CHINA YUCHAI INTERNATIONAL LTD
Form 20-F
April 19, 2012

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, 2011

OR

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

OR

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

Commission file number 1-13522

China Yuchai International Limited

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2011, 37,267,673 shares of common stock, par value US$0.10 per share, and one special share, par value US$0.10, were issued and outstanding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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Certain Definitions and Supplemental Information

All references to China, PRC and the State in this Annual Report are references to the People s Republic of China. Unless otherwise specified, all references in this Annual Report to US dollars, dollars, US$ or $ are to United States dollars; all references to Renminbi or Rmb Renminbi, the legal tender currency of China; all references to S$ are to Singapore dollars, the legal tender currency of Singapore. 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 6.3016 = US$1.00, the rate quoted by the People s Bank of China, or PBOC, on March 1, 2012 and (ii) from Singapore dollar to US dollars at the rate of S$1.2474 = 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 1, 2012. No representation is made that the Renminbi amounts or Singapore dollar amounts could have been, or could be, converted into US dollars at rates specified herein or any other rate.

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

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

As of December 31, 2011, 37,267,673 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 37,267,673. Unless otherwise indicated herein, all percentage share amounts with respect to the Company are based on the weighted average number of shares of 37,267,673 for 2011. As of March 1, 2012, 37,267,673 shares of our Common Stock, and one special share, par value US$0.10, of our Common Stock 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.

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 2012 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, inflation and the availability of credit, particularly to the extent such current or future conditions and policies affect the truck and diesel engine industries and markets in China, our diesel engine customers, the demand, sales volume and sales prices for our diesel engines and our levels of accounts receivable;

- the effects of a significant slowdown in the global economy and heightened market volatility in 2011 caused by various factors, including the sovereign debt crisis in Europe, a possible breakup of the eurozone, the continuing geopolitical unrest in the Middle East and recent tensions over Iran s nuclear capabilities, and their possible impact on world oil supply and on our business, operating results and growth rates;

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

the effects of previously reported material weaknesses and current material weakness 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 the Dongfeng Automobile Company and other major diesel truck manufacturers controlled by or affiliated with the Dongfeng Automobile Company;

our ability to successfully manufacture and sell our diesel 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 inflation on our financial condition and results of operations, including the effects on Yuchai s costs of raw materials and parts and labor costs;

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 Reorganization Agreement) (See Item 4. Information on the Company History and Development Cooperation Agreement);

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

the effects of China s political, economic and social conditions on our financial condition, results of operations, business or prospects;

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 repay their debt obligations to us which may have a material adverse effect on the value of our investment in HLGE;

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, such as the Influenza A (H1N1) virus and the Avian flu (H1N5), 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, 2010 and 2011, and the selected consolidated statement of income data and the selected consolidated statement of cash flows data set forth below for the years ended December 31, 2009, 2010 and 2011 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, 2009, and the selected consolidated statement of income data and the selected consolidated statement of cash flows data set forth below for the year ended December 31, 2009 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, 2008, 2009, 2010 and 2011 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. Our consolidated financial statements as of and for the year ended December 31, 2008 were originally prepared in accordance with generally accepted accounting principles in the United States, or US GAAP, and were restated in accordance with IFRS for comparative purposes only.

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, 2009, 2010 and 2011 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.

Our selected consolidated statement of income data, selected consolidated statement of financial position data and selected consolidated statement of cash flows data for the year ended December 31, 2007 are derived from our audited consolidated financial statements not included in this Annual Report. Our consolidated financial statements as of and for the year ended December 31, 2007 were prepared in accordance with US GAAP, which differs in certain significant respects from and is not comparable with IFRS, and are therefore presented separately.

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 have looked for new business opportunities to seek to reduce our financial dependence on Yuchai. As of December 31, 2011, we had a 49.4% interest in the outstanding ordinary shares of HLGE and a 12.2% interest in the outstanding ordinary shares of TCL. As of April 4, 2012, our interest in the outstanding ordinary shares of HLGE had decreased from 49.4% to 48.9%, and our interest in the outstanding ordinary shares of TCL remained unchanged at 12.2%.

Relating to our interest in HLGE:

On January 16, 2012, 24,189,170 Series B redeemable convertible preference shares were mandatorily converted into 24,189,170 new ordinary shares in the capital of HLGE resulting in our shareholding interest in HLGE decreasing from 49.4% to 48.1%. On March 5, 2012, upon the transfer of one Series A redeemable convertible preference share (Series A RCPS) to Venture Delta Limited, our wholly-owned subsidiary, Grace Star Services Limited and Venture Delta sent requisition notices to HLGE s Board of Directors requesting for the convening of a meeting of the holders of the Series A RCPS to propose the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE in accordance with HLGE s articles of association. On March 15, 2012, pursuant to the receipt of the requisition notices from Grace Star and Venture Delta, HLGE s Board of Directors announced that a meeting of the holders of the Series A RCPS will be convened on March 30, 2012 to approve the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE. At the meeting on March 30, 2012, the holders of the Series A RCPS approved the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE. On April 4, 2012, as a result of the conversion of all the outstanding Series A RCPS held by Grace Star and Venture Delta into ordinary shares in the capital of HLGE, our shareholding interest in HLGE increased from 48.1% to 48.9%.

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In the consolidated financial statements for the year ended December 31, 2007 that were prepared in accordance with US GAAP, we accounted for HLGE as an affiliate under the equity method of accounting. In the consolidated financial statements for the years ended December 31, 2008, 2009, 2010 and 2011 that were prepared in accordance with IFRS, having regard to the potential voting rights attributable to our redeemable convertible preference shares in HLGE, we consider HLGE a subsidiary as we are able to govern the financial and operating policies of HLGE.

Relating to our interest in TCL:

On December 1, 2009, we announced that concurrently with the capital reduction and cash distribution exercise to be undertaken by TCL, we intended to appoint a broker to sell 550,000,000 shares in TCL at a price of S$0.03 per share on an ex-distribution basis (Placement). On June 9, 2010, upon the obtaining of the relevant approvals from its shareholders and the legal and regulatory authorities in Singapore, TCL announced that the expected date of payment of the cash distribution of S$0.05 per issued share was July 7, 2010. On July 8, 2010, we announced that we had proceeded to complete the sale of a total of 536,000,000 shares out of 550,000,000 shares available in the Placement in TCL to the various purchasers. Further to the closing of the Placement, our total shareholding in TCL decreased from 34.4% to 13.9%. Subsequently, the Company sold additional TCL shares in the open market resulting in its shareholding interest in TCL decreasing further from 13.9% to 12.2%. For further information on the Company s investments in TCL and HLGE, see Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan .

