and we do not intend to, calculate our earnings and profits under United States federal income tax principles. Therefore, a US Holder should expect that a distribution will generally be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

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With respect to non-corporate taxpayers, dividends may be taxed at the lower applicable capital gains rate provided that (1) the Common Stock is readily tradable on an established securities market in the United States, (2) the Company is not a PFIC (as discussed below) for either the Company's taxable year in which the dividend was paid or the preceding taxable year, and (3) certain holding period requirements are met. Common Stock generally is considered for purposes of clause (1) above to be readily tradable on an established securities market if it is listed on the NYSE. US Holders should consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to the Company's Common Stock.

For foreign tax credit limitation purposes, the dividend will generally constitute foreign source income and will generally be passive category income but could, in the case of certain US Holders, constitute general category income.

### ***Sale or Other Disposition of Common Stock***

Subject to the PFIC rules discussed below, upon the sale or other disposition of shares, a US Holder will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the US Holder's amount realized and the US Holder's tax basis in such shares. If a US Holder receives consideration for shares paid in a currency other than US dollars, the US Holder's amount realized will be the US dollar value of the payment received. In general, the US dollar value of such a payment will be determined on the date of sale or disposition. On the settlement date, a US Holder may recognize US source foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference (if any) between the US dollar value of the amount received based on the exchange rates in effect on the date of sale or other disposition and the settlement date. However, if the shares are treated as traded on an established securities market and the US Holder is a cash basis taxpayer or an accrual basis taxpayer who has made a special election, the US dollar value of the amount realized in a foreign currency is determined by translating the amount received at the spot rate of exchange on the settlement date of the sale, and no exchange gain or loss would be recognized at that time. Capital gain of a non-corporate US Holder is generally taxed at a reduced rate where the property is held more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

### ***PFIC Rules***

The Company believes that its 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, the application of the PFIC rules is subject to uncertainty in several respects, and we cannot assure you that the United States Internal Revenue Service will not take a contrary position. In addition, PFIC status is a factual determination which cannot be made until the close of the taxable year. Accordingly, there is no guarantee that the Company will not be a PFIC for any future taxable year. Furthermore, because the total value of the Company's assets for purposes of the asset test generally will be calculated using the market price of the Company's shares, our PFIC status will depend in large part on the market price of the Company's shares. Accordingly, fluctuations in the market price of the Company's shares could render the Company a PFIC for any year. A non-U.S. corporation is considered a PFIC for any taxable year if either:

at least 75% of its gross income is passive income, or

at least 50% of the 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 (the asset test).

In the PFIC determination, the Company will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock.

If the Company were to be treated as a PFIC for any year during the US Holder's holding period, unless a US Holder elects to be taxed annually on a mark-to-market basis with respect to the shares (which election may be made only if the Company's shares are marketable stock within the meaning of Section 1296 of the Code), a US Holder will be subject to special tax rules with respect to any excess distribution received and any gain realized from a sale or other disposition (including a pledge) of that holder's shares. Distributions a US Holder receives in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or the holder's holding period for the shares will be treated as excess distributions. Under these special tax rules:

the excess distribution or gain will be allocated ratably over the US Holder's holding period for the shares;



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the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which the Company is treated as a PFIC, will be treated as ordinary income; and

the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the shares cannot be treated as capital, even if the shares are held as capital assets. If the Company were to be treated as a PFIC for any year during which a US Holder holds the shares, the Company generally would continue to be treated as a PFIC with respect to that US Holder for all succeeding years during which it owns the shares. If the Company were to cease to be treated as a PFIC, however, a US Holder may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the shares.

If a US Holder holds shares in any year in which the Company is a PFIC, that holder will be required to file an annual information report with the United States Internal Revenue Service.

***Information Reporting and Backup Withholding***

Dividend payments with respect to our shares and proceeds from the sale, exchange or redemption of our shares may be subject to information reporting to the United States Internal Revenue Service and possible United States backup withholding. Backup withholding will not apply, however, to a US Holder that furnishes a correct taxpayer identification number and makes any other required certification or that is otherwise exempt from backup withholding. US Holders that are required to establish their exempt status generally must provide such certification on United States Internal Revenue Service Form W-9. US Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your United States federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the United States Internal Revenue Service and furnishing any required information in a timely manner.

***Additional Reporting Requirements***

Certain US Holders who are individuals (including, under proposed regulations, certain entities treated as individuals) are required to report information relating to an interest in our shares, subject to certain exceptions. US Holders should consult their tax advisors regarding the effect, if any, of this United States federal income tax legislation on their ownership and disposition of our shares.