Amount in conformity with IFRS:

	IFRS Year ended December 31,				
	2008 Rmb	2009 Rmb	2010 Rmb (in thousands)	2011 Rmb	2011 US$
Selected Consolidated Statement of Income Data:					
Revenue	10,404,788	13,175,903	16,208,184	15,444,428	2,450,874
Gross profit	2,049,136	2,545,818	4,008,931	3,442,279	546,254
Research and development costs	(184,794)	(297,259)	(324,123)	(328,140)	(52,072)
Other operating income, net	19,460	77,555	87,628	73,078	11,596
Operating profit	615,742	854,257	1,949,672	1,535,088	243,603
Share of results of associates and joint ventures	16,409	(13,046)	(54,023)	(79,632)	(12,637)
Profit before tax from continuing operations	481,742	966,668	1,765,203	1,299,282	206,183
Income tax expense	(110,526)	(147,223)	(327,946)	(226,780)	(35,988)
Profit from continuing operations	371,216	819,445	1,437,257	1,072,502	170,195
(Loss)/profit after tax for the year from discontinued operations	(33,985)	13,022	12,655		
Profit for the year	337,231	832,467	1,449,912	1,072,502	170,195
Attributable to owners of the parent	240,036	628,331	1,117,297	818,532	129,893
Non-controlling interests	97,195	204,136	332,615	253,970	40,302
Basic and diluted earnings per common share attributable to owners of the parent	6.44	16.86	29.98	21.96	3.49
Profit from continuing operations per share	9.96	21.99	38.57	28.78	4.57
Profit for the year per share	9.05	22.34	38.91	28.78	4.57
Weighted average number of shares	37,268	37,268	37,268	37,268	37,268

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	As of December 31,				
	2008	**2009**	**2010**	**2011**	**2011**
	Rmb	**Rmb**	**Rmb**	**Rmb**	**US$**
			(in thousands)		
Selected Consolidated Statement of Financial Position Data:					
Working capital [(2)]	977,190	1,429,011	2,488,296	2,670,372	423,762
Property, plant and equipment	2,548,736	2,975,169	3,276,302	3,748,233	594,807
Trade and bills receivables	2,538,135	2,506,701	4,234,475	6,690,917	1,061,781
Short-term interest-bearing loans and borrowings	1,148,732	667,173	423,543	3,551,848	563,642
Trade and other payables	3,604,128	6,190,246	7,902,317	7,234,151	1,147,986
Total assets	9,967,644	13,305,911	16,246,263	19,151,019	3,039,072
Long-term interest-bearing loans and borrowings	176,756	411,875	201,850	144,883	22,992
Non-controlling interests	1,169,779	1,360,459	1,687,980	1,807,958	286,905
Issued capital	1,724,196	1,724,196	1,724,196	1,724,196	273,613
Equity attributable to owners of the parent	3,445,180	4,049,331	5,097,947	5,542,203	879,491

	Year ended December 31,				
	2008	**2009**	**2010**	**2011**	**2011**
	Rmb	**Rmb**	**Rmb**	**Rmb**	**US$**
			(in thousands)		
Selected Consolidated Statement of Cash Flows Data:					
Net cash provided by operating activities	697,180	3,969,358	1,464,964	(1,762,386)	(279,674)
Capital expenditures [(3)]	376,440	788,936	644,305	931,764	147,861

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Amount in conformity with US GAAP:

	US GAAP Year ended December 31, 2007 Rmb (in thousands)
Selected Consolidated Statement of Income Data:	
Revenue	9,556,303
Gross profit	1,944,718
Research and development costs	(153,146)
Operating profit	841,556
Other operating income, net	53,554
Share of results of associates and joint ventures	14,048
Earnings before income taxes and non-controlling interests	783,914
Income tax expense	(68,518)
Income before non-controlling interests	715,396
Non-controlling interests in income of consolidated subsidiaries	(189,927)
Net income	525,469
Basic and diluted earnings per common share	14.10
Weighted average number of shares	37,268

	As of December 31, 2007 Rmb (in thousands)
Selected Consolidated Statement of Financial Position Data:	
Working capital [2]	1,028,732
Property, plant and equipment	2,158,246
Trade and bills receivables	3,107,785
Short-term bank loans	819,164
Trade accounts payables	2,509,962
Total assets	9,579,184
Long-term bank loans	767,929
Non-controlling interests	849,527
Issued capital	1,724,196
Total Shareholders equity	3,294,465

	Year ended December 31, 2007 Rmb (in thousands)
Selected Consolidated Statement of Cash Flows Data:	
Net cash provided by operating activities	84,554
Capital expenditures [3]	265,258

(1) The Company s functional currency is U.S. dollar and its reporting currency is Renminbi. The functional currency of Yuchai is Renminbi. Translation of amounts from Renminbi to U.S. dollars is solely for the convenience of the reader. Translation of amounts from Renminbi to U.S. dollars has been made at the rate of Rmb 6.3016 = US$1.00, the rate quoted by the People s Bank of China at the close of business on March 1, 2012. No representation is made that the Renminbi amounts could have been, or could be, converted into U.S. dollars at that

rate or at any other rate prevailing on March 1, 2012 or any other date. The rate quoted by the People s Bank of China at the close of business on December 30, 2011 was Rmb 6.3009 = US$1.00.

(2) Current assets less current liabilities.

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

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Dividends

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

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

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

Any determination by Yuchai to declare a dividend will be at the discretion of Yuchai s shareholders and will be dependent upon Yuchai s financial condition, results of operations and other relevant factors. Yuchai s Articles of Association provide that dividends shall be paid at least once a year. 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:

Financial Year	Dividend paid by the Company to its shareholders for the financial year / in the financial year (per share)	Dividend paid by Yuchai to the Company [(1)] for the financial year / in the financial year (in thousands)
2007	US$0.10 [(2)]	Rmb 108,313 (US$15,811) [(3)]
2008	US$0.10 [(4)]	Rmb 72,284 (US$10,564) [(5)]
2009	US$0.10 [(6)]	Rmb 144,565 (US$21,130) [(7)]
2010	US$0.25 [(8)]	Rmb 451,775 (US$69,213) [(9)]
2011	US$1.50 [(10)]	Not yet declared.

(1) Dividends paid by Yuchai to us, as well as to other shareholders of Yuchai, were declared in Renminbi and paid in US dollars (as shown in parentheses) based on the exchange rates at local designated foreign exchange banks on the respective payment dates. For dividends paid for financial years 2007, 2008, 2009 and 2010, the exchange rate used was Rmb 6.8505 = US$1.00, Rmb 6.8425 = US$1.00, Rmb 6.8417 = US$1.00 and Rmb 6.5273 = US$1.00 respectively.

(2) On September 28, 2007, we declared a second interim dividend of US$0.10 per ordinary share amounting to US$3.7 million to all shareholders in respect of the fiscal year ended December 31, 2006. This dividend was paid to the shareholders on October 24, 2007.

(3) The dividend declared for the fiscal year ended December 31, 2007 by Yuchai was paid to us on August 22, 2008.

(4) On August 25, 2008, we declared an interim dividend of US$0.10 per ordinary share amounting to US$3.7 million to all shareholders in respect of the fiscal year ended December 31, 2007. This dividend was paid to the shareholders on September 19, 2008.

(5) The dividend declared by Yuchai for fiscal year ended December 31, 2008 was paid to us on November 12, 2009.

(6) On September 24, 2009, we declared a dividend of US$0.10 per ordinary share amounting to US$3.7 million to all shareholders in respect of the fiscal year ended December 31, 2008. This dividend was paid to the shareholders on October 16, 2009.

(7) The dividend declared by Yuchai for fiscal year ended December 31, 2009 was paid to us on May 14, 2010.

(8) On March 5, 2010, we declared a dividend of US$0.25 per ordinary share amounting to US$9.3 million to all shareholders in respect of the fiscal year ended December 31, 2009. This dividend was paid to the shareholders on March 30, 2010.

(9) The dividend declared by Yuchai for fiscal year ended December 31, 2010 was paid to us on May 5, 2011.

(10) 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 in respect of the fiscal year ended December 31, 2010. This dividend was paid to the shareholders on May 31, 2011.

Historical Exchange Rate Information

On December 30, 2011, the PBOC rate was Rmb 6.3009 = US$1.00. On March 30, 2012, the PBOC rate was Rmb 6.2943 = US$1.00.

On December 30, 2011, the noon buying rate was Rmb 6.2939 = US$1.00. On March 30, 2012, the noon buying rate was Rmb 6.2975 = US$1.00.

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

	Noon Buying Rate [1] (Rmb per US$1.00)	
Period	**High**	**Low**
October 2011	6.3825	6.3534
November 2011	6.3839	6.3400
December 2011	6.3733	6.2939
January 2012	6.3330	6.2940
February 2012	6.3120	6.2935
March 2012	6.3315	6.2975

	Noon Buying Rate [1] (Rmb per US$1.00)			
Period	**Period End**	**Average (2)**	**High**	**Low**
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012 (through March 30, 2012)	6.2975	6.3078	6.3330	6.2935

(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 30, 2011 was Rmb 6.3009 compared with Rmb 6.2939 for the noon buying rate (average) for the year ended December 30, 2011.

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

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Risk Factors

Risks relating to our shares and share ownership

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

Our controlling shareholder, Hong Leong Asia Ltd., or Hong Leong Asia, indirectly owns 12,998,040, or 34.9%, 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 21.0% 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 13.9% of the outstanding shares of our Common Stock. 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.

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 7,831,169 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. The market price could fluctuate substantially in the future in response to a number of factors, including:

- our interim operating results;
- 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;

changes in general economic conditions, especially a significant slowdown in the global economy arising from the sovereign debt crisis in Europe with a possible breakup of the eurozone, the continuing geopolitical unrest in the Middle East and recent tensions over Iran s nuclear capabilities and the possible impact on world oil supply;

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.

As a result of the global financial crisis in the third quarter of 2008, global stock markets experienced extreme price and volume fluctuations which had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. According to the World Bank s Global Economic Prospects 2011, by the end of 2010, many emerging world economies had recovered or were close to resuming the growth potential they had attained prior to the crisis. The world economy was then moving from a post-crisis bounce back phase of the recovery to slower but solid growth in 2011, with developing countries contributing almost half of the global growth. However, according to the World Bank s Global Economic Prospects 2012, the world economy has now entered a very difficult phase characterized by significant downside risks and fragility due to spreading of the financial turmoil in Europe arising from the sovereign debt crisis, to developing and high income countries, which had hitherto been unaffected. Despite a strengthening of activity in the United States, global growth and world trade have slowed sharply. At the same time, growth in several major developing countries such as Brazil and India is significantly slower than it was earlier in the recovery, mainly reflecting domestic policy tightening initiated in late 2010 and early 2011 to combat rising inflationary pressures. As a result, borrowing costs in many parts of the world have increased while capital flows to developing countries have fallen sharply and world markets have slumped. There is real concern that the eurozone crisis together with the slow growth in developing countries could complicate efforts to restore market confidence. If the situation in Europe continues to deteriorate, China s export growth would be adversely affected which would have a negative impact on its economy. Further threatening a recovery in the world economy, the continuing geopolitical unrest in the Middle East and recent tensions in Iran over its nuclear capabilities have resulted in volatility in oil prices due to concerns over a possible disruption in world oil supply. All of these factors working 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, 2011. 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 .

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 well as Chinese government policy. 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, as well as Chinese government policies affecting our business.

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. As a result, the performance of the Chinese economy will likely affect, 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. In particular, recent measures adopted by the Chinese government restricting access to credit and slowing the rate of fixed investment (including infrastructure development) adversely affect demand for, and production of, trucks and other commercial vehicles. 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.

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According to the World Bank s Global Economic Prospects 2012, the world economy has now entered a very difficult phase characterized by significant downside risks and fragility due to spreading of the financial turmoil in Europe arising from the sovereign debt crisis to developing and high income countries, which had hitherto been unaffected. If the situation in Europe continues to deteriorate, China s export growth would be adversely affected which would have a negative impact on its economy. The International Monetary Fund had in its report issued on February 6, 2012, lowered its forecast for China s economic growth in 2012 to 8.2% from 9% and warned that a deterioration in the eurozone debt crisis could, in the worst case scenario, result in the projected growth rate of 8.2% being cut by half. On March 5, 2012, at Chinese Premier Wen Jiabao s annual address to open the National People s Congress in Beijing, he announced that the growth target for China in 2012 had been revised downwards to 7.5 % in part due to the eurozone crisis as well as a change in China s growth model and adjustment of its economic structure. Notwithstanding these projections and that the pace of economic growth in China has slowed from 10.4% in 2010 to 9.2% in 2011 (*Source*: China s National Bureau of Statistics), the economic prospects for China in 2012 remain positive although risks still remain from inflationary pressures and asset bubbles in certain sectors of the economy. Uncertainty and adverse changes in the economy 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. If there are reductions in consumer or corporate spending as a result of changes in the macroeconomic environment, our revenues and gross margins could be adversely affected. Any inability of current and/or potential customers to pay us for our products may adversely affect our earnings and cash flow.

The business and prospects for the diesel engine industry, and thus the business and prospects of our company, may also be adversely affected by Chinese government policy. In 2008, there was a slow-down in commercial vehicle sales, in particular there was a dramatic decline in the second half of 2008 mainly due to the negative effects of the global financial crisis in the third quarter of 2008 and also the implementation of the National III emission standards on July 1, 2008 which resulted in advance purchases of National II emission standard trucks in the first half of 2008. (*Source:* China Automotive Industry Newsletter for 2008). The overall sales of commercial vehicles between January and November 2009 increased 28% to approximately 3.3 million units, compared to the same period in 2008 (*Source:* China Association of Automobile Manufacturers). This 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. Commercial vehicle sales in 2010 rose to a new peak of over 4.3 million units, an increase of 30% over 2009 but growth in the Chinese automotive market slowed in 2011, with a year-on-year increase in sales of only 2.45%, the lowest growth in 13 years (*Source:* China Association of Automobile Manufacturers) . The slow-down in the automotive market in 2011 extending into the first quarter of 2012 is attributed to a variety of factors, including new national macroeconomic policies such as the removal of subsidies for car purchases, the directive from the Chinese Ministry of Commerce and National Development and Reform Commission in late 2011 that foreign investment in the automotive sector would no longer be automatically encouraged and the introduction of policies to curb automotive growth in Beijing and other major cities.

In recent years, the policies of the Chinese government have encouraged energy conservation and emissions reduction. China s 12th Five-Year Plan 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. We cannot assure you that the Chinese government will not change its policy in the future to further de-emphasize the use of diesel engines, and any such change will adversely affect our financial condition, results of operations, business or prospects.

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. See Item 4. Information on the Company History and Development Reorganization Agreement. 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 and may continue to 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 Risks relating to Mainland 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 identified a material weakness in our internal control over financial reporting and cannot assure you that additional 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 restated our consolidated financial statements for the year ended December 31, 2005, and reported material weaknesses in our internal control over financial reporting and concluded that as of December 31, 2005 to 2010, our disclosure controls and procedures were not effective and as of December 31, 2006 to 2010, our internal control over financial reporting was not effective. In addition, in connection with management s assessment of the effectiveness of our internal control over financial reporting for the period covered by this Annual Report, management has identified a material weakness in identification and elimination of intercompany transactions and balances at Yuchai and has concluded that as of December 31, 2011, our disclosure controls and procedures and internal control over financial reporting were not effective. Our current independent registered public accounting firm has expressed an adverse opinion on the effectiveness of our internal control over financial reporting as of December 31, 2011. See Item 15. Controls and Procedures.

We cannot assure you that additional 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 additional 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 de-listed or suspended from trading on the NYSE. In addition, any such failure could result in material misstatements in 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.

Our exposure to the Dongfeng Group has had, and could continue to have, a material adverse effect on our business, financial condition and results of operation.

Our sales are concentrated among the Dongfeng Group which includes the Dongfeng Automobile Company, one of the largest state-owned automobile companies in China, and other major diesel truck manufacturers controlled by or affiliated with the Dongfeng Automobile Company. In 2011, sales to the Dongfeng Group accounted for 19.6% of our total net revenues, of which sales to our two largest customers, Liuzhou Dongfeng Automobile and Hubei Dongfeng Automobile, accounted for 4.2% and 5.0% respectively. Although we consider our relationship with the Dongfeng Group to be good, the loss of one or more of the companies within the Dongfeng Group as a customer would have a material adverse effect on our financial condition, results of operations, business or prospects.

In addition, we are dependent on the purchases made by the Dongfeng Group from us and 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 the Dongfeng Automobile Company 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, if restrictions on the import of motor vehicles and motor vehicle parts into China are reduced, foreign competition could increase significantly. An increase in competition as a result of these various factors operating singly or together may adversely affect our financial condition, results of operations, business or prospects as a result of lower gross margins, higher fixed costs or decreasing market share.

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

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 2011, due to a softening in the commercial vehicle market in China, our net sales during fiscal year 2011 decreased by 4.7%. *(Source:* China Association of Automobile Manufacturers) We cannot assure you that we will be able to increase our net sales or maintain our present level of net sales. For example, we may not be able to increase our net sales 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 economic growth in China. The global financial crisis had an adverse impact on the economic growth outlook for China in 2008 and in response, the Chinese government, on November 10, 2008 announced a 4 trillion yuan stimulus package with an aim to maintain economic stability and development through spending on infrastructure projects. In March 2009, at the 11th National People s Congress, the Chinese government further outlined a package of measures to drive economic growth. In addition, the Chinese government also announced that a total of Rmb 908 billion of the central government investments in 2009 would be spent on key infrastructure construction, technology innovation, environmental protection and low-income housing. The stimulus measures adopted by the Chinese government to ensure continued economic growth have had a positive effect on the economy. On December 3, 2010, the Chinese government announced a shift in its monetary policy to a prudent monetary policy in 2011 in an effort to rein in liquidity, combat accelerating inflation and limit the risk of asset bubbles. In 2011, China raised interest rates three times and increased the reserve requirement ratio for banks six times to control rising inflation and soak up excess liquidity. At the annual economic conference chaired by President Hu JinTao in December 2011, it was announced that China would maintain a prudent monetary policy focusing on guaranteeing the steady growth of China s economy in 2012 against the backdrop of a grim and uncertain world economy. On February 18, 2012, the People s Bank of China cut the reserve requirements ratio for banks by 50 basis points in an effort to increase the lending capacity of its financial institutions. According to the World Bank s Global Economic Prospects 2012, the world economy has now entered a very difficult phase characterized by significant downside risks and fragility. The financial turmoil in Europe arising from the sovereign debt crisis has already impacted on China s export growth which in turn would affect its economy. The International Monetary Fund had in its report issued on February 6, 2012, lowered its forecast for China s economic growth in 2012 to 8.2% from 9% and warned that a deterioration in the eurozone debt crisis could, in the worst case scenario, result in the projected growth rate of 8.2% being cut by half. On March 5, 2012, at Chinese Premier Wen Jiabao s annual address to open the National People s Congress in Beijing, he announced that the growth target for China in 2012 had been revised downwards to 7.5 % in part due to the eurozone crisis as well as a change in China s growth model and adjustment of its economic structure. Even with the release of liquidity by the European Central Bank through its long term refinancing operations in December 2011 and February 2012 to the banking sector alleviating the tight monetary conditions, it is uncertain how long the eurozone crisis will continue for and what the resultant impact will be.

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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.

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. See Item 4. Information on the Company Products and Product Development Yuchai.

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

As the Chinese automotive industry continues to develop, we will have to continuously improve our existing engine products, develop new diesel engine products and enter into new market segments 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 market segments. 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 market segments could have a material adverse effect on our financial condition, results of operations, business or prospects.

On April 10, 2007, Yuchai signed a Cooperation Framework Agreement with Zhejiang Geely Holding Group Co., Ltd (Geely) and Zhejiang Yinlun Machinery Company Limited (Yinlun) to consider establishing a proposed joint venture company to develop diesel engines for passenger cars in China. In December 2007, further to the Cooperation Framework Agreement, Yuchai entered into an Equity Joint Venture Agreement with Geely and Yinlun, to form two joint venture companies in Tiantai, Zhejiang Province and Jining, Shandong Province, which have been duly incorporated. The joint venture companies were to be primarily engaged in the development, production and sales of a proprietary diesel engine and its parts for passenger vehicles. After some initial delays, the second and third generation prototype 4D20 diesel engines designed for passenger vehicles to be produced by the joint venture companies are undergoing developmental tests which are scheduled to be completed at the end of 2012. 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. was incorporated on April 7, 2010 in Suzhou, Jiangsu province. Operations at a temporary workshop commenced in 2011 pending completion of the construction of the permanent factory located in the Suzhou Industrial Park. Full operations at the permanent factory are expected at the end of 2012. On August 11, 2009, Yuchai, pursuant to a Framework Agreement entered into with Jirui United Heavy Industry Co., Ltd. (Jirui United), a company jointly established by China International Marine Containers Group Ltd and Chery Automobile Co., Ltd., and Shenzhen City Jiusi Investment Management Co., Ltd incorporated Y & C Engine Co., Ltd. in Wuhu City, Anhui Province to produce heavy-duty vehicle engines with the displacement range from 10.5L to 14L. The key focus of the joint venture company is the production of YC6K diesel engines. The full production line commenced operations in December 2010. In March 2012, we announced that Yuchai will 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 powered engines to complement its existing suite of diesel engines. The main applications of the gas engines are in the large bus, mid- to heavy-duty truck, power generator and marine sectors. See Item 4. Information on the Company Products and Product Development Yuchai for more information. There can be no assurance that these joint ventures or our initiative to enter the natural gas engine market will be successful or profitable.

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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 Mainland China, the Chinese government s policies relating to foreign currency borrowings and the condition of the Chinese and international capital markets. If adequate capital is not available, our financial condition, results of operations, business and prospects could be adversely affected.

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 2011, Yuchai issued Rmb-denominated unsecured short-term financing bonds in China amounting to Rmb 2.4 billion upon the receipt of approval from China s National Association of Financial Market Institutional Investors at interest rates ranging from 4.59% to 5.77% per annum. Any fluctuations in interest rates, or fluctuations in exchange rates between the Renminbi or Singapore dollars and US dollars, may increase our borrowing 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. Renminbi would no longer be pegged to the US dollar. From July 20, 2005 to December 31, 2011, Renminbi appreciated about 31.5% against the US dollar. From December 31, 2008 to December 31, 2011, Singapore dollar appreciated about 11.0% against the US dollar. Since we may not be able to hedge effectively against Renminbi or Singapore dollar fluctuations, future movements in the exchange rate of Renminbi, Singapore dollar and other currencies could have an adverse effect on our 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 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 2010, the annual inflation rate was 3.3% which increased to 5.4% in 2011 leading to the Chinese government raising lending interest rates and the reserve requirements for banks six times in 2011 to counter accelerating inflation. The inflation rate for January and February 2012 was 4.5% and 3.2% respectively according to the National Bureau of Statistics. The Chinese government has pledged to maintain a prudent monetary policy in 2012 against an uncertain and grim global economic outlook but the effects of any easing of its monetary policy to boost growth and create jobs may result in inflationary pressures which could cause our costs for raw materials required for the production of products to increase. This coupled together with the current volatility in oil prices caused by recent tensions over Iran s nuclear capabilities and the impact on world oil supply could result in an increase in energy prices which would adversely affect our financial condition and results of operations if we cannot pass these added costs on to customers.

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.

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The manufacture and sales of Euro 0 and Euro I engines in major urban areas became unlawful after August 31, 2004. After that date, the engines equipped with Euro 0 and Euro I engines are not permitted to be sold and used in major urban areas. The manufacture and sale of Euro II engines was phased out from June 30, 2008. 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 are targeted to be implemented throughout China nationwide in July 2013. While Yuchai produces diesel engines compliant with National IV emission standards, and has the ability to produce diesel engines compliant with National V and VI emission standards, as well as develop alternative fuels and environmentally friendly hybrid engines with better fuel efficiency, 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, and we have no plans to increase the coverage. The amount of our insurance coverage for our inventory is at book value which could be less than replacement value, and we also have no plans to increase this coverage. 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. 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 Mainland China

Substantially all of our assets are located in Mainland China, and substantially all of our revenue is derived from our operations in Mainland China. Accordingly, our financial condition, results of operations, business or prospects are subject, to a significant degree, to economic, political and legal developments in Mainland China. The economic system of Mainland 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 Mainland China, which could reduce the demand for our products and adversely affect our competitive position.

Since the late 1970s, the Chinese government has been reforming the Chinese economic system from a planned economy to a market-oriented economy. In recent years, the Chinese government has implemented economic reform measures emphasizing decentralization, utilization of market forces in the development of the Chinese economy and a higher level of management autonomy. These reforms have resulted in significant economic growth and social progress, but the growth has been uneven both geographically and among various sectors of the economy. Economic growth has also been accompanied by periods of high inflation. The Chinese government has implemented various policies from time to time to restrain the rate of such economic growth, control inflation and otherwise regulate economic expansion. For example, the Chinese government has from time to time 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 property, stock market speculation and inflation. Severe measures or other actions by the Chinese government, such as placing additional controls on the prices of diesel and diesel-using products, could restrict our business operations and adversely affect our financial position. Although we believe that the economic reforms and macroeconomic policies and measures adopted by the Chinese government will continue to have a positive effect in the longer term on economic development in Mainland China and that we will continue to benefit in the longer term from these policies and measures, these policies and measures may, from time to time, be modified or reversed. In his annual address to open the National People s Congress in Beijing on March 5, 2012, Chinese Premier Wen Jiabao stated that while China faced many difficulties and challenges resulting in a revision in its growth rate to 7.5% for 2012, the focus would be on economic expansion and steady growth in accordance with the guidelines as set out in the 12th Five-Year Plan. The Chinese government has begun preparations for a major leadership change at the 18th National Congress of the Chinese Communist Party later in 2012 and changes to existing economic policies may be implemented by the new leadership. Adverse changes in economic and social conditions in Mainland China, in the policies of the Chinese government or in the laws and regulations in Mainland China, could have a material adverse effect on the overall economic growth of Mainland China and in infrastructure investment in Mainland China. These developments could adversely affect our financial condition, results of operations and business, by reducing the demand for our products.

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 changes in economic conditions, including, for example, substantial depreciation in currency exchange rates, increased interest rates, reduced economic growth rates, corporate bankruptcies, volatility in the market values of shares listed on stock exchanges, decreases in foreign currency turnover and government-imposed austerity measures. The global financial crisis had an adverse impact on China s economic growth in the third and fourth quarters of 2008 and into early 2009. On November 10, 2008, the Chinese government announced a 4 trillion yuan stimulus package to maintain economic stability and development through spending on infrastructure projects and in March 2009 at the 11th National People s Congress, further outlined a package of measures to drive economic growth. The measures adopted by the Chinese government to ensure continued economic growth had a positive effect on the economy. On December 3, 2010, the Chinese government announced a shift in its monetary policy from a moderately loose stance to counter the effects of the global financial crisis in 2008, to a prudent monetary policy in 2011 in an effort to rein in liquidity, combat accelerating inflation and limit the risk of asset bubbles. At the annual economic conference chaired by President Hu JinTao in December 2011, it was announced that China would maintain a prudent monetary policy focused on guaranteeing the steady growth of China s economy in 2012 against the backdrop of a grim and uncertain world economy resulting from the sovereign debt crisis in Europe, continuing geopolitical unrest in the Middle East and recent tensions over Iran s nuclear capabilities causing volatility in oil prices due to concerns over a possible disruption in world oil supply. On March 5, 2012, at Chinese Premier Wen Jiabao s annual address to open the National People s Congress in Beijing, he announced that the growth target for China in 2012 had been revised downwards to 7.5% in part due to the eurozone crisis as well as a change in China s growth model and adjustment of its economic structure. 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 adverse economic developments occur in China, our sales may decrease and our financial condition, results of operations, business or prospects could therefore 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 Mainland China. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties and may not be consistent or predictable as in other more developed jurisdictions which may limit the legal protection available to foreign investors.

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

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

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

Our Chinese operating subsidiary, as a foreign invested enterprise, may purchase foreign currency without the approval of SAFE for settlement of current account transactions, including payment of dividends, by providing commercial documents evidencing these transactions. Our Chinese operating subsidiary may also retain foreign exchange in its current account (subject to a cap approved by SAFE) 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 are still subject to limitations and require approvals from 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 a circular in August 2008, 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 and SAFE issued a new circular in July 2011 to further strengthen the control of capital account and conversion of foreign currency into Renminbi. 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 infectious diseases, such as the Influenza A (H1N1) virus, severe acute respiratory syndrome (SARS) and the Avian flu (H5N1), in various parts of China and other countries may materially and adversely affect our business and operations, as well as our financial condition and results of operations.

In April 2009, an outbreak of a new strain of influenza identified as the Influenza A (H1N1) virus occurred in Mexico resulting in a number of deaths. In a matter of weeks, the H1N1 virus had spread internationally but the symptoms in cases outside of Mexico were milder than world health officials had feared with fewer resulting deaths compared to Mexico, the epicentre of the epidemic. The spread of the virus worldwide caused the World Health Organization (WHO) to declare the H1N1 virus outbreak a global pandemic on June 11, 2009. However, the WHO in January 2010 said that the pandemic was easing although it warned of a possible new wave of infections in the northern hemisphere in late winter or early spring. In August 2010, the WHO declared the H1N1 pandemic officially over but anticipated that localized outbreaks with significant levels of H1N1 transmission might occur. The high unpredictability of the future evolution of this new virus and the possibility of a widespread re-occurrence may have a significant impact on global economic activity. In 2003, several countries, including China, experienced an outbreak of a highly contagious form of atypical pneumonia known as severe acute respiratory syndrome, or SARS, which severely restricted the level of economic activity in affected areas, including Beijing and Guangdong Province. The SARS epidemic in China had an adverse impact on the sale of engines, particularly during the second and third quarters in 2003. Although this SARS outbreak was brought under control during 2003, there have been a number of cases reported in China and elsewhere in the Asia region since that outbreak. In addition, an infectious strain of influenza known as the Avian flu (H5N1) has also been reported from time to time in China, Hong Kong, Vietnam, and other parts of Asia. In 2011, several deaths as a result of Avian flu were reported in Indonesia and Vietnam. Although according to WHO, the evolution of the H5N1 virus in 2012 will no longer pose an increased risk to public health, potential outbreaks of other infectious diseases could adversely affect general commercial activity, which could have a material adverse effect on our financial condition, results of operations, business or prospects.

Our auditor engages its network firms in China to audit our China entities and as such network firms are not permitted under Chinese law to be subject to inspection by the 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 (PCAOB). As a PCAOB registered firm, our auditor is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and relevant professional standards. Our auditor engages its networks firms in China 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. The inability of PCAOB to conduct inspections of the network firms of our independent registered public accounting firm operating in China makes it more difficult to evaluate the effectiveness of such network firm s audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Risks relating to our investment in HLGE

As of April 4, 2012 we had a 48.9% equity interest in HLGE. On January 13, 2012, HLGE established a trust known as the HL Global Enterprises Share Option Scheme 2006 Trust with Amicorp Trustees (Singapore) Limited (Trustee) as the trustee of the trust pursuant to a trust deed dated January 13, 2012 entered into between HLGE and the Trustee. The purpose of the trust is to facilitate the implementation of the HL Global Enterprises Share Option Scheme 2006 (SOS 2006) which was adopted by HLGE on September 29, 2006. Pursuant to the terms of the trust deed, the Trustee will, inter alia, acquire and hold existing shares in the capital of HLGE for the benefit of participants who are employees of HLGE and/or its subsidiaries and who have been granted share options under the SOS 2006 and transfer such trust shares to the beneficiaries upon the exercise of their share options under the SOS 2006. On January 13, 2012, Grace Star Services Limited entered into a deed of transfer with the Trustee pursuant to which it transferred 24,189,170 Series B redeemable convertible preference shares in the capital of HLGE to the Trustee for a nominal consideration of S$1.00 for the purpose of the trust. On January 16, 2012, following the increase in the number of issued ordinary shares in HLGE arising from the mandatory conversion of 24,189,170 Series B redeemable convertible preference shares into 24,189,170 new ordinary shares, our shareholding interest in HLGE decreased from 49.4% to 48.1%. On March 5, 2012, upon the transfer of one Series A redeemable convertible preference share (Series A RCPS) to Venture Delta Limited, our wholly-owned subsidiary, Grace Star and Venture Delta sent requisition notices to HLGE s Board of Directors requesting for the convening of a meeting of the holders of the Series A RCPS to propose the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE in accordance with HLGE s articles of association. Pursuant to the receipt of the requisition notices from Grace Star and Venture Delta, HLGE s Board of Directors announced on March 15, 2012 that a meeting of the holders of the Series A RCPS will be convened on March 30, 2012 to approve the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE. At the meeting on March 30, 2012, the holders of the Series A RCPS approved the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE. On April 4, 2012, as a result of the conversion of all the outstanding Series A RCPS held by Grace Star and Venture Delta into ordinary shares in the capital of HLGE, our shareholding interest in HLGE increased to 48.9%. See Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan. 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 operates hotels in the PRC and Malaysia. 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, such as the Influenza A (H1N1) virus and the Avian flu (H1N5), which if not contained, could potentially adversely affect the operations of the HLGE group and its business in the hospitality industry; 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.

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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 need to raise additional capital.

In February 2012, the HLGE group announced that it had recorded pre-tax losses for the three most recently completed consecutive financial years. The HLGE group will likely require 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 such endeavors. 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 additional financing where such financing is required on acceptable terms, will adversely affect the HLGE group s business, financial performance and financial position and the HLGE group s ability to pursue its growth plans.

The HLGE group may be unable to raise sufficient funds to pay their debt obligations to us.

The HLGE group will require funds to repay its outstanding debt owed to us. On January 19, 2012, we announced the extension of an S$83 million loan to HLGE for another one year from July 2012 to July 2013 on substantially similar terms as the previous loan agreement, except that the interest payable has been reduced from 2.52% per annum to 2.08% per annum. The original amount of the loan was S$93 million which 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. Venture Lewis held a majority of the bonds. Pursuant to the terms of the original loan agreement entered into in February 2009, on the maturity date of the bonds, HLGE will redeem fully the bonds held by all minority bondholders and pay to Venture Lewis a portion of the principal and gross redemption yield. The remaining amount due to Venture Lewis on the maturity date would be refinanced through an unsecured loan arrangement with a one-year term, renewable by mutual agreement on an annual basis. An option for HLGE to undertake a partial redemption of the Bonds on a pro-rata basis prior to the maturity date was included in the original loan agreement. On February 19, 2009, HLGE announced an early partial redemption on a pro-rata basis of up to S$9.0 million in principal amount of the outstanding bonds and on March 23, 2009, HLGE effected payment to all bondholders. Under the original loan agreement, the loan was due to be repaid in July 2010 but was extended for one year to July 2011 pursuant to a loan agreement entered into on February 3, 2010. A loan agreement was entered into on January 31, 2011 extending the loan for another year from July 2011 to July 2012. On February 16, 2011, HLGE effected a partial prepayment of S$10 million towards the loan to us reducing the principal amount of the loan from S$93 million to S$83 million. There is no assurance that the HLGE group would be able to generate sufficient internal funds to redeem the outstanding debt owing to us either through disposals of their non-core and non-performing assets or potential merger and acquisition opportunities to grow its earnings base. Failure to obtain sufficient funds to repay outstanding debt will adversely affect the HLGE group s business, financial performance and financial position and the HLGE group s ability to repay its outstanding debts owing to us could have a material adverse effect on the value of 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 exempt 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. 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.

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 Securities Trading Limited, or Singapore Exchange, is part of the Hong Leong Investment group, which was founded in 1941 by the Kwek family of Singapore and remains one of the largest privately-controlled business groups in Southeast Asia. China Everbright Holdings is a state-owned enterprise of China. In 2002, China Everbright Holdings and Coomber gave notice to Diesel Machinery and the other shareholders of Diesel Machinery to effect a liquidation of Diesel Machinery. As a result of the liquidation, Hong Leong Asia acquired the special share through HL Technology which entitles Hong Leong Asia to elect a majority of our directors and also to veto any resolution of our shareholders. China Everbright Holdings sold its shareholding in Coomber, which held shares of our Common Stock, in October 2002 to Goldman Industrial Limited, or Goldman, and China Everbright Holdings is no longer a shareholder of our company. Goldman was a subsidiary of Zhong Lin Development Company Limited, or Zhong Lin, an investment vehicle of the city government of Yulin in Guangxi, China until September 29, 2006 when Zhong Lin sold its shareholding in Goldman to the State Holding Company.

We provide certain management, financial planning and other services to Yuchai and, as of March 1, 2012, 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.

To our knowledge, since January 2011, 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 then capital of TCL through our wholly-owned subsidiary, Venture Delta. Our shareholding in TCL had since changed through various transactions, and as of December 31, 2011, we had a 12.2% interest in the outstanding ordinary shares of TCL.

As part of the business expansion and diversification plan, in February 2006, we acquired debt and equity securities in HLGE through our wholly-owned subsidiaries, Grace Star, and Venture Lewis. We increased our shareholding in HLGE following the conversion of the preference shares held by Grace Star into ordinary shares of HLGE, and as of December 31, 2011, we had an interest of 49.4% of the outstanding ordinary shares of HLGE. See Item 5. Operating and Financial Review and Prospects Business Expansion and Diversification Plan.

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

Through our 76.4% interest in Yuchai, we primarily conduct our manufacturing and sale of diesel engines which are mainly distributed in the PRC market.

On January 16, 2012, following the increase in the number of issued ordinary shares in HLGE arising from the mandatory conversion of 24,189,170 Series B redeemable convertible preference shares into 24,189,170 new ordinary shares, our shareholding interest in HLGE decreased from 49.4% to 48.1%. On March 5, 2012, upon the transfer of one Series A redeemable convertible preference share (Series A RCPS) to Venture Delta Limited, our wholly-owned subsidiary, Grace Star and Venture Delta sent in requisition notices to HLGE s Board of Directors requesting for the convening of a meeting of the holders of the Series A RCPS to propose the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE in accordance with HLGE s articles of association. Pursuant to the receipt of the requisition notices from Grace Star and Venture Delta, HLGE s Board of Directors announced on March 15, 2012 that a meeting of the holders of the Series A RCPS will be convened on March 30, 2012 to approve the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE. At the meeting on March 30, 2012, the holders of the Series A RCPS approved the conversion of all the outstanding Series A RCPS into ordinary shares in the capital of HLGE. On April 4, 2012, as a result of the conversion of all the outstanding Series A RCPS held by Grace Star and Venture Delta into ordinary shares in the capital of HLGE, our shareholding interest in HLGE increased from 48.1% to 48.9%. The HLGE group is engaged in hospitality and property development activities conducted mainly in the PRC and Malaysia.

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As of April 4, 2012, we had a 12.2% equity interest in TCL. The TCL group primarily conducts distribution of consumer electronic products with operations mainly in the PRC (including Hong Kong). TCL also has other business activities relating to strategic property and equity investments.

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

We account for Yuchai as a subsidiary and hence its financial statements are consolidated into our financial statements. We previously accounted for HLGE as an affiliate under the equity method of accounting. However, having regard to the potential voting rights attributable to our redeemable convertible preference shares in HLGE, we consider HLGE a subsidiary as we are able to govern the financial and operating policies of HLGE. We previously accounted for our investment in the ordinary shares of TCL as an affiliated company using the equity method. An affiliated company is an entity in which we do not have a controlling financial interest but we have the ability to exercise significant influence over its financial and operating policy decisions. On December 1, 2009, we announced that concurrently with the capital reduction and cash distribution exercise to be undertaken by TCL, we intended to appoint a broker to sell 550,000,000 shares in TCL at a price of S$0.03 per share on an ex-distribution basis (Placement). The Placement was conditional upon the completion of the capital reduction and cash distribution exercise. On June 9, 2010, upon the obtaining of the relevant approvals from its shareholders and the legal and regulatory authorities in Singapore, TCL announced that the expected date of payment of the cash distribution of S$0.05 per issued share was July 7, 2010. On July 8, 2010, we announced that we had proceeded to complete the sale of a total of 536,000,000 shares out of 550,000,000 shares available in the Placement in TCL to the various purchasers. Further to the closing of the Placement, our total shareholding in TCL decreased from 34.4% to 13.9%. Subsequently, we sold additional TCL shares in the open market resulting in our shareholding interest in TCL decreasing further from 13.9% to 12.2%. As at December 31, 2011, our shareholding interest in TCL remained unchanged at 12.2% and accordingly, we have classified the said investment in TCL as held for trading for the fiscal year ended December 31, 2011.

Yuchai

Yuchai is a diesel engine manufacturer in China and also produces diesel power generators and diesel engine parts. Yuchai is located in Yulin City, Guangxi Zhuang Autonomous Region in southern China, approximately 200 miles east of Nanning, the provincial capital. With a population of approximately 6.0 million, Yulin City, including its controlled townships, is believed to be the sixth largest city in Guangxi Zhuang Autonomous Region.

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.

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.

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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.

During 2004, Yuchai granted loans of Rmb 205 million to Yuchai Marketing Co., Ltd or YMCL, a subsidiary of Coomber, with an interest rate of 5.58% for one year. The loans were guaranteed by Coomber and the State Holding Company (together, the Guarantors). The loans were repaid in 2005 and were subsequently re-loaned with a maturity date of June 1, 2007 and further extended to May 30, 2008. In July 2007, Yuchai s Board of Directors agreed in principle to a proposal by the State Holding Company to settle the loans due from YMCL, along with various other accounts receivable from YMCL (collectively, the receivables), by forgiving the receivables in exchange for the transfer of 100% of the equity ownership in a hotel in Yulin, PRC and YMCL s central office building in Guilin, PRC or Guilin Office buildings. On December 25, 2007, Yuchai, pursuant to the execution of a share transfer contract with YMCL, Coomber and State Holding Company, acquired all the outstanding share capital of Guangxi Yulin Hotel Company Ltd (Yulin Hotel Company) for Rmb 245.6 million. In March 2008, agreements were entered into by Yuchai to effect the repayment of the Rmb 205 million loans against the purchase of 100% equity interest in Yulin Hotel Company for Rmb 245.6 million and offsetting of the balance payable against certain trade receivables due from YMCL, the Guarantors and other related parties. As a result of the acquisition of 100% equity of Yulin Hotel Company, the loan agreements with YMCL have been terminated and the guarantees provided by the Guarantors have been discharged. The acquisition by Yuchai of Yulin Hotel Company was ratified by the Board of Directors of Yuchai and its shareholders subject to the original shareholders of Yulin Hotel Company obtaining approval for the transaction from the regulatory agency in China by November 30, 2008 which was subsequently extended to June 30, 2009 by Yuchai s Board of Directors and shareholders. If such approval from the provincial government regulatory agency in charge of state-owned assets administration in China was not obtained by June 30, 2009, Yuchai would have had the right to sell to the State Holding Company, who would have been obligated to buy, 100% of the equity interest in Yulin Hotel Company at the original purchase price of Rmb 245.6 million. This condition is contained in a guarantee letter provided by the original shareholders of Yulin Hotel Company. However, on January 13, 2009, Yuchai received approval from the provincial government regulatory agency in charge of state-owned assets administration in China for its acquisition of 100% equity interest in Yulin Hotel Company.

For fiscal year 2008, there was an impairment charge of Rmb 46.0 million recognized pertaining to the hotel in Yulin and the Guilin Office buildings. The goodwill of Rmb 5.7 million arising from the acquisition of the Yulin Hotel Company was fully impaired during fiscal year 2008. The provision of Rmb 203.0 million for uncollectible loans to a related party was reclassified as a deferred gain in the statement of financial position. The deferred gain was recorded in the Statement of Income in fiscal year 2009 when it was realized on receipt of approval from the provincial government. On April 27, 2011, Yulin Hotel Company entered into a sale and purchase agreement with a third party to sell the Guilin Office building for a total consideration of Rmb 120 million. Upon the disposal of the Guilin Office building, an accumulated impairment loss of Rmb 26.5 million was included in the determination of loss on disposal.

Emission Standards

As of July 2008, China has officially implemented the National III emission standards throughout China. The 2008 Beijing Olympics has 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. As at March 1, 2012, the National IV emission standards had not yet been implemented nationwide in China. Yuchai produces diesel engines compliant with National IV emission standards and has the ability to produce diesel engines compliant with National V and VI emission standards, as well as develop alternative fuels and environmentally friendly hybrid engines with improved fuel economy.

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Products and Product Development Yuchai

The general market demand for trucks and buses has contributed to Yuchai s significant growth since 2005 arising from the continued expansion of highways and toll roads generated by the ongoing infrastructure investment in China and the continuing urbanization, especially in the Tier II and III cities.

Yuchai manufactures and produces diesel and natural gas engines for light, medium and heavy-duty for highway vehicles, generator sets, marine and industrial applications. Yuchai also supplies after-market parts and services.

Yuchai s growth focus is on the medium-duty and heavy-duty engines that are relatively higher margin products compared to light-duty engines while it intends to be selective in the light-duty engine market and improve on its competitiveness by reducing its product costs.

New Products

Our new products are the YC6K diesel engine, high-horsepower marine diesel engines and power generation engines and the 4D20 4-cylinder passenger car engine.

(a) YC6K Diesel Engines

The YC6K 6-cylinder diesel engine is National III, IV and V compliant as well as being compliant up to National VI emission standards, has a capacity of between 10L/12L 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 metres 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. The key focus of the joint venture company, which commenced operations in December 2010, is the production of YC6K diesel engines, and 2,403 units of the YC6K diesel engine were produced in 2011. For more details on the joint venture company, see Item 3. Key Information Risk Factors Risks relating to our company and business If we are not able to continuously improve our existing engine products and develop new diesel engine products or successfully enter into other market segments, we may become less competitive, and our financial condition, results of operations, business and prospects will be adversely affected.

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

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

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

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

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 late 2012.

The YC8C is derived from the YC6C engine but it is extended to 8 cylinders and rated 950-1200 PS at 1200 rpm for marine applications and 957-1055Kw at 1500 rpm for power generation applications. The YC8C engine has a capacity of 53L and has further extended our product offering in the marine and power generator markets. YC8C is expected to be launched in the second half of 2013.

(c) 4D20 4-Cylinder Passenger Car Engines

4D20 is a 4-cylinder 1.8-2.2L, rated at 90-140PS engine which has been developed to comply with National V emission standards. The first generation prototype engine passed emission and performance tests and after some initial delays, the second and third generation prototype 4D20 diesel engines are undergoing developmental tests which are scheduled to be completed at the end of 2012.

4D20 is the product of two joint venture companies which were established in 2008 pursuant to an agreement Yuchai entered into with Geely and Yinlun in December 2007 to develop, produce and sell proprietary diesel engines and their parts for passenger vehicles. For more details on these companies, see Item 3. Key Information Risk Factors Risks relating to our company and business If we are not able to continuously improve our existing engine products and develop new diesel engine products or successfully enter into other market segments, we may become less competitive, and our financial condition, results of operations, business and prospects will be adversely affected.

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	YC4BJ, YC4D, YC4E, YC4F, YC4FA, YC4G, YC6A, YC6B, YC6G, YC6J, YC6K, YC6L, YC6M, YC6MK
Bus	YC6MK, YC6M(CNG), YC6M, YC6L, YC6J, YC6J(CNG), YC6G, YC6G(CNG), YG6A, YC4G, YC4E, YC4D, YC4FA, YC4F
Construction	YC4A, YC4B, YC4D, YC4F, YC6B, YC6J, YC6M, YC6A
Agriculture	YC4A, YC4B, YC6B, YC4D, YC6J
Marine	YC4D, YC6M, YC6A/6B, YC6T, YC6C
Generator-Drive	YC4D, YC6B, YC6A, YC6G, YC6M, YC6MK, YC6T, YC6C

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, Fujian province in China, mainly for 6-cylinder heavy-duty diesel engines. Phase one of the new factory has been completed and commercial production commenced on September 2, 2009. Xiamen Yuchai produced approximately 44,700 units in 2010 and 50,000 units in 2011. The production capacity of Xiamen Yuchai is 100,000 units annually.

(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 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 agricultural sector.

Our line of 4-Series light-duty diesel engines comprises 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 & oil consumption, lower noise, higher reliability, lower price and better upgrading potential. TheYC4E 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.

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 reduce 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 China Tier 2 emission standards for the industrial market.

(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 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/LPG/CNG variants, using similar major components. Yuchai is a market leader in developing diesel engines which are mainly used in public buses. The LPG and CNG 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 corporate image, Yuchai was able to increase its unit sales of the 6108 (YC6A and YC6B) engine.

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

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

YC6G Diesel Engines

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

(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 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.

6M Heavy-Duty Diesel Engines

The 6M 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 6M engine has adopted the unique combustion system technology of German FEV and the European forced cooling piston technology. It has a 10-liter displacement and power ranging from 280 to 390 PS. Yuchai s first commercial sales of 6M engines occurred in January 2004.

YC6MK Engines

The YC6MK National III compliant 6-cylinder engine is an upgraded model from the existing 6M engine using newly developed 6K technology. The 6MK engine has a capacity of 10.34L with rated output of 221-309kw and utilizes Bosch high pressure common rail system. Its main applications are in the heavy-duty coach and bus market, and in construction machinery of 40T and above.

Other Products and Services

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

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(a) YC4W Passenger Car Diesel Engines

The YC4W engines are featured with 1.2L & 1.4L 4-cylinder, 4-valves, 60-90 PS, 4000-4200rpm and are compliant with National III and National IV emission standards. The YC4W diesel engine uses 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) Natural Gas Engines

Yuchai is constructing a new facility at its primary manufacturing facility at 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 the gas engines are in the large buses, mid- to heavy-duty trucks, power generators and marine sector.

(c) *Diesel Power Generators*

Yuchai has a history of more than 40 years for producing diesel generator set, with wide application in 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 12 kilowatts to 160 kilowatts. Yuchai s diesel power generators use both the 6105 (YC6J) and 6108 (YC6A and YC6B) medium-duty engines 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.

(d) *Special Vehicles*

Yuchai also produces special vehicles such as waste transfer equipment, construction dumptrucks, demountable carriage dumptrucks, pendular dumptrucks, dumptrucks, and others.

(e) *Industrial Engines*

Yuchai produces industrial engines such as excavators, wheel loaders, trucktractors, forklifts and truck backhoes. The main products include the following 10 series: YC13, YC18, YC25, YC30, YC35, YC55, YC65, YC85, YC135 and YC225, and more than sixty types of full hydraulic-power small excavators. These engines are equipped with advanced-level hydraulic parts. These products have passed the safety certification of the European CE. These products are suitable for use in engineering construction and production operations of industries such as transportation, farmland, municipal construction and water conservancy.

(f) *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 net revenues, 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.

(g) 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., was incorporated on April 7, 2010 in Suzhou, Jiangsu province. Operations at a temporary workshop commenced in 2011 pending completion of the construction of the permanent factory located in the Suzhou Industrial Park. Full operations at the permanent factory are expected at the end of 2012.

Sales

In 2011, automotive sales in China surpassed eighteen million units, an increase of 2.54% over 2010. Yuchai s total engine sales decreased by 7.4% in 2011 as compared with 2010 and sales of both the heavy-duty and medium-duty engines in 2011 decreased from 2010. Sales of the 4-Series engines increased by 1.3% in 2011 over 2010.

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The following table sets forth a breakdown of Yuchai s sales by major product category for each of the three years ended December 31, 2009, 2010 and 2011:

	2009			2010			2011		
	Revenue, net	% of Revenue	Unit Sold	Revenue, net	% of Revenue	Unit Sold	Revenue, net	% of Revenue	Unit