**Documents on Display**

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington D.C., 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are required to use the EDGAR system. We have done so in the past and will continue to do so in order to make our reports available over the Internet.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are subject to market rate risks due to fluctuations in interest rates. The majority of Yuchai's debt is variable rate short-term and long-term Renminbi denominated loans obtained by Yuchai from banks in China. The interest rates of such loans are generally established in accordance with directives announced from time to time by the PBOC, which are in turn affected by various factors such as the general economic conditions in China and the monetary policies of the Chinese government. The investment market sentiments may also have an impact over our securities investment in HLGE and TCL. There is no ready market in China for Yuchai to enter into interest rate swaps or other instruments designed to mitigate its exposure to interest rate risks. In addition, we also have various credit facilities from banks in Singapore to fund our business expansion plan. As of December 31, 2014, we had outstanding consolidated loans of Rmb 2,286.7 million (US\$371.4 million). Part of these credit facilities were denominated in Singapore dollars used mainly to invest into Singapore dollars denominated investments of TCL and HLGE. Therefore, this has provided a natural hedge for the Singapore dollars currency.

The Company is exposed to the following market risk.

**Table of Contents****Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investment and derivative financial instrument.

**Interest rate risk**

The primary source of the Company's interest rate risk relates to interest-bearing bank deposits and its borrowings from banks and financial institutions. The interest-bearing loans and borrowings of the Company are disclosed in Note 15. As certain rates are based on interbank offer rates, the Company is exposed to cash flow interest rate risk. This risk is not hedged. Interest-bearing bank deposits are short to medium-term in nature but given the significant cash and bank balances held by the Company, any variation in the interest rates may have a material impact on the results of the Company.

The Company manages its interest rate risk by having a mixture of fixed and variable rates for its deposits and borrowings.

**Interest rate sensitivity**

The sensitivity analyses below have been determined based on the exposure to interest rates for bank deposits and interest-bearing financial liabilities at December 31, 2014 and the stipulated change taking place at the beginning of the year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis point increase or decrease is used and represents management's assessment of the possible change in interest rates.

If interest rate had been 50 basis points higher or lower and all other variables were held constant, the profit for the year ended December 31, 2014 of the Company would increase/decrease by Rmb 1.1 million (US\$0.2 million) (2013: profit increase/decrease by Rmb 6.5 million).

**Foreign currency risk**

The Company is exposed to foreign currency risk on sales, purchases and financial liabilities that are denominated in currencies other than the respective functional currencies of entities within the Company. The currencies giving rise to this risk are primarily Singapore dollar, Euro, Renminbi, Canadian dollar and the United States dollar.

Foreign currency translation exposure is managed by incurring debt in the operating currency so that where possible operating cash flows can be primarily used to repay obligations in the local currency. This also has the effect of minimizing the exchange differences recorded against income, as the exchange differences on the net investment are recorded directly against equity.

The Company's exposures to foreign currency are as follows:

	Singapore Dollar Rmb	Euro Rmb	Canadian Dollar Rmb (in thousands)	United States Dollar Rmb	Renminbi Rmb	Others Rmb
<b>2013</b>						
Held for trading investment	28,105					
Trade and other receivables	561	31,590		11,293	35,426	5
Cash and bank balances	171,475			167,394		383
Financial liabilities	(48,153)	(22,483)	(159,607)	(25,738)		
Trade and other payables	(32,077)			(17,580)	(1,336)	(17)
	119,911	9,107	(159,607)	135,369	34,090	371





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2014	Singapore		United		
	Dollar Rmb	Euro Rmb	Dollar Rmb	Renminbi Rmb	Others Rmb
			(in thousands)		
Held for trading investment	22,855				
Trade and other receivables	814	31,546	6,738	31,933	5
Cash and bank balances	138,540		2,041		357
Financial liabilities	(32,467)	(41,162)			
Trade and other payables	(51,898)		(19,608)	(1,518)	
	77,844	(9,616)	(10,829)	30,415	362
US\$	12,645	(1,562)	(1,759)	4,940	59

A 10% strengthening of the following major currencies against the functional currency of each of the Company's entities at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2013 Rmb	2014 Rmb	2014 US\$
		(in thousands)	
Singapore dollar	11,991	7,784	1,265
Euro	911	(962)	(156)
Canadian dollar	(15,961)		
United States dollar	13,537	(1,083)	(176)
Renminbi	3,409	3,042	494

**Equity price risk**

The Company has held for trading investments which are quoted. The exposure to quoted instruments is limited.

A 10% increase/(decrease) in the underlying prices at the reporting date would increase/(decrease) the Company's profit by the following amount:

	2013 Rmb	2014 Rmb	2014 US\$
		(in thousands)	
Statement of profit or loss	2,811	2,286	371

The Company has invested in a company that is quoted on the Singapore Exchange, a summary of which is provided below: